TAXATION

1992

APRIL - AUGUST

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OK to absorb VAT

Sowetan 1/4/92

SA Press Association

CHAINSTORE group OK Bazaars has announced that it will absorb the Value Added Tax (VAT) on nine zero-rated foodstuffs for a limited period.

The zero-rating on the basic foods is due to be dropped on April 1. OK will absorb the VAT until April 20.

OK managing director Mr Gordon Hood said in a statement he hoped the step would provide temporary relief "to those communities hardest hit by the difficult economic climate".

Hood also reiterated an appeal to Finance Minister Mr Barend du Plessis to reconsider the imposition of Value Added Tax on basic food items.

Yesterday Du Plessis hosted a news conference in Pretoria during which he addressed the VAT issue.

Tax on food stuffs 'is unfair'

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Sowetan 1/4/92

SOWETAN Building the Nation

RADIO METRO TALKBACK

IT was unfair for the Government to impose VAT on basic foodstuffs as this directly affected the poor, a spokesman for the Anti-VAT Co-ordinating Committee said last night.

Speaking on the *Sowetan*/Radio Metro Talkback Show, Mr Benny Fanaroff said unlike GST, VAT was being charged on water, transport and other basic services.

A caller from Soweto said his landlord charged VAT on his rental, something which Fanaroff described as unfair.

Andrew of Durban told host Tim Modise that until a democratic government was in place, the complaints of the poor would not be listened to.

He commended the Anti-VAT Co-ordinating Committee for its work.

Fanaroff said the businessmen's organisations such as Nafcoc and Fabcos were represented in his committee and were helping to alleviate the plight of the small businessman.

Fanaroff said the Budget was not helping poor people, but the rich.

VAT relief

Sowetan 1/4/92 (3 20)

By ISMAIL LAGARDIEN
Political Correspondent

THE Government has retained the zero-rating of Value Added Tax (VAT) on brown bread, mealie meal, samp, mealie-rice, dried whole mealies and powdered milk.

However, from today milk and rice will be subject to VAT. These products will now be taxed at the standard rate of 10 percent, Finance Minister Mr Barend du Plessis announced in Pretoria yesterday.

Economic recession

Du Plessis said the Government was concerned about the consequences of the protracted economic recession on the less privileged.

With this in mind, it wanted to ensure minimal disruption in the lives of the poor and had, at the time of the imposition of VAT decided to zero-rate certain basic foodstuffs.

"In view of responsible and persuasive representations, particularly by church and business leaders, the Government has decided to extend the temporary zero-rating on samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures until further notice.

"The temporary zero-rating on fresh milk and rice, as previously announced, will be abolished on April 1.

"The zero-rating on brown bread and mealie meal, foodstuffs which were initially targeted for long-term zero-rating, will not be affected and the zero-rating will therefore be retained," Du Plessis said.

Basic food exemptions to stay

(32c) CT 1/4/92

BY ANTHONY JOHNSON
Political Correspondent

THE government yesterday backed down on plans to impose VAT on most basic foodstuffs following pressure from organised business alarmed at the prospect of crippling labour strife.

The eleventh-hour climb-down was announced at a press conference by Finance Minister Mr Barend du Plessis, who at the weekend indicated that the government planned to forge ahead with its politically explosive VAT agenda.

However, it is understood that last-minute representations by the business community to President F W de Klerk about the economic repercussions of such a move brought about the about-turn on the sensitive issue.

After Mr Du Plessis held a series of meetings in the past two days with Mr De Klerk and other ministers, followed by an urgent meeting yesterday morning with organised business and employer organisations, he finally relented.

VAT zero rating will be maintained "until further notice" on nine essential foods: Samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

The planned long-term zero rating for brown bread and mealie meal will be maintained but the previously exempted fresh milk and rice will now fall within the VAT net.

The decision to exempt the nine foodstuffs will result in a loss in revenue of R136 million in the next year, but the decision to slap VAT on fresh milk and rice will bring in a R244 million in taxes.

Mr Du Plessis yesterday claimed that the decision to make the concessions had "no political motivation" as the government was not under any illusion that Cosatu might call off mass action campaigns

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From page 1

planned long ago as a result of the announcement. (32c)

Mr Du Plessis said the government's earlier stand on VAT had produced charges that it was "immoral" and "all kinds of abuse has been directed at us".

However, in the end the government had chosen to listen to the representations of "responsible" business and church leaders and the "emotionally charged" comments by groups with political agendas "did not weigh heavily in this equation". CT 1/4/92

Mr Du Plessis denied that the decision was made "at the last minute" and said it would be naive for the government to believe it could stop mass action by making concessions to Cosatu.

The government had decided to change its VAT plans because, given the levels of unemployment and poverty in the country, it would "rather err on the side of compassion".

Cosatu's plans for mass action, on the other hand, were not motived by compassion.

Turning to another major pressure group, the Co-ordinating Committee on VAT (VCC), Mr Du Plessis dismissed them as "a front organisation" for socialist and communist influences.

Reacting to the government announcement, the VCC welcomed the fact that the temporary zero-rating on certain basic foods would be extended but said the move was not enough to address the problems of poverty and starvation.

VCC convener Dr Bernie Fanaroff said Mr Du Plessis had once again reacted to pressure and made ad hoc changes.

Democratic Party finance spokesman Mr Ken Andrew said the government should "stop playing games" with VAT on basic foodstuffs and continue with zero-rating all foods that enjoyed this status.

"It is a pity that important economic decisions continue to be characterised by brinkmanship, bluff, vacillation and capitulation rather than timeously negotiated agreements on how to resolved our many challenging problems."

Mr Andrew said tens of thousands of children were dying each year from malnutrition and starvation.

Welfare experts estimate that 44% of South Africans and 90% of those in rural areas are living below the poverty line.

The government's extension of the temporary zero VAT rating on basic foodstuffs was "better than nothing", the vice-president of the Housewives' League, Mrs Sheila Baillie, said yesterday.

The managing director of the OK, Mr Gordon Hood, said they were pleased that Mr Du Plessis had reacted to pleas to extend the zero-rating on the remaining seven staple foods.

"The OK will absorb the VAT increase on rice and fresh milk, as promised, until Monday, April 20 and will continue to press for exemption on these two items."

New r

VAT concessions ‘can go in months’

MICHAEL MORRIS
Political Correspondent

(320) ACG 1/4/92

THE government's temporary VAT concessions could be abolished within months.

This emerged yesterday after Finance Minister Mr Barend du Plessis announced VAT concessions to ease the food cost burden on the poor.

Mr Du Plessis said the concessions — which would cost R136 million this year — would be phased out as soon as "we feel we are doing everything possible to get money to the poor".

The food aid programme for the poor — for which R440-million has been earmarked this year — was still not fully operational and many people were unaware of it.

The phasing out of VAT would depend on how quickly the programme was running satisfactorily, as well as on the outcome of the government's investigation into high food prices.

A report on this investigation was expected within a month.

While the Co-ordinating Committee on VAT welcomed the extension of the zero-rating on certain foods, it said the move was not enough to address problems of poverty and starvation.

Committee convenor Dr Benny Fanaroff said poverty and starvation would not be properly addressed until a poverty relief programme was established.

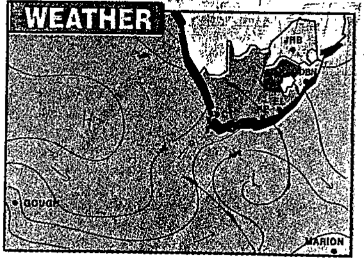
Housewives' League spokeswoman Lyn Morris said the decision meant a "lot of happiness for consumers".

The zero ratings of brown bread and mealie meal, initially targeted for long term zero rating, are not affected by the concessions. The zero rating on these items will be retained.

Foodstuffs which are to retain a zero rating until further notice are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

But VAT will be payable on fresh milk and rice from today.

● The Democratic Party said yesterday that Mr Du Plessis should stop playing games with VAT and continue with zero-rating on all basic foodstuffs.



Partly cloudy and cold with showers mainly this morning. Wind: moderately to fresh south-westerly.

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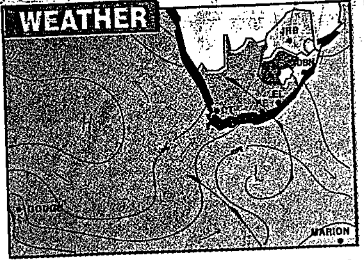

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Telling pressure from business

Barend backs down on food zero rating

BDay 1/4/92

320

BILLY PADDOCK

CAPE TOWN — Businessmen wary of conflict and labour disruption put pressure on government to back down on VAT and extend the zero rating on certain foodstuffs.

It has been reliably learnt that senior businessmen contacted President F W de Klerk to warn him of serious consequences for the economy should Finance Minister Barend du Plessis persist with his plan to abolish the zero rating.

Yesterday Du Plessis announced the zero rating on 11 basic foodstuffs (including brown bread and mealie meal) would be extended indefinitely, but fresh milk and rice would no longer be exempted.

At a news conference in Pretoria Du Plessis denied any political motivation for the move, or that government was afraid of a confrontation with labour organisations. No action government took would have satisfied these groups, he said.

"We have no illusions that these latest steps we have taken will be met with joy from Cosatu and others with a political agenda," he said.

He said those with a political agenda had no understanding of how the economy worked, were not operating out of compassion and had, in fact, already planned their mass action last year.

Du Plessis said he had not spoken to the VAT Co-ordinating Committee because it refused to speak to him and wanted to speak only to De Klerk. "The (committee) is a front organisation for socialist and even communist groups and we are too far apart to reach agreement," he said.

PICK 'n Pay pre-empted government by placing a newspaper advert — before the Minister's announcement — offering customers a VAT holiday on milk and rice for the month of April. But Pick 'n Pay chairman Raymond Ackerman denied the group had any prior knowledge of what would be zero rated. The chain had decided to absorb VAT on some items — but had had no idea its assumptions would be spot on.

VAT was an emotionally sensitive issue and "we have to listen to responsible church and business leaders".

Du Plessis insisted he had not changed his mind on the issue but had consulted widely. Cabinet had made the decision after weighing up the implications.

Announcing the extensions, Du Plessis said there were three deciding factors:

☐ The responsible and persuasive representations from business and church leaders;

☐ To Page 2

VAT

BDay 1/4/92.

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☐ From Page 1

☐ The scientific investigation into food price increases that still had to be completed; and

☐ The fact that the geographic implementation of the food relief programme had not yet been satisfactorily completed.

He said the extension was indefinite. The Treasury would lose R136m if it was kept in place for a full year. If all 13 foodstuffs had been zero rated, the loss would have been R380m. So by bringing fresh milk and rice into the VAT net, government was saving R244m. Government would have to find ways of making up the lost revenue.

Brown bread and mealie meal were permanently zero rated as announced in last year's Budget. The other nine items now affected were samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

Du Plessis said abolishing the zero rating on the nine items depended on the results of the food prices investigation and the satisfactory implementation of the food relief programme.

Du Plessis rejected the allegation that the rise in food prices since the introduction of VAT was primarily caused by the tax. "This is refuted by the fact that the prices of certain foodstuffs which were zero-rated have risen by more than 10% since the introduction of VAT," he said.

DP finance spokesman Ken Andrew said Du Plessis should stop playing games with VAT on basic foodstuffs. "It is a pity that important economic decisions continue to be characterised by brinkmanship, bluff, vacillation and capitulation rather than timeously negotiated agreements on how to resolve our challenging problems."

MARCIA KLEIN reports that Sacob welcomed the decision. A VAT system with as few exemptions as possible was still desirable, a Sacob statement said, but the current economic circumstances required a flexible approach.

Sapa reports the VAT Co-ordinating Committee welcomed the announcement, but said it was not enough to address poverty and starvation.

Pick 'n Pay and the OK said they would absorb VAT on fresh milk and rice for a short time.

● Comment: Page 12

VAT exemptions to remain on 7 basic foodstuffs

Barend 'fails to go far enough'

Star 1/4/92 (320)

By Paula Fray
Consumer Reporter

Du Plessis . . . political motive

The Government's decision not to impose VAT on seven basic foods until further notice was last night described as "not going far enough".

Finance Minister Barend du Plessis yesterday backed down from his intention to lift the temporary zero-rating on nine basic foodstuffs as from today.

However, rice and fresh milk will now be liable for VAT. The foods which remain temporarily VAT-free are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

Brown bread and mealie meal are permanently zero-rated.

According to Mr du Plessis, the Government would collect an additional R244 million this year following the lifting of the VAT zero-rating on milk and rice, while the temporary zero-rated items would cost R136 million.

He said the Government had responded to "responsible representation".

Factors which influenced Cabinet to extend the zero-ratings included the fact that Dr Rina Venter was in the process of extending the nutrition development programme. He said Government was also awaiting the results of an investigation into high food prices.

Also, the present economic situation had been "slow to recover".

"If we err, we would rather err on the side of compassion," Mr du Plessis said.

He said he did not believe the concessions would find favour with the "excessive demands of Cosatu".

Shocked

The Minister would not comment on when the concessions would be dropped.

Housewives' League president Lyn Morris said she believed the extension was good as it was aimed at assisting the poor.

However, Checkers/Shoprite MD Whitey Basson expressed shock at the decision to include fresh milk and rice in the VAT bracket.

He said the imposition of VAT on these items would be a hard blow to consumers.

Mr Basson reiterated his call to government to terminate the taxation of basic foodstuffs until economic recovery was well under way.

Democratic Party spokesman Ken Andrew said the Minister should stop playing games with VAT and continue with zero-rating on all basic foodstuffs.

South African Chamber of Business chief Dr Ben van Rensburg said Sacob supported the decision against the background of the present economic situation.

"We still believe in a clean VAT system but think this step is necessary as an interim measure until such time when the poverty relief programme is in place," said Dr van Rensburg.

VAT Co-ordinating Committee (VCC) convener Dr Bernie Fanaroff said that once again Mr du Plessis had reacted to pressure and made ad hoc changes. While the VCC welcomed the move it did "not go far enough" in two respects, he added.

The crisis of poverty and starvation in the country would not be properly addressed until a poverty relief programme was established.

The second issue which the VCC considered essential was that the Governement should consult broadly on the issues of budgetary measures such as VAT and the stabilisation of food prices.

Zero-rated goods cost more in township stores

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Sowetan 3/4/92

Sowetan Correspondent

THE cost of zero-rated items in major supermarkets remained "fairly stable".

But the problem areas were the small stores in townships and rural areas, Housewives' League vice-president Mrs Sheila Lord has revealed.

Lord said on Wednesday - the day after Finance Minister Barend du Plessis had zero-rated certain basic foodstuffs - that there were no dramatic increases in the cost of zero-rated foodstuffs during the past six months.

But, she said, experience had shown white consumers in urbanised areas were paying less for food than the needy.

National Black Consumers Union president Mrs Nonia Ramphomane concurred: "Prices of these basic foodstuffs have gone up drastically in the townships - taking into account the cost of travel incurred by the dealer."

Ramphomane said she was not aware of the zero-ratings having a dramatic impact in township stores. "Even in the past we have always paid much more in township stores than in the CBD supermarkets," she said.

Interfact, the research company commissioned by Vatwatch to monitor prices countrywide during the Value Added Tax transition period, said most zero-rated items had increased slightly.

Milk powder showed the highest increase of 6,93 percent since pre-VAT days; samp increased by 3,86 percent; brown bread by 3,15 percent; canned fish by 1,8 percent; rice by 1,19 percent; maize meal by 0,95 percent; and fresh milk by 0,45 percent.

Du Plessis was "insensitive to the majority of the aged, unemployed and underpaid" by not making the zero-ratings permanent, said Ramphomane.

"We are also disappointed that milk has been put into the VAT bracket. This is one food consumers cannot do without. It is the easiest protein our people can take and which they consume a lot," she said.

"The solution is for the Government to find ways and means of reducing food prices ... even if it means subsidising some of the production process and selling the products to the disadvantaged."

It was no use looking towards retailers to reduce prices.

"It's not the retailers as such, as their prices are influenced by the manufacturers and producers," she said.

Other organisations have also deplored the lifting of the zero-rating on rice and fresh milk.

National Co-operatives Dairies has said it regretted the lifting of the VAT concession on fresh milk.

NCD corporate affairs manager Dr Chris Lerm said the nutritional value of milk was more than any other product at present still zero-rated and the decision was thus obviously taken for financial reasons.

He, however, welcomed the extension on milk and milk blend powders.

"NCD stands by its belief that maas (sour-milk) is an even more vital basic foodstuff for an important section of our population. Maas is used primarily with mielie pap and should have been zero-rated from the start," said Lerm.

The Department of Revenue has confirmed that VAT is payable on green maize sold at roadside stalls. The zero-rating only applies to "dried silo-screened maize or dried maize for human consumption".

Cosatu threatens general strike

W/Mail 3/4/-9/4/92

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Cosatu is threatening a general strike and factory occupations in July if the government doesn't heed its demands.

By **FERIAL HAFFAJEE**

THE Congress of South African Trade Unions zero-rated Barend du Plessis' last minute concessions on Value Added Tax this week and stressed that its programme of mass action would continue.

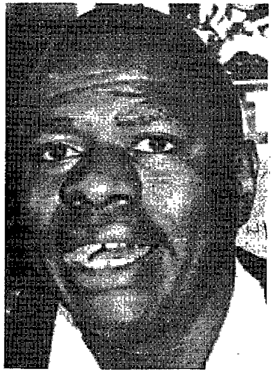
And if the government and the Convention for a Democratic South Africa (Codesa) do not heed the federation's economic and political demands, the country could face a sustained general strike in July as well as factory occupations.

This was the message from Cosatu assistant general secretary Sam Shilowa. Although pleased at the further exemption of many basic foodstuffs, the federation is still angered by Du Plessis' continued refusal to meet the VAT Co-ordinating Committee (VCC).

Du Plessis this week widened the rift when he called the VCC a front organisation for socialism and communism and accused it of "wanting to tax only companies and the salary earner".

The VAT campaign will not end until VAT is negotiated, until all basic foodstuffs and services are permanently zero-rated and until an effective poverty relief programme is in place, says Shilowa.

Barend du Plessis



Sam Shilowa

In the meantime, marches and pickets will keep the campaign alive, but Cosatu regions have been instructed to start a campaign to boycott PAYE. In May, a decision will be taken on where and how to implement this boycott.

But the action hinges on sufficient progress being made on VAT, on a food prices freeze and on progress toward an interim government.

A PAYE boycott will be very difficult to implement, say business leaders, because companies are compelled by law to deduct the tax. But Shilowa is adamant that it can be done.

"They said we could not do it with the anti-Labour Relations Act campaign and with last year's VAT strike, but we proved them wrong," he said.

The demand around non-deduction of PAYE is also linked to Cosatu's demand for an interim government to be in place by June. "PAYE allows the government to stall the process of political development," he says.

A central demand from Cosatu's weekend economic policy conference is for the establishment of a national economic negotiating forum by May. But the government has given no clear indication that it will join the talks. And it is likely to baulk at the proposed clause that all economic restructuring should cease during transition.

Another campaign central to Cosatu's mass action is for the extension of legislation to farm, domestic and public sector workers and this is the campaign with the most potential for conflict.

In a recent interview new Manpower Minister Piet Marais said he would not pass farmworker legislation without the agreement of the South African Agricultural Union.

But the SAAU is wedded to the ideal of a separate labour statute for farmworkers — a demand which Cosatu will oppose.

Domestic workers' legislation is not even on the Manpower Department's drawing board and, says the Commission for Administration, the public sector employer, legislation for public sector workers will not go through during this session of parliament.

Cosatu and the National Council of Trade Unions have already established joint national executives to plan for a workers' summit in July where progress around the various campaigns will be assessed and mass action planned by the two federations as well as independent unions.

Action in July could consist of a sustained general strike, factory occupations or strikes at the point of production, says Shilowa.

●See PAGE 21

Barend backs down

W/Mail 3/4-9/4/92

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By REG RUMNEY

FINANCE Minister Barend du Plessis' attempts this week to save face over Value Added Tax seem to have backfired.

At a media conference in Pretoria Du Plessis presented the extension of zero-rating on most basic foods for an indefinite period as being inspired by the plight of the poor. He said the relief was still temporary, and suggested it would be removed in a few months, but left it open-ended.

It has taken some of the wind out of the sales of the Cosatu-led VAT Co-ordinating Committee, by mollifying some of the more conservative groups who might have sympathised with the VCC's campaign.

The move was welcomed, for instance, by the Housewives' League and the National Council for Child and Family Welfare.

The VCC's Bernie Fanaroff has also welcomed the extension of zero-rating but not surprisingly said it does not go far enough. He said the move did not do enough to address problems of poverty and starvation.

The concentration on food has deflected attention from the demand for zero-rating of private medical services.

But it has been seen by many, including the business community, as a last-minute buckling by the government under pressure from the VCC and a move that reflects indecisiveness.

The media conference was delayed by a day as Du Plessis met business leaders, leading to the conclusion he responded to pressure from business to reverse an expected hard line on VAT. But the business community would in turn have been trying to defuse further industrial action. The chain store bosses have clearly pandered to their consumer constituencies.

Announcing the extension, Du Plessis insisted he was not bowing to pressure from the VCC, which he branded a front for socialist and even communist groups.

He said the concession he was making would mean a loss in tax revenue of R136-million if it extended over one year.

Those with a political agenda knew very little about the economy and were not compassion motivated. Mass action was planned a long time ago.

"First prize would still have been to let the dropping of zero-rating go ahead," said Du Plessis.

The way to aid the poor was not through tax but through the spending side of the Budget and the government had done this by devoting R440-million to the Nutrition Development Programme administered by Health Minister Rina Venter, in addition to R110-million left over from last year. Should more be needed, said Du Plessis, the government would consider making more available.

Venter, who was at the briefing, replying to criticism that the programme had been slow in getting off the ground, said it should be judged not only on the amount spent so far, R110-million out of R220-million, but by the number of organisations who had received money. She said 194 of 270 organisations who had applied had received funds.

VAT raises taxing questions

w|Mail 3/4-9/4/92

(320)

Who should pay the most tax: companies, individual taxpayers or the broad mass of people through indirect taxes such as Value Added Tax?

REG RUMNEY *tries to get behind what the VAT argument is all about*

WHY is the Congress of South African Trade Unions so concerned to see Value Added Tax on food removed? Why is the government so determined to see as few zero-ratings as possible?

The answer lies partly in the accusation made by Finance Minister Barend du Plessis at his media conference this week.

Du Plessis said that during discussions with the Vat Co-Ordinating Committee the VCC's Bernie Fanaroff, speaking as a Cosatu office-bearer, had told him Cosatu was in principle opposed to a consumption tax like VAT. However, if the concessions, like zero-rating food and medicine, demanded by Cosatu were made, the federation would go along with VAT. This would mean, Du Plessis said, transferring the total tax burden to salary earners and companies.

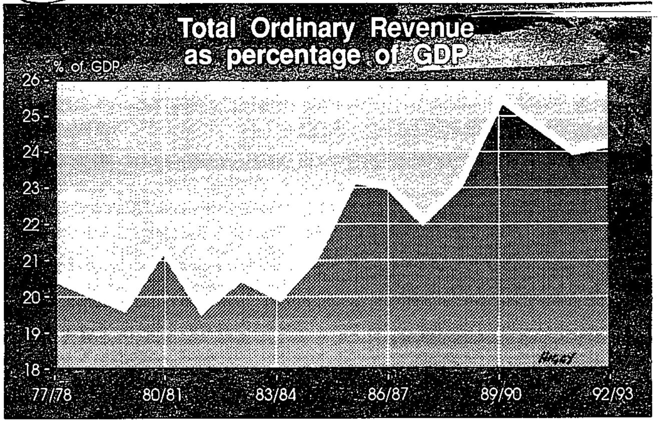
Cosatu does emphasise the need to increase progressive taxation — the more you have the more you pay — and does not dwell on consumption taxes — the more you spend the more you pay. Consumption taxes, it is argued, tend to hit the poor harder because they pay the same tax rate as the rich.

The International Monetary Fund (skip this part if you think the IMF is the diabolical and sinister agent of world capitalism) in a report on VAT agrees VAT with few exemptions must be regressive.

However, Fiscal Affairs deputy director Alan Tait argues that VAT can be less regressive than alternatives, like higher excise taxes, taxes on tobacco, alcohol and cold drinks, for example, or higher payroll taxes.

The IMF also thinks, according to its recent report on South Africa, that whites are not paying too little tax.

The government would like to keep the VAT base as broad as possible. This is not only because each exemption allows another loophole to be exploited without necessarily helping those it is intended to help. Each exception costs money. So the continued zero-rating of eight basic foodstuffs would mean a loss for the full year of R136-million to the fiscus.



The graph shows how much the tax burden on us all has increased

Zero-rated products

Zero-rating simply means no VAT at all is payable. It is extended for another six months and until further notice on: samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy power mixtures.

Fresh milk and rice are now subject to VAT.

Bread and maize continue to be zero-rated for the long term.

At an Old Mutual Budget seminar, Department of Finance director general Gerhard Croeser pointed out the government believes that the tax burden should be shared almost 50-50 between indirect tax, such as VAT, and direct taxes such as income tax.

The ratio of indirect to direct tax in the 1992/93 year is around that of 1991/92 at 0,67:1. In the two preceding years it was 0,84:1. In other words, it is moving in the opposite direction to that urged by the Margo Commission on Tax some years ago, imposing a heavier burden on payers of income tax and companies.

Because the government could not impose a 12 percent instead of a 10 percent tax rate, it could do less than it might about putting right fiscal drag, the punishing phenomenon by which governments get more money as inflation pushes income earners into higher tax brackets.

That VAT was imposed on foods which had not previously been subject to GST does complicate the issue. It does mean an extra burden.

If one could be certain targeted aid to the poor went where it was supposed to, that would certainly be better than zero-rating basic foodstuffs.

One alternative is not only a leaky consumption tax system, but also higher taxes on other items like clothing, or worse a tax which imposes higher taxes on "luxury goods" than on basic goods. This defeats the idea of a consumption tax, which should be broad-based and not progressive.

And it shifts the burden back on the shoulders of individual taxpayers and companies.

Its small solace then that, as University of Cape Town economist Brian Kantor pointed out at the OM Budget forum, the details of how tax is paid is mostly just "smoke and mirrors". Higher tax wherever levied is reflected in higher prices anyway.

Kantor said the really important figure was government tax revenue as a percentage of gross domestic product. At 24 percent this is high, but not much higher than last year.

But too high a burden on taxpayers would encourage more tax evasion (illegal) as well as avoidance (legal). It would push more people into the non-taxpaying informal sector, which consumption taxes like VAT are designed to tap.

Tax posers

FM 3/4/92

Attempts to simplify and rationalise taxation of the life offices — and, therefore, tax on millions of policyholders — have met new snags.

There will be no quick demise for the sixth schedule of the Income Tax Act as was widely predicted. Nor is there likely to be immediate progress towards dividing life office assets into three separate funds, which would have benefited most policyholders.

The three-fund approach had been endorsed in Finance Minister Barend du Plessis' Budget last month but difficulties emerged in talks involving Inland Revenue, the Financial Services Board (FSB) and Life Offices Association (LOA). There should be

continue →

no connection between the sixth schedule and the three-fund principle: in practice, they are linked by Revenue's need to generate a predictable income from the life industry.

The schedule was introduced to deter the wealthy from using life funds as tax shelters and it became progressively more complicated. In the mid-Eighties, it was amended to protect the flow of funds to banks and building societies. This was followed by an undertaking from life assurers that they would not issue any form of policy with a projected life of fewer than five years.

The schedule has become an administrative nightmare and needs to be scrapped. It describes "standard" and "nonstandard" life policies in terms which only a few experts in the industry understand, though the tax implications of the definitions are significant.

The FSB argued that a schedule which is a fiscal measure interferes with the board's regulatory authority. Since then, there has been broad agreement on what constitutes an insurance product and what is more suitable for deposit-taking institutions.

Some assurers were confident the schedule would be scrapped, possibly as early as this week, and replaced with product definitions and regulations in the Long-Term Insurance Bill expected to come before parliament next year. The life offices would, meanwhile, comply with a directive to be drafted by the board, with the same regulatory effect.

But Revenue needs to know the regulatory umbrella under which life offices will pay tax. So the rules have to be in place when the schedule is scrapped. The rules attached to the three-fund principle should have covered this dilemma. In this, shareholders' or corporate funds in life offices would be taxed in the same way as any other company, with the two mutuals offering all or part of their free reserves as the equivalent of corporate funds; there would be a nontaxable pool of pension, provident and retirement annuity savings; and a pool of general policyholders' funds would be taxed at the average rate — probably about 32% — instead of the top marginal rate of 43%. The last clause would enhance the savings potential for millions of policyholders.

But Revenue has now pointed out there would be opportunities for tax evasion. A company-owned policy, other than a keyman or deferred compensation scheme, would usually attract tax at the company rate of 48%. But if the company cedes it to a natural person, the tax would drop to the proposed 32% — with a large loss of revenue. The proposals are all back on the drawing board for a minimum of three months.

Meanwhile, insurance brokers who have been selling investment-type products with an undertaking that they will soon be recognised as standard, and therefore contain tax benefits, are on unsafe ground, with a potential for liability suits against them if things go wrong. When the sixth schedule is finally scrapped, it is hoped that all nonstandard policies will become standard. But if Revenue scents that the delay is being exploited, it is possible that policies issued after, for example, Budget day 1992, will not be taken into the lawful net. ■

THE PARALYSIS OF VAT 320

FM 3/4/92

Could they run a whelk stall?

If this government's utter incompetence to run the economy were not already manifest, it must have become so with the scarcely believable pantomime over the extension of VAT to basic foodstuffs. The fact that many of those who rightly opposed the exemptions last year and should have known better have now apparently changed their tack is no excuse for the latest mess-up (see *Economy*).

By excluding rice and milk from the latest exemption and refusing to put a time limit on it, Finance Minister Barend du Plessis ensures that neither those who wanted the exemption continued, nor those who wanted it ended, will be happy.

Selective exemptions not only distort the tax system, they are an inefficient way of bringing relief to those who need it. The main beneficiaries — as experience in every foreign country has shown — are the relatively prosperous, who in absolute terms consume the bulk of all these commodities.

None of this is to imply that we need not be concerned at the plight of the poor. When Du Plessis provided aid for the poor in last year's Budget, to be channelled through "existing welfare organisations," many warned that these organisations had neither the appropriate contacts nor structures; this appears to have been borne out in practice.

The belief that you can solve problems by throwing money at them in fact extends much wider than this. Conventional wisdom is to look at the enormous increases in spending on health and education in successive Budgets and take comfort that we are doing what we can.

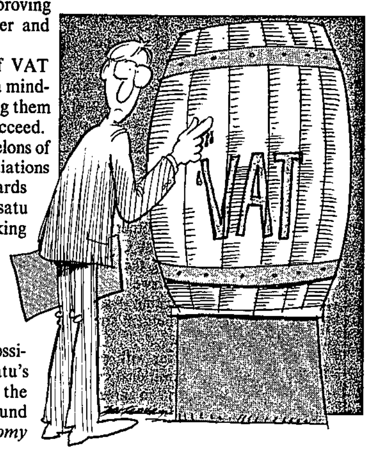
Whether that money is actually being spent in the most productive way is overlooked, but there are indications that it is not.

The quality of our delivery systems is vital. We could well achieve more by concentrating on improving them rather than blindly voting bigger and bigger sums each year.

Be that as it may, the extension of VAT exemptions on some basic foods is just a mindless sop to the radicals in hope of keeping them quiet and even on that level won't succeed.

Indications are that as the upper echelons of the ANC get more involved in negotiations and (however reluctantly) move towards accepting harsh economic reality, a Cosatu fearing marginalisation is actively taking up socialist rhetoric in the hope of exploiting a gap it perceives may be opening between the ANC leadership and its mass supporters.

Whatever protestations to the contrary all concerned may make, it's impossible to accept as mere coincidence Cosatu's restatement of its hard economic line on the eve of the ANC's latest attempt to sound like the voice of sweet reason (see *Economy* and *Current Affairs*).



Cosatu seems to be spoiling for a fight and government should not have shirked it. Cosatu's pre-VAT protest, though it attracted more support than many (including the *FM)* expected, had absolutely no long-term significance. As its advocates always argued, VAT has become an invisible tax; extended (as it always should have been) to these foodstuffs, it would soon become invisible on them, too.

Trouble is, government, obsessed by constitutional reform through Codesa, seems to have lost the will to make basic decisions on the economy. This was shown in the Budget, in the failure to relieve fiscal drag on individuals and excessive rates of company tax, save for anodyne promises (which Du Plessis must surely realise he was in no position to guarantee) to address the problems next year.

It is shown in the abandonment of privatisation virtually before it began and the slow progress of deregulation and tariff reform. There even appears to be a revival of the discredited view that government is better able than the market to guess what sectors have best growth prospects.

The general paralysis extends not only to a suspension of existing nominal policy, but a failure to consult with the representatives of the new SA where this could be productive. The *FM* has argued repeatedly for the need to bring the ANC (and others) into economic decision-making.

Let those who complain about inadequate social spending share the responsibility for allocating scarce resources. Let them even write the relevant parts of the Budget speech. As it is, Du Plessis complains that the ANC refused to give any input; the ANC retorts that it was invited at too late a stage to have any significant influence.

It's all too typical of the way the economy is being not so much mismanaged as unmanaged. Fact is, this government is the only government we've got. Tragically, on the economic front it just seems to be abnegating its duty to govern.

The new SA will pose enormous demands on whatever government we get. The Nationalists' late-Eighties apparent espousal of free market and supply side economics gave us a great opportunity to enter the new SA on a sound basis, now squandered through weakness and indecision.

Of course, there can be no guarantee that a new government won't adopt foolish outdated socialist and confiscatory policies. But that's all the more reason to get the correct environment into place now, to make it more difficult. ■

VAT RETREAT

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Fm 3/4/92

Organised business, fearing a vicious union backlash, has persuaded government to back down on imposing VAT on a small range of zero-rated basic foods. As a compromise VAT will be levied on fresh milk and rice, both previously zero-rated. Products that will remain VAT-free until further notice are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures. Zero-rating on brown bread and mealie meal was due to have been extended anyway.

This means that, of the R380m that would have been generated in the coming financial year by imposing VAT on previously zero-rated goods, only R244m will be collected. Finance Minister Barend du Plessis says other sources of revenue will have to be tapped. He declined to say what these might be but they are likely to include an increase in the fuel levy. He could also not say when zero-rating would be abolished. Further action would depend on the outcome of the investigation into food prices and success of government's programme to aid the poor.

Du Plessis denied government had buckled to political pressure. Threats of mass action did not influence his decision. He added that groups which opposed VAT for political reasons did not understand economics and were not concerned about the plight of the poor.

The VAT war hots up

(320) ARG 4/4/92

Barend du Plessis, in the firing line, now accused of bungling

FRANS ESTERHUYSE
Weekend Argus
Political Correspondent

THE war against VAT is continuing — and in the firing line is Finance Minister Barend du Plessis, now accused of bungling the entire new tax system.

Critics say Mr Du Plessis's handling of VAT has been like a red rag to a bull — it simply antagonised the public and discredited a system which could have been made to work.

The unflattering image of the minister as a "bungler" was dented even more when he backed down — albeit temporarily — on the controversial issue of VAT on basic foods.

Dr Bernie Fanaroff, convener of the Co-ordinating Committee on VAT (VCC), told Weekend Argus: "We welcome the concessions, but unfortunately the minister made them in the most grudging and damaging way possible."

Rejecting the minister's accusation that VCC was "a front organisation" for socialist and communist influences, Dr Fanaroff said: "That is not true. On the contrary, we represent more than 100 organisations across a wide spectrum of political opinion. All our members have remained loyal to our campaign against VAT. In fact, we are more representative of the people than Mr Barend du Plessis will ever be.

"He is in a corner, so now he is lashing out at us. He is going back to the bad old days."

Dr Fanaroff said organisations represented on his committee — including Cosatu and the ANC — were going ahead with action programmes against aspects of VAT.

These programmes were being launched in support of demands for the zero-rating of all basic foods, medicines, medical services, electricity and water, and assistance to small businesses.

Meanwhile a written request had been sent to President F W de Klerk for a meeting on zero-rating of basic foods.

"We prefer to deal with the State President. He is more constructive than Mr Du Plessis," said Dr Fanaroff.

Within the next few weeks representatives of Dr Fanaroff's committee will also meet leaders of the food industry to discuss ways of reducing food prices.

In addition, a meeting with certain heads of state departments has been requested to discuss a poverty relief programme. So far no reply has been received.

"It is very necessary to look at the tax system properly and systematically. The question of poverty and starvation will not be resolved by VAT, and discussion is important for identifying the problems."

After Mr Du Plessis's last-minute climbdown on VAT, it was announced that VAT zero-rating will be maintained "until further notice" on nine esential foods: samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

Capital gains tax could benefit traders

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STAR 4/4/92

FINANCE STAFF

A recommendation that a capital gains tax be introduced on share investment profits was recently made by the Johannesburg Stock Exchange committee to Finance Minister Barend du Plessis.

The hope, said Colin Crowhurst, senior partner in the stock brokerage of Ferguson Brothers, Hall, Stewart, Co Inc, had been that the introduction of the tax as part of the latest Budget would have cleared away the vast amount of uncertainty currently surrounding the taxation of share deals.

Arbitrary

Addressing a monthly meeting of The Investors Club he said the stock exchange had taken the view that it would have been better to levy a flat rate capital gains tax at a low level or perhaps 15 percent than to continue with the present arbitrary system in which revenue officers in the different centres all pursued their own individual approaches to the taxation of share profits.

One of the most serious problems facing the Johannesburg Stock Exchange was, he said, its relative lack of liquidity. The fear of individuals that they might be taxed at their marginal rates if they take capital gains on their share investments was responsible for the extremely low turnover of the JSE.

PROPOSAL: Minister Barend du Plessis.

In the event, the Minister had compromised on the issue by lowering the time limit to five years, after which the holder of shares could be assured that he would not be taxed on his investment.

Mr Crowhurst told investors that they need not necessarily be taxed as "traders" if they sold shares after holding them for a lesser period of time. Provided investors sold shares in order to reinvest in securities that resulted in a higher dividend, the Receiver of Revenue had shown no inclination to tax them on their capital gains.

Retraction

In a wide-ranging 90-minute question and answer session, Mr Crowhurst also:

- Expressed the view that a short-term share market retraction was likely but envisaged steadily rising share prices in the year ahead.
- Said that inflation was here to stay and doubted whether levels of less than 10 percent could be reached in the forseeable future.
- Said that South Africa would attract substantial foreign investment capital in future provided a clear capitalist-orientated political policy was adopted in the future. "We are currently shooting the political rapids but a very calm pool lies ahead" he predicted.

TAXATION: *There is a gap in the law regarding married couples*

It's a whole new ball game

STAR 4/4/92.

(320)

WHILE legislation discourages the deliberate splitting of income between spouses to avoid payment of income tax, there are certain situations that legislation cannot counter.

A finite gap exists in the law, particularly where the law of accrual applies to spouses married in community of property, in which case certain forms of joint accumulation of income pertain.

Couples who try swopping ownership of certain assets in the hope of evading income tax will come short, however.

Lower

Spouses, particularly women, who may be hazy as to whether they are married in community of property or by ante-nuptial contract, and what these terms really mean, should make a point of finding out in case they can benefit from a lower tax rate, advises Gary Eaves, tax partner of KPMG Aiken & Peat, Cape Town.

"It's in a woman's interests to clarify her situation because spouses married in community of property automatically enjoy joint and several ownership with their husbands, whether it be of investments, immovable assets, movable or liquid assets," he said.

"Put differently, such couples are automatically permitted by law to split their annual income, however derived, regardless of whether it is generated by husband or wife.

The question of marriage in community of property has particular relevance for the farming community, Eaves said.

"Opportunities that exist here have tended to be overlooked for the reason that all the income, usually paid to the husband, is taxed at the married person rate. However, this need not be the case, since the husband's income flows to both spouses jointly and severally. In any event, the wife should be reflecting half of that income and is legally entitled to be taxed as a married woman at the lower rate."

Eaves said: "It is fairly common among farmers who own property in their own name to lease it out to a company or CC which carries out the farming activities; this ensures continuity for various allowances for machinery and development that flow to farming.

"If the farm is jointly owned, income from rental paid by the company to the farmer may also be split between the spouses and taxed at both rates.

"The point here is that husband's and wife's incomes are taxed at two different rates: the husband as a married person and the wife as a married woman.

"The maximum rate for a married woman is 38 percent, whereas that for a married person is 43 percent."

If a couple marries according to ante-nuptial contract: assets brought into the marriage by husband and wife remain their personal property and, according to circumstance, whatever assets they accumulate during the marriage may be shared jointly and severally — but only on dissolution of the marriage.

"I say "according to circumstances" because an asset belonging to the husband can be shifted to his wife's ownership providing the Receiver is satisfied that transfer of ownership was affected for reasons other than tax savings.

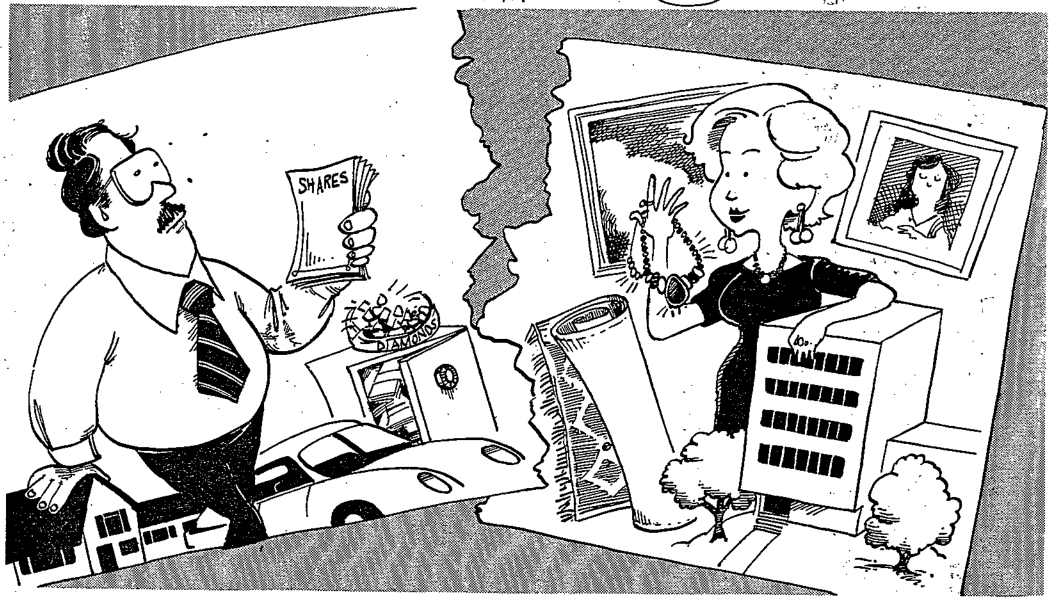
Need

"Take a man who owns a block of flats, for instance. The situation might arise where, due to this exposure to creditors, the need arises to transfer this property to his wife's ownership.

"Providing the husband can prove that his primary purpose in transferring the property was to protect his wife and family, the Receiver will accept this.

"The capital value and income derived from those flats will thereafter be taxed at the married woman's rate."

Where a transaction between husband and wife is designed and entered into specifically to split their income it can be done, Eaves said, but only if there is viable evidence to support their good commercial or private reason for doing so.



Taxpayers fork out R2 000 for a single reply

ST Times 5/4/92

(320)

By CLAIRE ROBERTSON

IT CAN cost the taxpayer up to R2 000 every time a public servant replies to a letter from the public — and that doesn't include postage.

This emerged from a detailed description of his duties by a senior public servant who resigned in disgust at the enormous waste he saw around him.

After an 18-month stint in a senior post with the Department of Education and Culture, Dr Chris Claassen of Brooklyn, Pretoria, returned to lecturing.

Now he has revealed in detail the endless, unproductive paperchase that constitutes work at the Department of Education and Culture.

Dr Claassen found that he was completing not quite two "assignments" a week — and an assignment could be as simple as a letter.

He was also warned not to "rock the boat" and was eventually asked to leave if he did not want to fit in with departmental procedures.

"If a hobo in Joubert Park wrote a letter to the department it would take a week and cost R2 000 to answer," he said this week.

Dr Claassen — then a senior deputy chief educationist — once complained to his boss about the cost of processing letters and was told: "If a letter costs R2 000, that is what it must cost. The minister is entitled to sign a perfect letter."

Said Dr Claassen: "Up to R90 000 of the taxpayers' money has been wasted by me in the past 18 months ... I earned more than R140 000 in this period. I could have completed my work in a third of this time. Two thirds of my salary, R90 000, has been misspent in my case alone."

Time and again he was assigned reports which would be "noted", filed or endlessly circulated.

"Much of the work is given simply to keep one busy. Much of it is repetition. Some work is passed around interminably — no decision is ever taken."

Examples of bureaucracy cited by Dr Claassen include:

- In his first four days on the job he was given a one-paragraph letter to write. At R400 a working day, the letter cost R1 600."
- He wanted to be excused from a meeting on the grounds of a prior commitment. This took two typed pages which had to be read by four senior officials. The request cost about R200. "In the private sector it would have entailed a 10-second call."
- He once requested 12 overhead transparencies. It took three days and seven signatures to obtain them.
- One report he knew of took five years to complete. On parental involvment in schools, it included the work of 20 educationists and cost tens of thousands of rands. As of December last year, nothing had been done about it.
- In September last year a Stellenbosch student sent a short letter to the department. The reply — on gilded ministerial letterheads — was changed seven times by the five department heads in the heirarchy who examine correspondence as a matter of course.

"Every letter I answered was treated in this way. And we never gave a straight answer — we usually referred them to someone else!"

The Department of Education and Culture did not respond to a request to comment on Dr Claassen's allegations.

SA could be tax haven for UK's top earners

STAR 7/4/92

By Neil Behrmann (329)

LONDON — If the Labour Party gains power this week, South Africa's immigration offices may soon be overwhelmed by disenchanted British professionals, managers and skilled artisans.

Under the proposals of Labour Shadow Chancellor John Smith, South Africa's tax structure would become more attractive for British taxpayers who earn more than £25 000.

Thus, for the first time in several years, the net disposable income of South Africans would be higher than for middle and upper-ranking UK taxpayers.

Even though South Africa's inflation is running 12 percentage points higher than the UK, its cost of living is still much lower.

So British immigrants would be able to buy more for their money as well.

Meanwhile, Mr Smith is a devout believer in the European Exchange Rate Mechanism and repeatedly says Labour will not devalue sterling.

Interest rates

To maintain the pound at its present overvalued parity, interest rates, which have already jumped to 11 percent on fears of a Labour victory, are likely to remain high.

After deducting inflation, real interest rates are a punitive seven percent. So even though Labour intends spending more, the shackles of the currency and interest rates are likely to prolong the recession.

Government borrowings are expected to surge. Unemployment is likely to rise further and job prospects will be poor for some time to come.

For the purposes of tax rate comparisons, a notional "purchasing power parity" of R2,50 to the pound has been used instead of the market rate of around R5 to the pound.

Also, national insurance contributions (NIC) — of nine percent — are added to UK tax payments. These pay for a free health service, unemployment benefits and pensions. Thus the tax rate, particularly on lower incomes, is not strictly comparable.

A large proportion of UK upper income earners pay for their own private insurance because of the National Health Service's long waiting lists and time-consuming delays. But the benefits are available for all, regardless of income.

Under the present government, the scale of the NIC take is limited to a maximum of nine percent up to incomes of £21 000 (R52 500).

A married person with a taxable income of £40 000 (R100 000) would be paying 4,5 percent on national insurance contributions.

Labour intends scrapping the limit, so national insurance contributions would remain at nine percent, regardless of income.

Labour intends raising the top marginal rate from 40 percent to 50 percent for incomes over £40 000 (R100 000).

Including NIC, the tax take above that level would be a whopping 59 percent.

Many a middle manager is praying for a Labour defeat and City yuppies are bailing out of the share market, which has slid by 11 percent from its peak in September.

Middle managers, general practioners, average accountants and senior journalists earn between £35 000 and £50 000 (R87 500 and R125 000) in the UK.

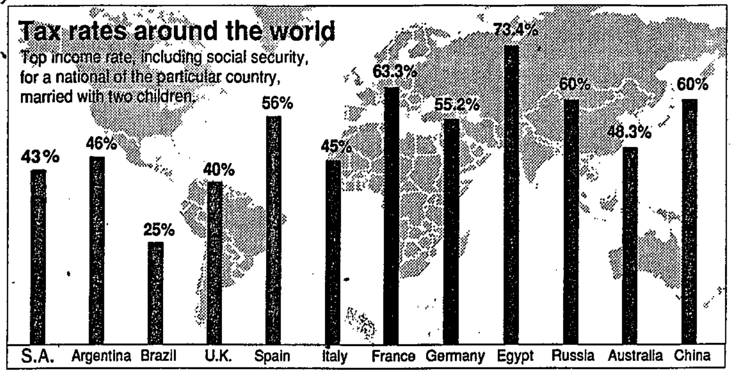
Undoubtedly, Labour's proposed taxation would reduce incentives. A managing director earning £70 000, would take home £39 000, while a middle manager earning £50 000 would receive £31 000.

The £8 000 difference, or only £153 a week, matches socialist egalitarianism that has become unfashionable in Eastern Europe.

Despite these disincentives and the appalling record of Labour adminstrations since World War Two, polls are pointing to a new Labour government.

By mismanaging the economy, education, health service, transport and infrastructure, the Conservative Government has alienated the British electorate.

However, it would not take long before there was considerable disenchantment with Labour. Hence the possibility of more immigrants for South Africa.



Sources: Corporate Resources Group

AP / R. Dominguez

Wealth tax can contribute little to sound fiscal policy

B/Day 8/4/92

MARIUS VAN BLERCK

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ANC economist Neva Seidman Makgetla has argued in Work in Progress (December) and Business Day (November 22) that the reaction of the "mainstream" Press to suggestions of a wealth tax was unjustifiably hysterical. Cosatu's Neil Coleman expressed similar sentiments in Business Day (March 6).

To the extent that some Press reaction to the suggestion of such a tax was overdone, these authors are quite correct. In a climate of political and economic change, it is essential that fiscal issues be examined rationally and objectively rather than emotively. The issue of wealth tax is no exception to this maxim.

The first step is to define the subject. "Wealth tax" generally includes annual net wealth tax, and capital transfer taxes in the form of gift and death taxes. A point immediately apparent is that SA already has the latter two taxes.

The next step is to define the ideal objective of fiscal policy. Such an objective could be "the creation of a system of taxation which operates efficiently — one which extracts as much revenue as is necessary for the state without adversely affecting economic growth". Such a system does not favour high or low taxation per se. It requires the system to be designed in a way which will yield revenues efficiently, taking heed of its effect on economic growth.

Where does wealth tax fit in the taxation armoury? As already stated, we have two forms of wealth tax in SA, and such taxes are not uncommon in successful economies throughout the world. However, evidence indicates that there has, in the past few decades, been a trend away from taxes which are not cost-efficient, and that wealth taxes are deemed to fall into this category.

For example, in 1965 property tax (which also includes wealth tax and taxes on property transfers) at a general government level (including provincial and local levels) in OECD countries averaged 2% of GDP. It had dropped to 1,8% by 1985.

In SA, a similar trend is evident. In 1975 property taxes at a general government level amounted to 1,6% of GDP and by 1985 this had dropped to 1,3%. By 1987 property taxes were again edging up to a little over 1,32% as a consequence of an increase at central government level. An inspection of the makeup of central government property taxes indicates this has come about because of an increase in tax on capital and financial transactions from 0,25% of GDP in 1985 to 0,39% in 1987.

A further indication of the decline in the importance of wealth tax is that, in the OECD, this category of tax has declined as a percent of GDP from 0,41% in 1965 to 0,26% in 1985. In SA, gift and death taxes have also declined in importance, from 0,14% of GDP in 1975 to 0,11% in 1985, and still further to 0,08% in 1987.

It is clear that SA is following the OECD trend of reducing reliance on property taxes (including wealth taxes) but it is equally clear that, at a general government level, SA levies less property tax than the OECD average — 1,3% of GDP versus 1,8% of GDP for 1985 respectively. It is thus apparent that as SA's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

To supplement the comparison with OECD countries it is essential to compare our position with non-OECD countries, as the OECD is composed exclusively of developed economies, while the SA economy is better classified as a developing economy, and has much in common with the average non-OECD country.

At a central government level, the SA property tax burden is somewhat higher than that in non-OECD countries. Non-OECD countries experienced a burden of 0,36% of GDP in 1975, declining to 0,33% in 1987; SA experienced an increase from 0,40% to 0,47% in the same period.

At a general government level the picture is different. Less than one-third of the non-OECD countries surveyed for central government statistics provided comprehensive statistics at general government level. It may be safely assumed that most countries not providing such statistics collect minimal taxes at non-central government level.

For the countries providing the necessary statistics, property tax averaged 0,71% of GDP in 1975, declining to 0,61% in 1987. Given the assumptions above, statistics embracing the remaining two-thirds of the sample would reduce these averages significantly. By contrast, SA property tax at a general government level is more than twice as much as that in the non-OECD countries surveyed, even though it has declined from 1,61% of GDP in 1975 to 1,32% in 1987.

Higher taxation in SA is largely the result of the impact of local authority property taxation which, in 1985, was almost three times as high as the non-OECD average.

Does the decline in the importance of property taxes and the trend towards tax efficiency mean wealth taxes should be totally abandoned? The answer is no because, with regard to our existing wealth taxes, an infrastructure to collect the tax already exists for reasons other than tax, namely, the administration of estates, the registration of property transfers and so on. These taxes are therefore reasonably efficient by definition, as there is little extra collection cost, and it would be a mistake to abolish them.

The same does not necessarily hold true of new wealth taxes, particularly annual net wealth taxes. These have been found to be tax inefficient, in that they absorb far too much administrative effort and cost, and generate disproportionately negative perceptions in relation to the revenues they generate.

In a South African economy which is facing severe skills shortages, this is a critical point. This point is illustrated in a macro sense by the fact that, as has been mentioned, combined revenues from individual net wealth taxes and capital transfer taxes shrunk from 0,41% of GDP in the OECD in 1965 to 0,26% in 1985, and in a micro sense by the French experience which saw France introduce net wealth tax in 1982 and abandon this tax five years later.

One thing is clear from the statistics. While property taxes are declining in importance, it is the more highly developed economies which are most successful in using these taxes as a revenue source. SA, with an economy positioned between the OECD countries and the average non-OECD country, is not as successful in utilising these taxes as the former and much more successful in this endeavour than the latter.

As a consequence, as our economy becomes more developed, we will be in a better position to extract property taxes from it. This proposition holds true for all taxes.

Returning to the fiscal policy objective defined above, wealth taxes will clearly have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one.

Of far more importance is that we should not allow less important issues such a wealth taxes to generate unnecessarily heated emotional debate and absorb a disproportionate amount of time: we should rather direct urgent attention to the major fiscal factors influencing successful economies — simpler tax systems with lower tax rates.

Empirical evidence indicates that, because such systems generate economic growth and discourage tax avoidance and evasion, they tend to generate increased government revenues. Reform of this nature has been embraced by most industrialised economies and an increasing number of developing economies, of which Tanzania is a significant recent addition.

☐ **Van Blerck is chief tax consultant at Anglo American and chairman of the SA Fiscal Think Tank.**

Call on govt to change VAT

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CT 8/4/92

JOHANNESBURG. — A major overhaul of the VAT system is prescribed in a report by the Co-ordinating Committee on VAT, which comprises more than 100 consumer and community organisations.

The report, released yesterday, claimed VAT had not only failed to produce most benefits the government expected, but in some instances had the opposite effect.

Prices had risen in expectation of VAT's introduction contrary to expectations that the new tax would decrease prices.

Committee spokesman Mr Bernie Fanaroff said: "VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings, and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short."

One option that the committee was keen to explore was differential VAT rates, which would enable the government to limit the impact of VAT on essential goods, while taxing luxury goods at higher rates up to 20%.

VAT failed to produce benefits ③②⓪ report

BDay 8/4/92

KATHRYN STRACHAN

A MAJOR overhaul of the VAT system is prescribed in a report by the Co-ordinating Committee on VAT, which comprises over 100 consumer and community organisations.

The report, released yesterday, claimed VAT had not only failed to produce most benefits government expected, but in some instances had the opposite effect. Price inflation had, for example, risen in expectation of VAT's introduction and during its first few months, contrary to expectations that the new tax would decrease price inflation.

Committee spokesman Bernie Fanaroff said government had been wrong on almost every issue. "VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings, and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short of the scale of the problem."

Fanaroff said expanded capital investment, which government had hoped would be the main advantage to flow from the conversion to VAT, had not materialised. The incentive had instead drained the fiscus of potential revenue, he said.

A recent survey by Stellenbosch University's Bureau for Economic Research showed that business leaders did not expect to increase capital purchases in the near future.

One option that the committee was keen to explore was differential VAT rates, which would enable government to limit the impact of VAT on essential goods, while taxing luxury goods at higher rates up to 20%.

The report provided evidence that while government had targeted only 2,3-million people for relief funding, there were over 16-million existing below the minimum living level.

The report quoted an opinion poll amongst small business agencies who claimed VAT had resulted in lost business and higher overheads.

VCC calls for radical overhaul of VAT

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STAR 8/4/92

By Mike Siluma

The VAT Co-ordinating Committee (VCC) yesterday called on the Government to radically overhaul the value-added tax system.

The VCC made the call at a press conference in Johannesburg, where it released a report on the effect of VAT on the public, commissioned after the imposition of VAT in October.

The 42-page report, titled "Value Added Tax: Time for an overhaul", is based on research findings and evidence submitted to the VCC's public hearings in February, and will be submitted to the Government.

Changes in the system suggested by the report include:

- Differential VAT rates, which would allow for the zero-rating of food while raising the rate for luxury goods as high as 20 percent. The VCC report gave examples of other VAT countries where the system was used.
- That, as a starting point, basic foodstuffs, water, electricity, medicines and medical services be permanently exempted from VAT. Exempted foods would include fresh meat, poultry, fresh vegetables, fresh fruit, cooking oil and all milk and grain products.
- The relaunching of the current poverty relief programme, which had been made more urgent by the drought. Such a scheme to focus not only on farmers but also on the rural poor.
- The revision of VAT provisions which affect small businesses, to include compensation for compliance costs.

The report said VAT had failed to produce most of the benefits which the Government had expected. For instance, the price inflation rate had gone up in the run-up to the introduction of VAT and in the months following.

Speaking on behalf of the VCC, the ANC's Tito Mboweni said: "Government has been wrong on almost every issue. VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings; and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short of the scale of the problem.

"The research findings in this report show conclusively that VAT has some severe shortcomings, and we hope that this time the Minister of Finance will be open to discussion."

Rejecting Government assertions that differential rates would be complex and expensive to administer, Mr Mboweni said it was "wrong to preserve simplicity at the expense of social justice".

Live-in and you could lose out

w/mail 10/4-15/4/92

[illegible] 320

By REG RUMNEY

YOU have been living with a woman for a solid 18 years, sharing everything, including the burdens of owning a home and at times working together.

You regard yourselves as more "married" than some of your friends.

Then for some reason or other, you are separated.

What are your rights to any of the property you helped your partner acquire over the years? Or her to yours?

The answer is, legally, none.

As Libby Husemeyer writes in an important book, *Living Together — Your Emotions, Your Finances and the Law*: "One of the greatest causes of hardship for people involved in live-in relationships in this country is their belief that they are married in common law and therefore have quasi-marital rights ... it just ain't so. It is time we put the myth of the common-law marriage to rest before it does any more harm.

"It doesn't matter how many years you live together or how much you love each other: the law regards you and your partner as two single people who happen to have the same address. That is the reality, and you are courting disaster if you fail to take it into account."

For a range of reasons, more and more couples are opting to avoid the legalities of marriage.

This timely book spells out in simple language the legal and financial pitfalls of "living together" rather than marriage. It is essential reading for those who have chosen this course.

●*Living Together — Your Emotions, Your Finances and the Law* by Libby Husemeyer, Southern

REVIEW: *Your money*

Separate tax, joint problem

WMail 10/4-15/4/92.

(320)

Until the tax laws were changed, married women were discriminated against. However, not all the alterations were beneficial, reports

NIGEL SCOTT

SEPARATE taxation of married women brought with it certain unforeseen problems. One of these concerns the married woman who is a member of a retirement annuity fund but, for a number of possible reasons, has her contributions paid by her husband.

One of the most common reasons may be that she no longer receives any taxable income and is therefore not able to claim her own contributions as a deduction herself. Alternatively, her husband may be over 70, in which case he is no longer eligible for membership of a retirement annuity fund. For them, as a couple, to enjoy continued membership of a retirement annuity fund, the wife may have joined the fund, but the husband may be funding the contributions.

Married couples finding themselves in this position have a problem. The Income Tax Act makes no provision for the deduction of contributions to a retirement annuity fund made by one taxpayer on behalf of another. The Department of Inland Revenue used to allow the deduction of contributions made by a husband on behalf of his wife in certain circumstances. However, from March 1 1991 the Receiver stopped doing this.

Inland Revenue has agreed to propose an amendment to the relevant section of the Income Tax Act to make contributions by a married man on behalf of his wife deductible if she has either no or insufficient taxable income to claim the deduction herself. This concession is only available if the married woman in question became a member of the fund before March 1 this year. Also the deduction claimed by the husband will not be allowed after the 1997 year of assessment.

In other words, a five-year period of grace will be allowed. This has been done to avoid prejudicing those taxpayers who had relied upon either the joint taxation provisions or the departmental practice in the past.

If the amendment is passed, which it almost certainly will be, taxpayers will have adequate time to arrange their financial planning accordingly.

Tax changes brought unforseen problems for married couples

Go see the experts

IT'S hard to find your way through the personal finance maze without professional help.

Your broker will advise you, though you must remember he can hardly avoid "talking to his book". And personal finance concerns more than providing for your retirement.

One source of advice is provided by members of the Institute of Life and Pension Advisers (Ilpa). Ilpa is one body whose aim is to "maintain proper standards of competence and ethics among those who engage in personal financial planning advice".

The acronym Filpa stands for Fellows of the Institute of Life and Pension Advisers, and signifies membership of the institute and a commitment to the aims of the institute.

Your lawyer is another source of professional advice, as are the professional tax advisers at accountancy firms, who keep a sharp eye on what the Receiver will and will not allow.

There are also quite a few books which contain useful and commonsense information on personal finance generally and specifics such as tax planning and fringe benefits.

Just two of many which have been received for review over the years include the Ernst & Young *Practical Guide to Fringe Benefits* and JH Jordaan's *Retirement Planning*, published by Don Nelson.

Read as much as you can on personal financial planning *before* you start asking the professionals for help.

A tighter tax is in the offing

W/mail 10/4 - 15/4/92

(320)

Weekly Mail Reporter

ALTHOUGH there was no announcement in the Budget, the present government is reportedly looking at implementing a capital transfer tax to replace estate duty (the tax on the assets you leave to your heirs), and donations duty.

An African National Congress government would also almost certainly also introduce a capital gains tax, common in many other countries. The details, for example whether this would include, say, the capital gain on resale of a house, are not yet clear.

There is more clarity on what a capital transfer tax means. It is aimed at donations, estates, and trusts and would be more comprehensive than present legislation.

Casual donations up to a certain limit are now not taxable. Donations between immediate family members only become taxable if they exceed R20 000 a year, and donations between spouses are free of tax.

Estate duty is not that onerous, but it does affect the reasonably wealthy.

Estates become taxable at R1-million, when they are taxed at 15 percent

Trusts, which unlike people do not die, are a nifty way of avoiding estate duty.

Now assets can be transferred into a trust, where their fast-appreciating taxable value is "frozen", and where they escape estate duty.

Institute of Life and Pensions Advisers (Ilpa) fellow Willem Boonzaier notes there is great uncertainty about the route a new government will follow and the total tax structure. He thinks some form of wealth tax is a certainty.

However, he believes it will be unwise now to take estate planning steps which will have substantial costs and risk not achieving one's objectives.

Boonzaier comments that the law of trusts is, contrary to most other Western countries, not codified in South Africa, so it is flexible.

The trust offers the ideal instrument to skip generations to avoid estate duty.

"Despite the Margo Commission's recommendations that the so-called 'generation-skipping devices' such as trusts will be deemed to terminate every 15 years, when a capital transfer tax will be payable, it seems improbable that existing trusts (ie trusts created before the introduction of such legislation) will be affected."

However, he adds that in the light of uncertainty over what exactly is to happen those contemplating this should create the trust now, but wait until there is clarity before transferring any assets into such a trust.

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ties on property and shares and local government rates. In certain circumstances, Revenue will also treat gains on shares and property as income — with the onus on the taxpayer to disprove Revenue's appraisal of the status of the gain.

The merits of all forms of tax on wealth were exhaustively considered in the Margo report. A majority of the commissioners advised against a capital gains tax, but the report did recommend that estate duty and donations tax should be replaced by a unified capital transfer tax (CTT).

Margo also recommended the substitution of objective criteria for the present unclear subjective basis of determining whether a gain on shares or property is income or capital. Brutally simplified, the current test is whether the taxpayer bought to have a source of income or whether he set out to achieve a gain in capital value.

The introduction of the 10-year "safe haven" rule, treating as tax-free any gain from shares held for 10 years or more (reduced to five in the latest Budget), was a tacit acknowledgement of the problems associated with deciding whether a gain is capital or income.

This concession, of course, primarily acknowledged the need for mining houses in particular to regenerate their liquid capital to finance new ventures through selling quoted shares without incurring heavy tax obligations. To a great extent, the rise in capital values in quoted share portfolios reflected merely the effects of inflation, not a gain in terms of constant money.

The safe-haven rule aside, more should be done to establish objective criteria in general for determining whether a gain represents income or capital. There are useful overseas models from which to work.

The latest Budget proposals recorded that the Tax Advisory Committee is still examining the tax dispensation for capital gains — confirmed by committee chairman Michael Katz. However, Ernst & Young tax partner Sally de Boor notes that Barend du Plessis — in a telephone interview after the Budget — said explicitly that the capital gains tax was not even put on the table; that he regarded it as an inefficient tax from the collection viewpoint; and that it was difficult to contemplate in inflationary circumstances.

Trevor van Heerden, chief director: Tax Policy Development at the office of the Commissioner for Inland Revenue, has been reported as saying that the CTT was under study.

As things stand, the current flat rate basis — 15%, with certain concessions — for both estate duty and donations tax is tantamount to a CTT. So the formal imposition of a capital transfer tax in their place would largely be cosmetic, unless coupled with a sharp reduction of the present R1m level at which estate duty cuts in.

Donations between husband and wife are exempt from donations tax, while most other donations in excess of R20 000 a year are subject to the tax. Deloitte Pim Goldby tax partner Willem Cronje would consider undesirable, however, the introduction of a UK-type CTT, which aggregates lifetime dispositions (with death as the final disposition) and taxes these at a progressive rate.

De Boor says earlier discussions with several officials at the commissioner's office led her to believe that capital gains tax is indeed the next impost on the agenda. This gives the impression of a war of nerves to soften up the financial community — hardly a sensible way to prepare the ground for imposing a form of taxation novel to SA.

Van Blerck

Katz

The political Left is enthusiastically in favour of a capital gains tax — for reasons that have more to do with the politics of envy than with hopes of tapping any major new source of revenue or establishing incentives to stimulate growth.

But wealthy nations can afford egalitarian gestures without too much harm to their economies. They do not support the argument that a capital gains tax or a wealth tax would be objectively rational measures in SA at this stage of its economic development.

Kessel Feinstein tax partner Ernest Mazansky says a number of the industrial countries would dearly love to ditch the capital gains tax — it is expensive and difficult to administer and brings in little gross revenue. At times collection costs even exceed the gross take. But they find it politically impossible to do so.

Anglo American group tax consultant Marius van Blerck questions whether SA's already overstretched Revenue administration could take on another major burden. Sacob chief economist Ben van Rensburg agrees that introducing a capital gains tax would be complicated, requiring consultation at all levels.

Though Cronje concurs that it does not collect much tax and is expensive to administer, he now feels such a tax does combat avoidance through diminishing the attractions of structuring transactions to produce a capital gain instead of income. He, therefore, no longer regards a capital gains tax as undesirable on balance, provided it is indexed for inflation and stays at modest rates.

The Economist (some years ago) expressed cautious sympathy for a wealth tax at a modest rate. The argument was that it would not deter entrepreneurial activity, while attacking the purchasing power of those living idly on the fruits of past generations' efforts. On the other hand, a capital gains tax is targeted largely at entrepreneurs who have built up their own capital. If SA is to be cursed with either, a modest wealth tax might be less irrational — though neither is desirable.

In local conditions, however, a wealth tax falls by the "thin end of the wedge" argument. This is the fear that black resentment of white wealth might result in a wealth tax — even at modest rates — setting in motion a process of delegitimising all white property rights.

Mazansky notes that Kenya had a capital gains tax and suspended it in 1985. Margo also raised the important argument that the major burden would fall on the middle class, not on the wealthy. This would be a most undesirable outcome, with important ill-effects for sustainable economic growth and social stability.

Van Blerck notes that IMF and OECD statistics show the current income tax structure places SA in the highest international category for direct taxes on individuals as a percentage of GDP. If a capital gains tax were to be introduced, it would have to be coupled to a reduction in the individual income tax burden.

KPMG Aitken & Peat tax partner Hennie Coetzee and Cronje support Margo's stand that capital gains should be adjusted to allow for inflation. This requirement brings in difficult problems of indexing. In the absence of indexing and with high inflation, a capital gains tax would in effect be a tax on wealth, as it would subtract from the inflation-adjusted capital base with which the taxpayer started.

Cronje says, if capital gains tax is introduced, government should be careful not to tax personal residences, which are the main store of wealth of the middle class. Various sound overseas precedents are available for exempting the proceeds of the sale of personal dwellings.

Cronje — despite years of opposition — has now swung round to the view that perhaps the time has come to accept the tax as the least damaging form of wealth tax. However, the majority of specialist opinion still remains set against a capital gains tax, applying the criteria of ease of collection, potential revenue gains, and impact on entrepreneurship.

In the last resort, the issue becomes a facet of the more general debate about whether SA should solve the problem of poverty through redistribution or through wealth-creation. The economic history of the world over the past two generations gives a clear answer — wealth-creation works, while redistribution of wealth tends to become redistribution of poverty.

Capital gains and wealth taxes should, therefore, be opposed strenuously by all who support free-market economics. We cannot really afford gestures to appease resentments — gestures which will harm wealth formation while doing little to redress poverty. Alas, whether SA will sooner or later be saddled with additional taxes on capital will rest not with economic logic, but with the balance of political forces. ■

TAXES ON CAPITAL

A case of fiscal envy

FM 10/4/92

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The underlying philosophies of wealth creation vs redistribution will decide policy

The debate around the issue of introducing taxes on capital gains or wealth is almost entirely political. But in addressing it, objective fiscal and free-market economic criteria should be used.

Historically, contemporary tax systems addressed the taxation of income rather than accrued wealth, though the approach was not consistent — either in SA or abroad. It has long been accepted in the industrial world that a tax on capital may be levied at the time of the taxpayer's death, either through a tax on the value of his estate (estate duty) or on bequests (inheritance duty).

When taxpayers in jurisdictions with penal rates of estate duty responded by donating the bulk of their assets to their heirs during their lifetime, revenue departments often responded by imposing donations tax. In the post-War world, populist pressures — even in countries such as the US, which remained wedded to the free market — extended the principle of taxing wealth as well as income through imposing capital gains taxes. Today, countries such as Germany also impose a wealth tax, if at modest rates.

Van Heerden

Van Rensburg

These extensions resulted in a legally more complex tax system and much work for revenue, but not much additional revenue. The donkey work of revenue-raising in the advanced countries is done through taxing middle-class incomes via a broadly based income tax and consumption via a broadly based VAT or other form of sales tax.

In SA, because of painful disparities of income levels and wealth, the issue of taxes on capital has become emotive and highly politicised. Egalitarian gestures aside, the current approach to taxes on wealth remains incoherent, Margo notwithstanding, and cries out for rationalisation.

SA has long imposed estate duty, but reforms have greatly reduced its burden. Not only is there a donations tax; there is also a variety of other levies including transfer du-

BENEFICIATION

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Pros and cons

FM 10/4/92

Like all special concessions to promote exports or industrial expansion, the recent extension of tax benefits to projects adding value to imported raw materials has been selectively welcomed.

But it does go against general economic and fiscal principles. And its application requires careful monitoring — especially in the light of recent uneconomic ventures launched with fiscal incentives or State funds. One Mossgas or even one Atlantis is enough!

The concessions were introduced last year, under 37E of the Income Tax Act, to provide important tax concessions to companies beneficiating locally produced raw materials. They were intended to promote projects such as the conversion of abundant local deposits of chrome ore into stainless steel for export.

Section 37E entitles the taxpayer involved in the beneficiation project to deduct preproduction expenses in the year in which they are incurred. This is an important concession because massive ventures of this sort can take years to reach production.

There is a further important concession: if the taxpayer claiming the deduction does not have a tax base from other activities against which to offset the deduction, it may trade the loss with another taxpayer for a cash payment. This trafficking in a tax base is normally strictly prohibited by the Act.

The amendment to section 37E, introduced in the last Budget, says two requirements must be fulfilled for the venture to qualify. First, 60% of the beneficiated product must be exported. Second, that the beneficiation process must add value to the extent of 35%, measured against the combined cost of the raw material plus the electricity consumed.

Deloitte Pim Goldby tax partner Willem Cronje points out that a press statement some months ago indicated the allowances

continue -

would be restricted to 100% of cost, whereas the original legislation provided for a discretionary increase beyond 100%. Cronje considers this is a move in the right direction, as incentives should be as objectively calculated as possible. It is also a healthy move that the required added value — for local as well as imported raw materials — is now a minimum of 35%, instead of being a discretionary figure.

UCT professor of economics Brian Kantor says the provision of incentives of this nature flies in the face of free market principles — and has a heavy cost, a portion of which is hidden. It is market forces which should entice private-sector capital into export ventures. If they don't, either the project is uneconomic or the exchange rate is wrong.

Government subsidies to export ventures have adverse consequences, even if the subsidy takes the seemingly innocuous form of a deferment of tax. This obliges government to raise more revenue from other sources, so pushing up tax rates. This in turn distorts the cost structure across the economy — which feeds back adversely to the cost structure of the export venture itself.

What has made matters worse has been the distorting effect of various forms of protection directed against imports.

Kantor says the distortion in the depreciation system caused by inflation should be addressed to achieve a rational set of incentives.

The inflation-adjusted tax deduction for depreciation should be sufficient to enable a manufacturer or mining company to replace its capital invested — in real terms — at the end of its economic life. Not only does this requirement imply inflation-adjusted depreciation: it also means replacing a mechanistic straight-line write-off over five years (the current general depreciation procedure) with an individually determined period reflecting the economic life of the plant.

Kantor says the extension of section 37E has been the result of aggressive lobbying by companies that wish to promote exports, using the argument that they are penalised by SA's high corporate tax rate relative to many industrial countries.

Anglo American group tax consultant Marius van Blerck argues that extreme doctrinaire positions should be avoided. He approves of beneficiation incentives to export industries if they take the form of a deferment rather than a waiver of tax. The incentive should also be restricted to temporary help to get the project started.

It also counts in favour of the amendment to section 37E that it is directed at exports rather than at import replacement, says Van Blerck. Permission to trade in the tax base is necessary as an accessory measure, because a beneficiation venture will probably not have access to a broad tax base of its own.

If the ventures created through the new incentive can compete in world markets, the approach will be vindicated, say Van Blerck. He argues that the need for official approval on a case-by-case basis (a requirement of 37E) is essential. But the proceedings should not be secret. And an active financial press is a further safeguard against abuse.

It seems the extension of section 37E to projects based on imported raw materials is primarily intended to assist Alusaf in its expansion plans. The production of aluminium frequently uses imported bauxite at a site where cheap power is available, as the cost of power is the most important input. Clearly, Eskom's aggressive drive to cut the cost of power to absorb its current large surplus of generating capacity has influenced the proposed amendment.

Free-market exponents are entitled to remain sceptical about section 37E in its original form, still more about its extension. They need to be vigilant lest the amendment makes possible the establishment of industries of dubious profitability, such as the proposed naphtha cracker based on imported raw material (*FM* November 16 1990). The cracker still appears to have backing from a powerful lobby.

As Kantor points out, SA is still short of capital — yet another reason for mistrust of still more industrial megaprojects of marginal viability which could yet waste scarce capital on a grand scale. ■

You win with company car

STAR 11/4/92

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TABLE 1

Engine cc 1600	
Retail vehicle price	R48 800
Discount	R5 368
	R43 432
VAT	R4 343
	R47 775

Annual km	20 000	30 000	40 000	48 000
PERKS TAX ON COMPANY CARS				
Company car Perks tax pm	521	521	521	521
PERKS TAX ON ALLOWANCE METHOD (ACCURATE RECORDS)				
Monthly allowance	1 876	2 147	2 416	2 653
Annual allowance	22 512	25 764	28 992	31 836
Annual bus costs	9 005	15 458	20 295	23 887
Annual private costs	13 507	10 305	8 697	7 959
Monthly addition to Taxable Income 90/1	1 125	858	724	663
PERKS TAX ON ALLOWANCE METHOD (NO RECORDS KEPT)				
Monthly allowance	1 876	2 147	2 416	2 653
Annual allowance	22 512	25 764	28 992	31 836
Business Claim				
Fixed 18 774	7 509	11 264	9 387	7 822
Fuel 13,8c/km	1 104	2 484	2 760	2 760
Maint 14,7c/km	1 176	2 646	2 940	2 940
Total bus claim pa	9 789	16 394	15 087	13 522
Private use pa	12 723	9 370	13 905	18 314
Private use pm	1 060	781	1 159	1 526
Average monthly add to Taxable Income	1 060	781	1 159	1 526

PERKS tax still favours the driver of a company car rather than an employee who receives an allowance, according to a survey conducted by Prime Car Leasing.

The spirit of perks tax is directed at private use of a vehicle, not genuine business use and this is evident when the Receiver's tables on perks tax are applied to lower-distance users, where accurate records are not kept to prove high business usage.

In the example provided, taking a vehicle at a price, after fleet discount and VAT, of R47 775, perks tax is the lowest (regardless of kilometres travelled or the keeping of records) for the company car which attracts a fixed monthly addition to gross taxable income of R521.

The allowance method on the other hand (the most meaningful comparison is that without accurate records), gives an addition to monthly taxable income which varies from R781 for 30 000 km of yearly distance, to R1 060 for 20 000 km, and all the way up to R1 526 per

The "fair" allowance comes in at R2 416 a month, R604 of which attracts PAYE, meaning the employee pays R181 a month. However, the problem is that this monthly PAYE does not fully meet the em-

Any lesser allowance would require the employee to pay the shortfall in operating cost. Conversely, if the allowance was in excess of the true cost, the employee would have to pay additional tax.

PERKY NUMBER: A study shows that the company car has definite advantages over an allowance when it comes to tax.

TABLE 2

Engine cc 1600	
Retail	R48 800
Discount	R5 368
	R43 432
VAT	R4 343

month on 48 000 km (without records the Receiver puts a ceiling on business usage of 20 000 km a year, which increases assumed private usage).

'Fair'

Prime's comparative tables are based on what it calculates to be a "fair allowance" — a sum which the company takes to cover the cost of vehicle depreciation, interest charges, maintenance costs, fuel, insurance and licensing costs. This sum has been rising at an average rate of 17,9 percent a year by Prime's calculations.

Even if the employer does pay a "fair" allowance, Prime takes the view that there remain tax disadvantages for the employee.

Prime notes: "Twenty-five percent of the monthly allowance attracts PAYE and is taxed at the employee's marginal rate. This places the employee at a disadvantage in that the portion of the allowance which is taken as monthly PAYE reduces the available allowance. The shortfall on operating costs is met from the employee's after-tax income."

TOTAL	R47 775

Annual km	20 000	30 000	40 000	48 000
Changeover km	100 000	120 000	120 000	120 000
Changeover time	60	48	36	30
Lease period	60	48	36	30
Residual value %	45	45	50	50
Lease rate	21,0	21,0	21,0	21,0
Allowance Paid				
Lease	1 083	1 183	1 308	1 435
Maintenance	223	274	298	313
Petrol	240	360	480	575
Insurance	320	320	320	320
Licence/reg	10	10	10	10
Total allow pm	1 876	2 147	2 416	2 653
Total pa	22 512	25 764	28 992	31 836

This represents a significant cash outlay for the company which aims to cover the operating costs of the car to the employee.

A FAIR ALLOWANCE MUST COVER TRUE OPERATING COSTS.

An example of the tax disadvantage in rands and cents is given for a vehicle use of 40 000 km and an allowance method (no records kept) in the hands of an employee with an effective tax rate of 30 percent (See Table 1).

The employee's yearly tax liability and there is a "top up" required at year-end.

This additional tax bill to the employee for private yearly use is R1 999. The total perks tax bill for the year amounts to R4 171, compared with that for a company car of R1 876.

Additionally, the fair allowance was calculated using a residual value which was estimated to equate to the expected market value. In that case, the employee will not achieve a profit on resale to offset the tax disadvantage of the allowance system.

True vehicle operating costs are critical to assessing a fair allowance and should take into account costs which includes net depreciation (purchase price less resale value), financial charges, maintenance, petrol and vehicle insurance.

The control of maintenance costs is critical in managing an allowance.

This can only be done through experience in vehicle management and skill in monitoring maintenance bills, a task which can best be done by a specialist fleet-management team.

Residual

Table 2 illustrates Prime Car Leasing's analysis of running costs of a vehicle according to yearly kilometres travelled.

The costs are derived by using a lease where the residual value equates to the expected resale value at the change-over time. With this method, depreciation costs are minimised.

Maintenance costs are the expected average cost throughout the full period and have been adjusted to accommodate future inflationary expectation.

Tax take

REVENUE collected for the Exchequer in the first 11 months of last year increased by 8,5% over 1990.

This amounts to 88,4% of the budgeted increase of 10,7%, says Central Statistical Services. S/Times (Buss)

Tax collections rose by 9,1% in the 11 months. Income tax, excluding gold mining, increased by 15%. 12/4/92

Consolidated fuel levies were 29,9% up and surcharges fell by 29,5%. (320)

Revenue from GST and VAT increased by 2,7%.

Income tax from gold mines fell 46,9% to R334,6-million and other taxes on net income and profits increased by 15% to R37,734 billion.

How to cope with the tax hassle

C/Press 12/4/92.

Income Tax Made Simple by Matsheru Matsheru (Butterworths) – R39,55 inclusive.

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IT is said the only sure things in life are death and taxes. Matsheru has risen to the occasion and gives us a splendid and important book on one of those facts of life, tax.

The book becomes more important if you consider that quite a number of black South Africans are now on a common tax base with their white compatriots. Filling in income tax returns is a daunting task.

What Matsheru, a well-known tax consultannt, has done in this easy-to-read-and-understand book is to provide the man-in-the-street with financial information that is easily accessible.

The cherries on top are the illustrations by Elizabeth Warder and the tight editing by Lauren Legg which helped make the subject clearer.

Overall the book gives a neat round-up of SA's tax system. Understanding this system is vital today, says well-known businessman Phil Khumalo in the foreword.

For its price, the book is a good investment for tax purposes and for general financial education.

Zero rate bonds tax puzzle

B|Day 13/4/92 (320)

WILLEM CRONJE

IT WAS recently announced that government intends to raise funds through the issue of long-term zero coupon bonds. These are bonds which pay no coupon interest.

For example, assume a bond with a maturity value of R100, due to mature in 10 years. At current interest rates, the present value would be about R25.

The government would therefore receive R25 now, have the use of the money for 10 years without paying any interest, and then after 10 years redeem the bond for R100.

This will clearly have cash flow advantages for the borrower, although there is a burdensome payment or refinancing requirement at the end of the period.

Zero coupon bonds raise unique tax problems for holders. Are holders taxable? If so, when? Is there a difference in the tax treatment of investors and dealers?

Although total clarity is lacking, it can probably safely be said that neither investor nor dealer can be taxed until the bond is sold, or matures. Although there have been recent Income Tax Special Court cases ruling that interest accrues from day to day, this has not been adjudicated by the Appellate Division.

As the law now stands, interest income accrues when it becomes payable. On a zero coupon bond, interest becomes "payable" only when the bond is negotiated or redeemed.

It can also safely be said that the dealer will be taxed on the profit arising from the sale or redemption of the bond. The dealer is, however, better off than had he purchased an ordinary (interest-bearing) bond, as his tax is delayed.

How would an investor be taxed?

The tax authorities could well argue that, as no interest is receivable, the only purpose in purchasing the bond was to realise it at a profit, either on redemption or earlier sale.

A zero bond is therefore "all-in" — the only motivation for buying it would be gain, albeit perhaps in the distant future.

An investor may therefore be better advised to purchase a regular coupon bond trading below face value. The investor would then be in a position to argue that he purchased the bond for its interest coupon, and that the long-term trend in the redemption value is of a capital nature.

As stated above, this argument would fail in the case of a zero coupon bond.

Zero bonds issued by government could have tax advantages in the case of individual investors considering emigration, as if such individual ceases to be ordinarily resident. To carry on business in SA he would probably be exempt from SA tax in terms of present law.

However, this exempt status will fall away in the case of emigrants from a date fixed by the Finance Minister. This date has not yet been fixed.

The emigrant's exemption in respect of bonds and other interest bearing securities issued by government and qualifying state-controlled corporations depends on the return being in the form of interest. However, it is a moot point whether the return on a zero bond is interest at all. The fiscus may possibly argue that the gain is "trading profit" and not interest, in which case the well-known "emigrants exemption" will not apply.

The exchange control aspects of the gain on the bond — where the holder has emigrated — may also prove complicated.

In terms of exchange control rules, only income earned after emigration may be remitted abroad. If a zero bond is purchased some time before emigration, and sold or redeemed after emigration, there may be some doubt as to what portion, if any, of the gain is remittable abroad.

Zero coupon bonds will raise unique tax and exchange control issues, some of which are likely to be addressed by legislation when these bonds become a reality.

☐ **Cronje is a partner at Deloitte Pim Goldby Taxation Services.**

BOOKS

Increase tobacco tax, says researcher

(328)

CT 14/4/92

INCREASED tobacco taxes could generate revenue for health promotion projects and could fund an extended exemption from VAT on essential foodstuffs.

This was said by the group executive for community health research at the Medical Research Council, Dr Derek Yach.

Dr Yach said it was surprising that increased taxes on tobacco products had not been part of a comprehensive approach to controlling tobacco use, and preventing children from starting to smoke.

"Tobacco consumption is related to affordability, and an increase in tax on cigarettes would reduce their affordability, particularly for children," Dr Yach said. — Sapa

ECTORS CONFERENCE

Tax rates 'hinder investment'

B/Day 15/4/92

(320)

SHERIDAN CONNOLLY

SA WOULD have to bring its corporate tax rate in line with those of its main trading partners in order to attract foreign investment, Rand Merchant Bank chief economist Rudolf Gouws said yesterday.

B/Day

He said a decline in the income tax rate on individuals in the past decade masked a significant amount of bracket creep; the average amount of tax payable by households had increased substantially. A higher direct tax burden on individuals had led to a decline in spending growth and a drop in net personal savings.

Lower levels of savings and investment had put pressure on the overall level of economic growth in SA.

"SA's fiscal competitiveness has diminished in the past decade and, since 1980, our main trading partners have lowered both their corporate tax rate and their rate of inflation while SA has done just the opposite."

Government had become a net absorber of savings and, as a dissaver, was borrowing more in order to finance the cost of employing a growing number of civil servants. Spending requirements for the current fiscal year would continue to worsen the budget deficit.

Gouws said the inequalities which were the result of apartheid needed to be addressed urgently.

"If we address the redistribution issue too rapidly, this will be too punitive and there will be a re-acceleration of capital flight. On the other hand, if we do it too slowly, there will be demands made for more radical solutions to the problem," he said.

He expressed concern over the popular view that public works programmes should be introduced by a future government. Such programmes would not significantly address the unemployment problem but would have severe implications for tax rates.

Shows tax break R11m

ST Times 19/4/92

By MARLAN PADAYACHEE

THE government has handed out almost R11-million in tax concessions to promoters who brought Indian entertainers to South Africa.

But Finance Minister Barend du Plessis will not say who benefited from the public coffers. A secrecy clause in the Income Tax Act allows him to refuse to reveal their names.

Democratic Party MP Mamoo Rajab says he received complaints from promoters who did not get the tax perk and from fans who paid up to R500 for tickets. And he claimed: "The concessions were given in an effort to break the cultural ban."

He added that, apart from concerts by top singers Lata Mangeshkar and Pankaj Udhas, the proceeds of which went to charity and cultural organisations, the Indian shows were "money-making" projects.

"I was not aware that promoters were getting these concessions. I began asking questions when the promoters were charging high ticket prices and then filing for tax concessions," said Mr Rajab.

"The taxpayers have lost out. The show prices were ridiculously high and overseas artists cashed in on the cultural boycott."

In his reply to Mr Rajab, Mr Du Plessis said 18 promoters had applied for concessions and R10 852 708 had been paid to 15 of them last year.

The biggest and most successful Indian show that came to South Africa was that of screen superstar Amitabh Bachchan, who drew crowds of up to 80 000.

EEC's minimum 15% VAT a pointer for SA

S[Times [BUSS]

19/4/92

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By CIARAN RYAN

EUROPEAN Economic Community states have agreed to a minimum standard VAT rate of 15% from January 1993.

This move could prompt SA to follow the international trend of raising indirect taxes and lowering direct ones.

The EEC minimum standard VAT rate of 15% may be indicative of a future SA rate. The present 10% VAT is comparatively low by world standards, says international tax consultant David Lermer, of Coopers Theron Du Toit.

"However, because of the strong political opposition to the tax, an increase in the rate in the immediate future looks unlikely," says Mr Lermer.

"SA also has one of the highest company tax rates in the world. There is little scope to increase VAT without lowering direct taxes."

Finance Minister Barend du Plessis was expected to announce an increase in VAT in the March Budget together with a reduction in individual and company tax rates of 43% and 48% repectively. There was no change in either tax rate.

Mr Lermer says: "The international trend is to reduce direct taxation, such as for individuals and companies, while increasing indirect forms such as VAT.

"The philosophy behind this is that taxpayers prefer to have more disposal income and to decide how and when they will be taxed."

Stifled

For example, company tax rates were dropped from 33% in the UK last year and VAT was increased from 15% to 17,5%. Denmark dropped its company tax rate from 50% to 38% while increasing VAT from 22% to 25%. Belgium lowered company tax from 43% in 1989 to 39%, maintaining VAT at 19%.

Mr Lermer says: "The SA Government has stated its wish to reduce direct taxation in the medium term. It appears to be accepted that high taxation stifles initiative for growth and profit generation."

Most European nations operate a split-rate VAT system, charging zero or reduced rates for food, educational material and children's wear. A higher rate applies to some luxury goods.

Although the system is complex and open to abuse, Mr Lermer says it is an option for SA, given the political controversy aroused by the reduction in the number of zero-rated items.

The harmonisation of indirect taxes in the EEC eliminates fiscal barriers to trade across borders. EEC custom duties are harmonised and a common tariff applies to goods entering the community. Transactions in the EEC are not subject to duties.

Attempts to harmonise excise duties have been less successful, however, because this is a national rather than a community source of revenue. Minimum excise rates on mineral oils, alcoholic beverages and manufactured tabacco have been agreed on by the European Council.

VAT and customs duties are a major source of finance for the EEC. Only Germany and Spain have standard VAT rates below the 15% minimum required by January 1993.

Highest

Denmark's standard VAT rate of 25% applies to all goods and is the highest in the EEC, although Italy charges 38% on luxury goods and Greece 36%. France charges 34%, Spain and the Netherlands 35% and Portugal 36%.

VAT will be charged at the rate applicable in the country of destination until 1997 when a definitive tax regime will be implemented. It will charge VAT on a source basis, similar to SA's VAT legislation for deals with Transkei, Bophuthatswana, Venda and Ciskei.

Revenue collection slightly off target

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SHERIDAN CONNOLLY

REVENUE collected during the 1991/92 financial year was just less than target, with 99,4% of the voted amount collected.

According to the Central Statistical Service, total collections in the year to March disclosed that 9,8% more revenue was collected than in the previous financial year, when the Exchequer raked in 104,4% of the amount voted. B/Day 2/4/92.

Inland Revenue receipts increased by 10,6% while customs and excise duties yielded 4,5% more than the previous year. During the past financial year the Exchequer's deficit before borrowing and debt repayment amounted to 99,7% of the deficit voted for the year compared with 91,7% for the previous financial year.

State spending during the 1991/92 financial year rose 12,5%. Expenditure was 99,5% of the budgeted amount for the year as against 103% year before. Spending exceeded revenue by 13,6% compared with an overshoot of 10,8% in 1990/91.

Old Mutual chief economist Dave Mohr said the figures looked "reasonably encouraging and contained no nasty surprises". The final figures for the last month of the fiscal year seemed to be better than Finance Minister Barend du Plessis had expected when he gave his Budget address.

STAR
21/4/92

(320)

Codesa faces taxing problems

There is lots of latitude for restructuring taxes. The challenge is to get the process moving, Professor Dennis Davis tells JO-ANNE COLLINGE.

IF CODESA does not set up a commission on tax reform *now* the first fully elected government will live to regret this omission, predicts Dennis Davis, director of the Centre for Applied Legal Studies at Wits University.

Professor Davis, a tax law specialist, insists: "What we should be doing over the next nine months to a year — instead of wasting time — is get a group of the best people in the country, put them in a room and throw away the key. And say to them, 'We're not letting you out until such time as you actually come up with a new tax proposal'."

The commission should not only address the challenge of funding various levels of government. It should inquire how a future government could grasp the opportunity "to use fiscal policy to influence economic objectives".

Professor Davis argues that it is possible to have a tax system that contributes both to redistribution of resources and economic growth.

He foresees that Codesa could create a multiparty tax commission, drawing in vital players such as the union federations and SACOB. A future government would be free to utilise or reject the recommendations, but the commission itself would have legitimacy, he submits.

Professor Davis challenges the International Monetary Fund contention that the individual tax burden on white South Africans is high compared to other middle-income countries — and the implication that there is little scope for restructuring.

In the middle income bracket personal taxes are certainly high, he concedes. But he adds that the IMF failed to compare the tax burden of the top income quintile in South Africa with the same stratum elsewhere. On this basis, South Africans were certainly not highly taxed.

In other words, Professor Davis believes that tax commission would have plenty of scope to recommend change and suggests that they try out the following ideas:

● That a package of capital taxes — including a low-rate annual wealth tax; a capital transfer tax; and a considerably increased tax on estates — be instituted.

"Capital taxes don't raise masses of money," Professor Davis allows. "VAT is budgeted to bring in more than R20 billion — you could expect a proper estate duty to bring in perhaps R1 billion or R1,5 billion."

But the significance of capital taxes is that they would attack an imbalance in personal taxation.

Professor Davis allows that rate of capital taxation is a sensitive "issue." "The real question that you've got to weigh up is how much can you tax people without capital flight. And that's my fear. Not that a wealth tax shouldn't be considered — of course it should as part of the package. But clearly while one can raise quite a few more billion rand both in estate duties and wealth tax, there is a limit."

In France, he points out, individuals with net assets exceeding 4,1 million francs pay 0,5 percent annually. The rate rises to a maximum of 1,5 percent for citizens with more than 40 million francs.

In Switzerland wealth tax which is locally levied varies from 0,1 percent to 0,6 percent, applicable to those with net assets exceeding 500 000 Swiss Francs.

● That specific tax exemptions — especially in relation to wealth tax — can be used to influence investment patterns.

"You could have a range of exemptions in which the simple holding of shares in the stock exchange would be taxed, but investment in a manufacturing business would be totally exempt."

Professor Davis recommends that South Africa take a look at the Pacific Rim. "These countries asked, 'Where is our comparative advantage?' and then poured tax incentives into that area. We have done the opposite — no incentives."

● That an annual tax on agricultural land be considered. "The Development Bank of Southern Africa says if we had land tax on rural land, at a 2 percent rate it could only bring in about R500 million a year.

"But research elsewhere suggests that the impact of such a tax is that it can actually influence patterns of land tenure. That's the interesting thing."

● That company taxes could actually be reduced "because we do want to win foreign investment. At the moment we've got a tax of 48 c in the rand and we don't get anywhere near it. If you look at some of the big corporates, they are just not paying tax.

"Subject to investigation, we should be lowering company rates to between 35 c and 40 c in the rand and making damn certain that we get all of that. That would give justification for capital taxes — if you lowered the company rate so you couldn't be accused of messing up business activity, but you hit individual accumulators of wealth to some extent."

● That VAT be radically restructured. "It seems to me you can render VAT into a very effective progressive indirect tax by having a rate of say 15 to 17 percent for all items, save for absolute essentials — such as medical care and basic foods — which should be zero-rated, and another in-between category — which should go at about 5 percent."

This three-tier system might actually realise more VAT than the present system and allow a lowering of the marginal rate of income tax. □

Make taxpayers help foot election bills, says report

ANG 22/4/92 ③20

MARTIN CHALLENOR
Political Staff

TAXPAYERS may have to subsidise election campaigns of the National Party, the African National Congress and other political parties because politicians may not raise sufficient funds themselves through voluntary contributions.

This is one of the recommendations in the report of the President's Council Committee for Constitutional Affairs on political parties.

It also suggested that an electoral commission to ensure free, regular and democratic elections be set up, and that political parties sign a code of conduct that sought to stop any party from advocating racism or violence between groups or individuals.

At a Press briefing on the report, the chairman of the committee, Mr Johan Heyns, said that the ban on racism would mean that the Conservative Party would be unable to register as a political party unless it opened its ranks to all race groups. However, the code of conduct was not aimed at stopping the propagation of specific cultural values.

The most contentious issue for already hard-pressed taxpayers was that they be compelled to pay for the election campaigns of their political masters. The report said that recruitment and membership fees were still essential for parties, but "it has been universally experienced that financial contributions by members are gradually forming a smaller percentage of party income".

"South Africa is no exception and this increases the desirability of State aid," the report said.

The need for greater State aid to political parties to ensure their effective functioning was ever increasing, and "in view of the current political developments the funding of political parties is recommended by the committee".

Elections could not be successful unless political parties had the financial ability to reach and influence voters.

Funds were required for the establishment and maintenace of a democratic party system.

"The importance of a first election to lay the foundation for a multi-party democracy cannot be sufficienty emphasised."

Inspectors net R1,99bn in unpaid taxes

(320)

GERALD REILLY

A BLITZ by inland revenue inspectors on tax dodgers netted R1,99bn during the 1991/92 financial year, Inland Revenue chief director Chris Dempers said yesterday. BDay 23/4/92

This was R400m more than the unpaid taxes inspectors found in 1990/91.

Dempers said tax due on untaxed income discovered amounted to R1,56bn and unpaid PAYE to R56,5m.

GST dodging accounted for R342,9m, unpaid stamp duties R6,2m and non-payment of transfer duties another R22,4m.

Dempers said VAT irregularities were not closely investigated during December to mid-April, mainly because inspectorate staff were engaged in processing VAT refund claims resulting from input credits.

He said many incorrect claims were based on ignorance of the VAT system while others were littered with errors and had to be rejected.

"Since the beginning of December until now we have concentrated on getting the system into gear. Our inspectors visited many businesses to ensure a better understanding of the system and we believe we have achieved this to a great extent."

Dempers said the department would now concentrate on exposing VAT offenders.

Sit-in protest at Transnet

BDay 23/4/92

DIRK HARTFORD

ANC, SACP, Cosatu and church representatives are holding a sit-in protest at Transnet's Braamfontein offices until demands have been met to end violence on trains and stop the retrenchment of rail workers.

Their protest, which includes a call for a boycott of trains by commuters, follows a protest march by 2 500 members of the SA Railways and Harbours Workers' Union (Sarhwu) through the centre of Johannesburg yesterday.

The march — an annual event to mark the deaths of seven workers shot by police during the railway strike of 1987 — took up current railway worker and commuter demands.

Those sitting in at Transnet include Cosatu leaders Amos Masondo, Kgabisi Mosunkutu and Elliot Singonini, the ANC's Jessie Duarte, the SACP's Jabu Mleketi and Smangaliso Mkhatshwa from the SA Council of Churches.

Further demands by the sit-in protesters include an immediate meeting with the Ministers of Transport and Law and Order, provision of adequate security on trains by the SAP and Transnet, and the release of Sarhwu members in jail.

A Sarhwu spokesman said up to 60 000 Transnet jobs were at stake, but a Transnet spokesman denied large-scale retrenchments were on the cards.

The sit-in is one of a series of actions planned by the ANC alliance over coming weeks to highlight violence on the trains.

A memorandum issued by the protesters said 155 people had been killed and 414 injured in train attacks in the first three months of this year.

☐ The Human Rights Commission said yesterday 61 people died and 45 were injured in political violence over the past week, with most of the incidents occurring over the weekend.

Sapa reports that four people died on Tuesday and at least nine — including a policeman — were injured in incidents of politically inspired violence around the country. The policeman was wounded in an attack on a car in Katlehong by an unidentified gunman.

At Amaoti, in the Inanda area, police said, a KwaZulu policeman was shot and wounded by the SAP on Tuesday after he refused to comply with their orders.

He said the police had been patrolling the Amaoti area when they heard the sound of a gunshot. They went to investigate and saw a man with a firearm.

When they asked him to hand over his weapon, he allegedly refused and started shooting at them. The man was shot and wounded.

His firearm was confiscated. He was later identified as a member of the KwaZulu Police.

Taxpayers may have to fund parties

STAR 23/4/92

(320)

Political Staff

CAPE TOWN — Taxpayers could be forced to pay for the election campaigns of political parties because politicians might not raise sufficient funds themselves.

This is one of the recommendations in the report of the President's Council Committee for Constitutional Affairs on political parties which was released yesterday.

It also suggested that an electoral commission to ensure free, regular and democratic elections be set up, and that political parties sign a code of conduct that sought to stop any party from advocating racism or violence between groups or individuals.

At a press briefing on the report, committee chairman Johan Heyns said that the ban on racism would mean that the Conservative Party would not be able to register as a political party unless it opened its ranks to all race groups.

The most contentious issue for already hard-pressed taxpayers was that they be compelled to pay for the election campaigns of their political masters. The report said that recruitment and membership fees were still essential for parties, but "financial contributions by members are gradually forming a smaller percentage of party income".

Elections could not be successful unless political parties had the financial ability to reach and influence voters. Funds were required for the establishment and maintenace of a democratic party system.

"The importance of a first election to lay the foundation for a multiparty democracy cannot be sufficienty emphasised."

Mobilise

The committee said it was important to try to level the political playing field. All political parties should have an equal opportunity to influence voters and mobilise support, so State help should be given to parties who did not receive foreign aid.

Strict statutory requirements for audited reports of expenditure would apply.

In the first election, the State should pay for the dissemination of political information on the role, rights and duties of voters, the report said.

"It is recommended that annual financial aid in accordance with an agreed formula be considered for registered political parties."

Funding would be made on the basis of votes cast for a party.

Aid to parties should be disclosed in the annual Budget.

Tax concessions on donations to political parties could be considered.

If foreign funding of parties was to be allowed, the source, amount and purpose would have to be disclosed.

The committee said a permanent, statutory electoral commission should be established, comprising experts, jurists and representatives of all political parties. It would monitor and be in overall control of elections to ensure they were fair and democratic. It should be separated from the legislative authority so that government and party influence could be limited as far as possible.

The commission could be be part of a constitutional court.

It would be responsible for registering political parties, and arbitrate in disputes between political parties.

The commission would monitor party funding, including foreign funding, to ensure the money was spent in accordance with statutory prescriptions.

The commission would function in terms of a Party Act and an Electoral Act.

ASSURANCE FM 24/4/92

Taxing life

(320)

The funds of life offices may have to be allocated through four channels, not the proposed three, for life assurers to be rid of the sixth schedule of the Income Tax Act.

Revenue, the Financial Services Board and the Life Offices Association (LOA) say the schedule must go. But it cannot be erased before the basis on which life offices are to be taxed in future has been laid down (*Economy*, April 3). That means apportioning the life assurers' funds and deciding which should attract tax at what point.

Originally, this seemed simple: earnings on shareholders' funds would attract tax at normal company rates, there would be no tax on yields in retirement savings and ordinary policyholders' earnings would be taxed at a notional average rate, probably around 32%.

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It is the notional rate which causes trouble. Revenue correctly believes that company-owned savings policies would be ceded to natural persons to attract the 32% rate instead of the company rate — an attractive tax shelter. So the fiscus has proposed a complicated set of rules. These retained the key provisions of the sixth schedule for certain company-owned policies only, with the added provision that a taxable accrual will take place every 10 years. This would have increased the administrative burden in the life offices.

At a recent discussion between Revenue and the LOA standing committee on taxation of policyholders, it was suggested that the policyholders' taxable fund should be divided into one for natural persons and the other for company-owned investments.

Old Mutual's Abri Meiring, who chairs the committee, says this would allow the sixth schedule, to be eliminated, with great cost and systems benefits. There would no longer be a need to distinguish between "standard", "non-standard" and "deemed standard" policies. There would be no need to track events, such as premium history or loans on policies, for tax. Compliance with tax liability would be handled more efficiently by the life offices. Meiring believes this approach would also entrench the trustee principle.

There are complications. There is resistance to creating four funds, instead of three. It would also affect the tax paid by a life office on company-owned policies such as deferred compensation and keyman, though Revenue seems ready to accept changes to the Act which would offset the increased tax.

The proposals now go to another LOA standing committee — on taxation of life offices. Its chairman, Theo Hartwig, points out a number of difficulties with the new suggestions. He says that if a policy is ceded between a company and a natural person, or if there is an agreement between two such parties, there is no obligation for the cession or agreement to be registered with the life assurer. So the problem of allocating the policy to the correct tax bracket is not solved.

Both Meiring and Hartwig believe, however, that a solution is only weeks away. The negotiations are propelled by the need to eliminate a tax schedule which, by common consent, has outlived its purpose, collects little revenue, makes new product design cumbersome, is understood by only a few specialists and is ignored for practical purposes by some life offices. ■

INCOME TAX FM 24/4/92

Brokers break (320)

Inland Revenue may not be able to meet its self-imposed deadline for enforcing labour broker rules on close corporations (CCs). The Income Tax Act was amended in 1990

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to counter an avoidance strategy which employed CCs, but the new requirements have not yet been implemented.

John Hanssen, of the office of the Commissioner for Inland Revenue, told the *FM* (February 14) that Revenue planned to have application forms for exemption available from May 1. Those CCs affected by the legislation, but which failed to obtain exemption, would have fee income subjected to Paye from July 1.

Now it seems several problems could derail the schedule.

The first is the familiar one of insufficient numbers of administrative staff to handle the likely flood of applications from CCs wishing to obtain exemption from the labour broker requirements. The second is difficulty in refining the criteria for exemption so that *bona fide* independent practitioners of professions are not also caught in the net. As there can be a fine line between a genuine independent contractor, working for fees, and someone who is effectively an employee, devising the guidelines could be difficult.

But this is not the end of Revenue's difficulties. If Paye is deducted from fees payable to a CC which, in turn, pays a salary to its member or members, the issue of double tax on the same income will arise. Another apparently unresolved problem is the rate at which Paye is to be deducted for a fee-earning CC — which is, after all, a legal personality, not a natural person.

The commissioner's office is to issue a statement next week. ■

State expenditure could exceed budget by R2-bn

STAR 27/4/92

By Marc Hasenfuss

CAPE TOWN — Additional state expenditure, in excess of that set aside in the 1992 Budget, could top R2 billion this year, Department of Finance Director-General Gerhard Croeser said at a University of Stellenbosch's seminar on "Economic Prospects 1992/93.".

He said this represented about two percent of the R100,6 billion Budget and meant that government expenditure would increase four percent in real terms.

He noted that the R1 billion set aside for drought relief was not adequate for farmers' needs this year and that the government would have to accrue additional expenditure to fund aid to the agricultural sector.

"Although there will be some additional expenditures, government is still committed to curbing fiscal spending."

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He pointed out that the state had already withstood fierce pressure from civil servants as regards wage increases this year.

He said government's capitulation into dropping the VAT rate to 10 percent government coffers resulted in a loss of an additional R4 billion that would have been realised under the initial 12 percent rate.

"The additional revenue could have resulted in a significant reduction in borrowing and government could have also met individual's tax demands or even reduced the company tax rate from 48 to 40 percent."

PENSIONS

Muddling with retirement

[redacted] [redacted] (320)

FM 24/4/92

A think tank of pension specialists is expected to come up with ideas on how best to restructure government's tax take from the pensions industry. A meeting, called by the Financial Services Board and chaired by State actuary Piet Robbertze, will be held this Friday.

It is a sequel to a passage in Finance Minister Barend du Plessis' March Budget speech: "The Mouton Committee, whose investigation into and report on a retirement provision system for SA will be completed later this year, has as yet not formally studied the question of alternative means of financing full social pensions parity. Government has asked the committee to investigate the viability of various financing options that have surfaced in the course of the committee's activities and to report on them as quickly as possible.

"The pension fund industry is one of our country's greatest assets. If an acceptable method can be proposed whereby additional revenue can be found without harming this industry or causing uncertainty on the part of individuals over the value of their retirement provision, it may be possible to take parity still further in the course of this financial year."

Taken literally, Du Plessis seems to have added two and two and made three. There is no reason why parity in social pensions should be funded by the formal retirement industry, that is maintained by people who have consciously made some effort to provide for their old age. To tax those savings to attain so-called parity must be the essence of demotivation.

If that piece of obfuscation is removed, it may well be time to review how the pensions industry is taxed and, most participants agree, it is unlikely this week's meeting will achieve more than that. In practice, pensions are hardly taxed at all.

Within limits, employer and employee contributions to funds are tax-deductible. While the retirement fund accumulates, there is no tax on the gains. When, on retirement, the fund is paid out, up to one-third (again, within limits) becomes available free of tax. The two-thirds buys an annuity which is taxable in theory, though the threshold for tax by pensioners over age 65 is fairly high.

An industry estimate suggests that the system, intended to defer tax, has deferred it out of sight. Only about 25 000 pensioners actually pay any tax and that at an average rate of 5%. Of lump sum payments, these provide the Exchequer with an average of 6%. For practical purposes, the retirement industry goes almost tax-free.

But there is another side. Largely because of job-hopping and the non-preservation of pension rights, only 6%-8% of South Africans retire with sufficient means to maintain their former lifestyles. Inducing more to save has been the reasoning behind the apparent generosity of the fiscus.

Since Du Plessis' Budget remark, the Retirement Institute and the Life Offices Association (LOA) have been studying how the pension industry is taxed elsewhere. In most countries, the tax burden is kept as light as possible. Among models studied are those in New Zealand (described by the LOA as "a disaster which almost killed the industry") and Australia. The Australian model is taken seriously both by the LOA and by the board.

Broadly, it provides for a tax at the accrual level in a fund, so that accumulated gains are taxed on a regular valuation. It has the effect of providing government with a predictable cash flow and, when the fund pays out, the proceeds have already been taxed.

Some Old Mutual sources believe that, if the tax rate applied to the accrual were sufficiently low, a useful tax could be generated without doing major damage to the pension industry. Also, some specialists invited to this week's meeting considered whether a tax could be offset, perhaps by government conceding permission for pension funds to invest some of their assets offshore. With the prospect of government's own pension funds being introduced to the Johannesburg Stock Exchange, they fear the indices will be forced to unrealistic levels; offshoring some pension moneys would take off the pressure on share prices.

The meeting is exploratory only. A board source says the Australian model is of interest but emphasises a tax on pension accruals "is not on the table." The two statements cancel each other.

Also underlining the tentative nature of the meeting, it includes representatives of the Actuarial Society, the LOA, the Retirement Institute and Mouton. Conspicuously absent are representatives of organised labour. The short-term outcome could be a chapter for Du Plessis' special adviser Japie Jacobs to include in his report on the taxation of financial institutions. A long-term proposal, all invitees agree, will not be practical without reference to an Economic Codesa. Even after that, politically, the issue is likely to be divisive.

Bryan Deans

INSOLVENCY LAW

[redacted]

FM 24/4/92

Unsettling judgment

A long-standing commercial practice has been overturned by a recent judgment in the Witwatersrand Local Division of the Supreme Court. The judgment, delivered by Judge Michael Stegmann, has created an untenable state of affairs in the Transvaal for many companies that are technically insolvent but potentially viable with backing from shareholders.

In the past, says Oshy Tugendhaft, a senior partner in Moss-Morris Mendelow Browde, "subordination agreements" between a company and its shareholders gave concurrent creditors preference over shareholders. This was generally considered as a restoration of solvency provided the company's assets exceeded liabilities minus shareholders' claims. This interpretation had the strong support of accountants.

The judgment holds that subordination agreements are invalid in terms of insolvency law. This brings the Transvaal courts, yet again, into conflict with the Cape and Natal courts — which continue to accept the validity of subordinations in relation to corporate solvency.

The issue arose in the case of De Villiers and Carbon Developments (Pty). The liquidators of the company applied for leave to convene meetings of creditors to consider a scheme of arrangement. Concurrent creditors were informed that they would receive nothing if the company were wound up as insolvent, while the proposed scheme would give them a small dividend.

It was also argued that creditors could not recover from the directors personally on the ground that the company had been trading

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Property tax 'should go up'

B/Day 27/4/92

LINDA ENSOR

CAPE TOWN — Property taxes in SA could increase by 50% and still remain within international norms, University of Western Cape economics professor and ANC fiscal policy adviser Lieb Loots said at the weekend.

(320)

Loots, speaking at the annual Rode conference, said a tax on immoveable property was inevitable and necessary to provide revenues for local authorities which would be required to play a greater developmental role in a new SA.

They would have to take responsibility for far more than the infrastructural and municipal services they provided.

Many functions which were the responsibility of central government would be decentralised to local authorities.

Loots said an insignificant proportion of overall general government revenue was obtained from property taxes although they made a significant contribution (about 15%) to the revenues of local authorities. In most developing countries the property tax share of municipal revenues was less than 20%.

([illegible])

"In rough terms, international comparison suggests that property tax in SA can probably increase by about 50% of its present level (that is another 0,7% of GDP to reach 2% of GDP) in order to move closer to a more balanced overall tax structure."

Loots said property taxes were revenue efficient and cost effective.

He believed a wealth tax would be neither feasible nor desirable, and while there would be pressure for a capital gains tax this would have to be approached with caution.

Our Cape Town correspondent reports that Loots said another reason for introducing property tax would be to avoid distortion in investment decisions.

He said it should be indexed and updated annually on the basis of a formula instead of a rating revaluation every 10 years.

Barend's legacy may be obscured by VAT morass

320

SIMON WILLSON

BDay 27/4/92

AS his eight-year tenure at the Ministry of Finance draws to a close this week, it is possible that Barend du Plessis' entanglements with VAT over the past year may obscure his earlier achievements. This would be unfortunate.

Considered over its entirety, Du Plessis' period as Finance Minister can be characterised as reformist, and one in which several policies were embarked on and have yet to be accomplished. Few of Du Plessis' policy initiatives, however badly their introductions were managed, will be reversed.

Du Plessis shares with Foreign Minister Pik Botha the rare attainment of having held one of the principal Cabinet portfolios in the administrations of both P W Botha and F W de Klerk. Given that the political reforms of the Botha era are about to be cancelled out and superceded, while its economic reforms will probably be seen as a foundation to be built upon, Du Plessis' contribution to SA's economic development will be more enduring than that of any of his predecessors.

For it may be forgotten, as the new team at Finance gets to grips with the escalating budget deficit, the underperforming revenues and the overburdened tax base, that Du Plessis was at the helm when some decisive fiscal policy decisions were taken. The deregulation that has so transformed many areas of the economy, and will yet transform many more, only gained impetus with his sponsorship. Privatisation, even though it has yet to proceed at full steam as a means of raising revenue for the state and of streamlining major utilities, also only saw the light of day as a practical concept once he had promoted it.

Other fiscal reform goals that Du Plessis set himself earlier in his period of office have had less success. Fiscal discipline was always high on the agenda and, as the charts show, he succeeded quite significantly in curbing the monotonously regular and substantial government overspending in the early '80s. However, this was achieved at a time when overall economic growth was slowing dramatically and so, both in absolute terms and as a ratio to GDP, total state debt continued to rise during his tenure. Even so the budget deficit-to-GDP ratio has, as the chart indicates, recently reached and briefly bettered the International Monetary Fund's recommended level of 3% before rising again.

And although reform of the tax system was another top-priority goal Du Plessis set himself, progress has not been appreciable. Proposals for tax reform submitted by the government's own commission have not been fully acted upon, and the measures taken have been half-baked and piecemeal. As the chart shows, the hard-pressed individual has continued to shoulder the bulk of the burden of contributing to the state's coffers. This may partly have been the result of the steep decline in the contributions from the gold mining sector which, in better times for world primary commodity prices, chipped in a much bigger share.

But the individual was, in the end, an easier and less complaining milch cow for the grasping state and his share of the tax take has risen right up to the moment of Du Plessis' departure. At the same time, a start has been made to the more radical adjustment that Du Plessis pioneered in his programme of fiscal reform: that of shifting the burden of taxation from direct levies such as PAYE and company tax to indirect sources such as consumption tax and (eventually) capital gains tax.

Although Du Plessis will not be able to see through this conversion, he did at least preside over the major step in implementing it — the introduction of VAT.

VAT may, less than a year from its introduction, appear a major problem area both for the government sponsoring it and the exchequer accounts that need its revenue. But the point was made endlessly in implementing the tax that its benefits would take time to show through. The lead time to the fiscal payoff from adopting VAT may seem lengthy, but the experience of foreign economies that have gone through the difficult introduction process that SA still faces has been that the tax does ultimately live up to its extravagant billing.

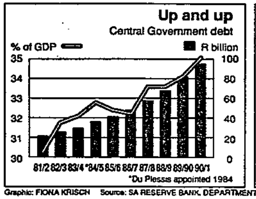
More could have been done on the public relations side of much that the Finance Department has been attempting over the past few years, not only with VAT but with the other reforms on its agenda.

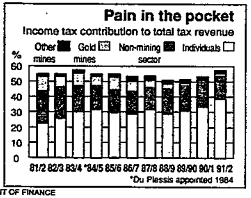
But account should surely be taken in Du Plessis'case of the other responsibilities he had in the latter part of his ministry. His US counterpart, the Treasury Secretary, has no elections to fight and no party duties to fulfil. The US president presents the Budget, the Office of Management and Budget runs fiscal policy and the Federal Reserve Board takes care of monetary policy.

The SA Finance Minister has all the drawbacks of the Westminster system — MP's duties, party responsibilities, constitutional imbroglios — with none of the perks. The main perk of the British chancellor of the exchequer is that he has total control of fiscal and monetary policy. He presents the budget and can change interest rates by lifting the telephone to his central bank governor.

Du Plessis has been the first Finance Minister in SA's history without the power to do that. Perversely, the effective independence of the Reserve Bank is another of his achievements — possibly the one for which SA country may in future have cause to be the most thankful.

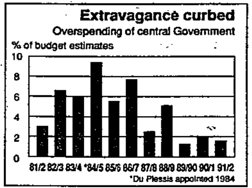
Barend: he cranked up state debt and stung the individual . . .

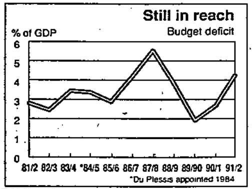




Graphic: FIONA KRISCH Source: SA RESERVE BANK, DEPARTMENT OF FINANCE

but reduced state overspending and straddled the IMF budget norm





Graphic: FIONA KRISCH Source: SA RESERVE BANK, DEPARTMENT OF FINANCE

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version

For written reply:

General Affairs:

State pension funds: actuarial report

194. Dr W J BOTHA asked the Minister of Finance:†

(1) When is the next actuarial report on the state of the State pension funds expected to be available;

(2) whether the State guarantees any other pension funds other than the State pension funds; if so, (a) what are the (i) names of these funds and (ii) guarantee amounts concerned, (b) (i) how many and (ii) which of these amounts represent deficits and (c) what are the State's total commitments in respect of pension funds, excluding State pension funds?

B445E

The MINISTER OF FINANCE:

(1) A joint actuarial report on the State pension funds does not appear. Each fund is evaluated as an entity, whereafter a report on the evaluation concerned is done. The third actuarial report on the position of the Government Services Pension Fund is expected to be available by September 1992.

(2) No.

"Income tax: Persons and Individuals"

227. Mr K M ANDREW asked the Minister of Finance: (320)

(1) How many (a) persons and (b) individuals classified under the heading "Income Tax: Persons and Individuals", as reflected on page 5 of the Estimate of Revenue for the Financial Year ending 31 March 1993 [RP 3-1992], paid tax for the (i) 1989-90, (ii) 1990-91 and (iii) 1991-92 financial year;

(2) what was the total amount paid by such (a) persons and (b) individuals in each of these three financial years?

B512E

The MINISTER OF FINANCE:

The term "individuals" denotes natural persons while the term "persons" denotes other legal personae which are not companies and which are consequently subject to tax at the progressive rates applicable to natural persons for example trusts.

These taxpayers are not separately identified in the Departmental data base, and the requested information is thus not available.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version

For written reply:

General Affairs:

Emigrants/immigrants: various professions

28. Mr M RAJAB asked the Minister of Home Affairs:

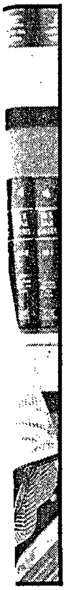
How many (a) Indian, (b) White, (c) Coloured and (d) Black (i) doctors, (ii) dentists, (iii) lawyers, (iv) architects, (v) social workers, (vi) quantity surveyors and (vii) scientists (aa) emigrated from and (bb) immigrated to South Africa in each of the latest specified three years for which figures are available?

D121E

The MINISTER OF HOME AFFAIRS:

	(aa)			(bb)		
	Total	(b)	(a)+(c)+(d)**	Total	(b)	(a)+(c)+(d)**
*1989******						
(i)*	36	34	2	69	61	8
(ii)*	4	4	0	4	3	1
(iii)	13	13	0	9	8	1
(iv)	13	13	0	13	13	0
(v)	6	5	1	7	7	0
(vi)	7	7	0	8	8	0
(vii)***	79	75	4	128	124	4
1990						
(i)*	30	27	3	135	124	11
(ii)*	1	1	0	14	9	5
(iii)	19	17	2	16	15	1
(iv)	6	6	0	11	11	0
(v)	3	2	1	3	2	1
(vi)	10	10	0	8	7	1
(vii)***	116	111	5	144	139	5
*1991*****						
(i)*	23			229		
(ii)*	3			12		
(iii)	5			14		
(iv)	2			16		
(v)	8			10		
(vi)	10			12		
(vii)***	80			149		

* Including specialists.
** Information on the non-White population groups is not separately available.
*** Natural scientist occupations only.
**** Since 1991 information by population group is no longer available.
***** With reference to corresponding Question 25 of 12990 (Hansard Column 256): Figures under columns (i) and (ii) of the Reply thereto to be switched.



Potential minefield lies in wait for the unwary

B/day 29/4/92 320

TAX legislation is a complex and increasingly sophisticated area of the law both locally and abroad.

It is also a field in which SA lawyers are going to have to develop specialised skills to assist clients now that this country is once again becoming a full member of the international community.

Hofmeyr van der Merwe partner Danie Erasmus says although many international corporations have shown an interest in conducting business in SA, in many instances this has been limited to sending investigative teams to this country to assess opportunities.

"The immediate pitfall which faces many of these corporations in commencing business in SA is the absence of a double tax treaty between SA and, for instance, the US and Australia, resulting in significant taxation penalites.

"Circumventing this problem requires careful planning from both the Australian or US side and the SA side.

"It is here that SA lawyers will, for instance, have to develop the necessary international tax expertise to assist in ensuring the attractiveness of doing business in SA is not diminished by the fact these corporations may face a double tax bill."

Another area requiring a great deal of specialised legal expertise is competition and anti-trust law.

The tendency in both the US and Europe, Erasmus says, has been to make their competition law provisions apply extra-territorially.

This means these laws are enforceable outside the US and the EC in respect of foreign businesses conducting trade there, notwithstanding their origin.

"For example an SA company which enters into a price fixing arrangement with another SA company to sell goods in SA at a particular price might be prosecuted in terms of the relevant legislation in the EC when conducting business there.

"Transgression of the competition and anti-trust laws leads to penalites which can be as much as 10% of the group turnover of a violator."

Criminal

Erasmus says in terms of the US anti-trust laws, principally the Sherman Act of 1890,criminal penalties may be imposed up to $10m per violation for corporate defendants and $350 000 for individual defendants.

Aside from the criminal remedies, the Justice Department is empowered to bring civil actions against a violator for the recovery of damages, including the profits made by an organisation violating the Act.

"These are sophisticated laws with which SA lawyers will have to come to terms in assisting their clients in accessing these markets.

"Gone are the days of hiding behind a tax haven company with bearer share warrants.

"Foreigners now want to do business directly with SA."

Erasmus says dealings with the Sub-Saharan continent will also place new demands on SA lawyers involved in advising clients on cross-border transactions.

"To this end Hofmeyr van der Merwe is closely involved in setting up a regional conference under the auspices of the SA Fiscal Association (Safa).

"Fiona Walker, one of the partners in the tax department is chairing the committee appointed by Safa to organise the conference which will take place in 1993.

"It is intended that the conference will go some way towards encouraging the establishment of common ground between southern African countries and will further the debate about double tax treaties with developing countries."

Hofmeyr van der Merwe, through Erasmus and another partner, Prof Henry Vorster, also intend involving themselves in a national continuing legal education programme which is under consideration by the Association of Law Societies.

The programme will assist attorneys to equip themselves with the necessary knowledge of export incentives, exchange control regulations, international tax planning and related topics.

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Strict commercial principles

SA tax laws lag behind international changes

B|Day 29/4/92 ~~[illegible]~~ (320)

PETER GOWER: Intertax

INTERNATIONAL isolation in recent years has meant changes to SA tax legislation have had a largely introspective focus.

Developments abroad which have seen the fiscus in various countries enacting legislation to bring foreign profits within the home country's reach, have largely eluded South Africans trading internationally.

Examples of this continuing widening of the international fiscal net are to be found in the controlled foreign corporation, transfer pricing and branch profits tax rules which have been enacted in many First World countries over the past two decades.

Many countries have even co-operated to introduce an anti-abuse treaty shopping clause into their double tax treaties.

These clauses prevent parties who are not residents of a particular country from forming a company in that country to access the tax relief available in terms of the tax treaty in question.

Perhaps one of the most stark anachronisms of SA's tax system is that it continues to tax income in the main on a source basis, in contrast to many industrialised countries which tax residents in those countries on their worldwide income.

It is perhaps interesting to note, that in spite of the recommendations of the Franszen Commission in 1969, that SA should adopt a worldwide basis of taxation, the Margo Commission rejected this approach, largely because of the small benefits which it expected such a system would generate in relation to the implementation costs.

The failure of SA's tax laws to keep pace with many of these international developments has been both good and bad news for the international businessman.

The good news is that the long arm of the Receiver in this country has not been extended further abroad by statute in the same way as its counterparts have been doing internationally.

This omission may be attributable to the historical view that the exchange control rules and regulations severely curtail the extent to which SA sources of income can be relocated outside the borders of this country.

Absent

The negative side, however, is that many of the reliefs to be found in the tax systems of First World countries are also absent from SA legislation.

Examples of these reliefs are provisions allowing for group taxation, the taxation of small business profits at a lower rate of corporate tax, the ability to carry back losses in certain cases to offset against profits of a previous year and the indexing of allowances and certain reliefs.

It is not that the SA fiscus has failed to recognise the need to reform the tax systems to bring it into line with international norms and practise. However, the attempts to change have generally been inadequate, sporadic and insignificant, as is illustrated by the introduction of Section 6 quat into the Income Tax Act a few years ago.

This section, which is entitled Rebate in respect of Foreign Taxes on Income (suggesting fairly generous concessions) allows a rebate only to a resident of SA in respect of foreign taxes payable on income derived from a foreign source.

One may well question why the rebate should be limited to persons who are residents of SA rather than SA taxpayers (especially as SA does not generally tax on a residence basis), and why the relief should in addition be limited to only those taxes paid on income derived from a foreign source.

As international economic interface with this country grows, pressures will mount to introduce amendments to SA's domestic legislation and to many of the double tax agreements to bring SA in line with the more important international tax reforms.

Until this happens, however, and in spite of various obstacles facing foreign parties interested in SA, there remain a number of planning opportunities available to those prepared to take advantage of the status quo.

In many instances this planning will involve the recharacterisation of a particular flow of income.

By way of example, a foreign group wishing to establish a manufacturing joint venture in SA might consider jointly forming an SA company with a local party. It would then receive dividends, less any applicable non-resident shareholder's tax, out of the company's post-tax income.

Alternatively, and assuming that the foreigner intended to contribute its technology to the SA venture, it could accept a smaller participation in the SA partnership and instead license such technology as may be required to conduct the manufacturing operations, through the use of a Dutch licensing company.

The royalties payable would then be remittable free of any SA income tax and would normally only attract a relatively small amount of Dutch tax before being remittable to the foreigner in his home country.

Similar tax advantages are often available to South Africans conducting business operations abroad.

However, the problem for South Africans licensing technology into First World countries is that they frequently cannot "treaty shop" in order to take advantage of lower foreign withholding taxes since many First World treaties contain anti-abuse provisions referred to earlier.

Once again, the problem can sometimes be overcome by recharacterising the income flow.

Advantages

Significant tax advantages are often available to companies which have obtained exchange control approval to invest abroad.

These approvals are granted in appropriate circumstances, particularly where the result will produce enhanced economic benefits to the SA economy. An example of this type of economic benefit is where the investment will facilitate new or increased exports from this country.

The result of such an investment could be that the SA company is able to establish a foreign trading base aimed at securing export orders for SA goods, the profits of which can usually be structured so as to be earned in a tax efficient form.

In order to regain its rightful share of international economic activity, SA will also need to attract and retain the services of suitably skilled manpower.

One of the least costly ways of achieving this objective is for the employer to find ways of improving its personnel's after-tax remuneration.

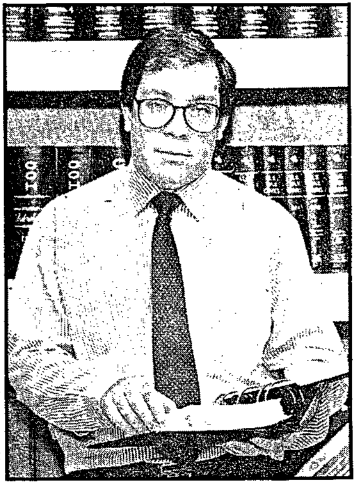
Intertax has on major capital projects as well as in the course of trading activities seen how much money can be saved by employer and employee by using the existing rules to maximum advantage.

Thus in spite of the attempt made by Section 9(1)(d) bis of the Income Tax Act to deem the income earned by an SA resident employee for services rendered abroad on behalf of an SA employer to be sourced in SA, and in spite of the comprehensive UK rules which tax employment income earned for services rendered in the UK, it is possible for South Africans to work in that country, particularly for relatively short periods of time, without incurring any tax liability in either country.

Given their mobility and flexibility, coupled with the generous reliefs granted in terms of certain of SA's double tax treaties, efficient tax planning can help to entice foreign sports stars, entertainers, university professors and other highly qualified people to offer their services in SA.

For their part, skilled SA individuals can usually structure their arrangements before venturing abroad so as to ensure the receipt of enhanced after-tax cash flows.

To a successful business, income tax is often its largest single overhead and one which in the international context can usually be reduced with careful early planning.



PETER GOWER

The man who coul

W/Mail 30/4 - 7/5/92

(320) (49)

W/Mail 30/4

"The Book of Proverbs says that where there is no vision the people perish." — **Barend du Plessis' Budget speech March 18 1992.**

It's not specifically Barend du Plessis' fault but he leaves a decidedly shaky economy. **REG RUMNEY** *reports*

AD Finance Minister Barend du Plessis not resigned this week he would have been haunted by that phrase.

Granted, he was never as inept as some private sector critics initially feared. He did a difficult job reasonably well.

But as the country moved into transition it became clear that he — or his party — lacked precisely the broad political vision needed for change.

The conflict over the implementation of Value Added Tax was a case in point. A VAT without exemptions and with a single rate is desirable. What should have been the implementation of a model tax system was indisputably bungled.

As intense popular resistance to the tax emerged unexpectedly and late, Du Plessis, used only to a tame white electorate, had to fight to keep the tax pure economically.

Here his economics were almost faultless, but he underestimated the tenacity of his opponents, particularly those in the Congress of South African Trade Unions.

Why did he stick so devoutly to economic purity, when the wiser political, though not economic, path would have beeen to give in and defuse at least some consumer resistance? When he was forced to make minor concessions, he lost the respect of conservative supporters. Attacked by Cosatu on the one hand, and the *Financial Mail* on the other, he must have felt he could not win.

Du Plessis was clearly not willing to abandon the Westminister-style democratic system where ministers act on mandates rather than after extensive negotiation. South Africa in transition calls for a kind of political elasticity which Du Plessis, aloof and with a tendency to irascibility better suited to the era of PW Botha (who appointed him), did not or was not allowed to have.

The VAT mess was only one example, argues Democratic Party MP Ken Andrew, of the government's "tunnel vision" on economics.

It was not good enough to take an International Monetary Fund blueprint and apply it without regard to South ical complexities.

Andrew accuses Du Plessis overall understanding and ahead. "There has been an of inconsistency and ad hoc-ery

It is not hard to understand argued that it was never good apartheid minister of

While Du Plessis himself for all the country's Africa has suffered from the for so many years by his party. came home to roost in the boycotts and disinvestment Africa ever closer to a siege nomic misjudgments like the

Barend du Plessis ...

Climbing a slippery slope to prosperity

W/Mail 30/4 - 7/5/92

What could a new finance minister do to get us out of the morass?

REG RUMNEY *reports*

(320) (49)

MANAGING an economy has been compared to climbing a mountain. Anyone taking the path Barend du Plessis has left (or fallen off) should do so with trepidation.

Aside from the usual pitfalls and crevasses there is a lot of dangerous ice around.

A South African finance minister has to be able to negotiate the political landscape of the new South Africa as well as having a grasp of economics.

To change metaphors, economics in South Africa has become a site of struggle.

The African National Congress and the Congress of South African Trade Unions have shifted their sights from Value Added Tax to "unilateral economic restructuring" which has been construed as ranging from VAT to commercialisation.

Until an interim government is in place, it is likely that the finance minister will find it impossible to introduce any sweeping changes without incurring conflict or negotiating any changes with the ANC and Cosatu.

Let's assume that whomever is appointed has the requisite negotiating skills for the job. Let's assume he is acceptable to all parties and stays on in an interim government. Let's further assume the government backs him.

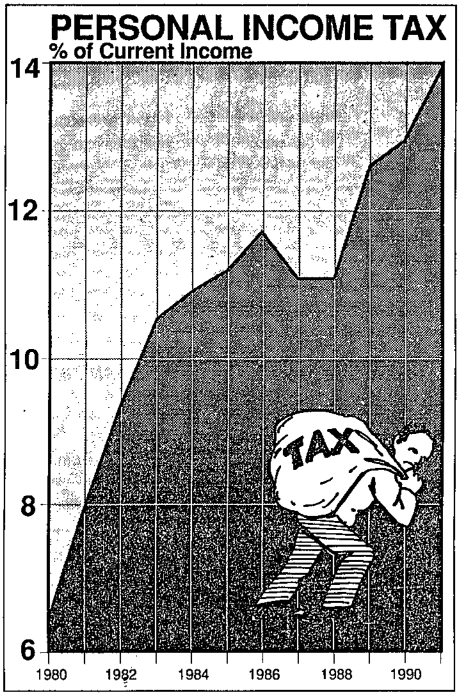
And finally, let's assume he will leave the major restructuring of the economy along the lines proposed by the ANC to a future democratic government. What could he do to put things right within that brief?

Remember that the economy is now only expected to pick up markedly next year (sounds familiar, doesn't it?) so the finance minister has little more room to manoeuvre than Barend du Plessis had. The only advantage he will have is that he will be less constrained by the balance of payments, as financial sanctions wane, more debts are rolled over and do not need to be repaid immediately and new capital flows into the country.

Firstly, there is a dire need to achieve a stable fiscal policy, in other words to balance income and spending and not borrow too much.

GOVERNMENT SPENDING. Clearly both the composition and level of this needs to be looked at. The Reserve Bank is understood to be unhappy with the level of spending unveiled in the Budget this year. Deficit financing is also inflationary, and prevents the Reserve Bank from softening its tight monetary policy.

The finance minister will have to enforce spending discipline. Since the demands for redistributive spending on housing, infrastructure, education, health and social welfare will be great, he will have to cleverly balance the demands of the various departments.



Where the tax burden has increasingly fallen — on our individual shoulders

The roundly condemned trend towards financing current spending through borrowing needs to be reversed. (320) (49)

Here the finance minister needs the strong backing of the rest of the government in streamlining government, particularly by moving to rid South Africa of needless tricameral and homeland replication and in trimming the civil service.

Privatisation, to aid efficiency, take more employees off the state payroll and to garner income must be ruled out for the moment.

TAX. Du Plessis failed to reform the tax system along the lines suggested by the Margo report, and that opportunity is now lost. A capital gains tax and a capital transfer tax, or both, are already on the cards. The ANC would probably introduce land and wealth taxes.

The ANC has suggested a fiscal commission, to examine how redistributive spending can be financed through a broadly based and progressive tax structure. More rather than less tax seems the aim. How much tax should come from progressive, direct taxes and how much from indirect tax could be an area of conflict. So the minister would have to leave the VAT rate alone for the moment.

In the meantime the finance minister, if he presents the next Budget, could redo the tax tables to eliminate fiscal drag next year. Du Plessis only reduced fiscal drag this year.

VAT. The minister could not simply raise the VAT rate. But he could raise more revenue through VAT by sullying it with differential rates. So basic foods could, for example, be zero rated and all other items be subject to 15 per cent.

SOCIAL PENSIONS. As a gesture to the "new" South Africa, the minister would have to remove all racial disparities in state pensions. He could also increase pensions, partly as a way of delivering aid to rural areas.

A STATE LOTTERY. Introducing this would formalise the various pseudo-lotteries that have sprung up in aid of charities, but could be an important source of government revenue.

MEDICAL AID SUBSIDIES. The Centre for Health Policy Studies has estimated the government loses R1,1-billion through tax rebates on medical by employers. Scrapping unpopular, and might have plete restructuring of the

SAVINGS. Raising interest essarily an effective way to ings. Excessively high smaller businesses and growth. Tax incentives, on distort the tax sytem. Some encourage savings could be withholding tax taxes all source at a low rate. It has and dismissed. Perhaps the dusted off again.

But government has a by ending its own dissaving, consistent trend since 1985.

Inflationary expectations brought under control, and eign exchange value kept Reserve Bank rather than the The minister, arguably, can curbing spending. However, present recession it has been

who couldn't win

W/Mail 30/4 - 7/5/92.

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REG RUMNEY *reports*

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not good enough to take an Monetary Fund blueprint and apply it without regard to South Africa's political complexities.

Andrew accuses Du Plessis of having no overall understanding and vision of the path ahead. "There has been an enormous amount of inconsistency and ad hoc-ery."

It is not hard to understand why. It was often argued that it was never possible to have a good apartheid minister of finance.

While Du Plessis himself can't be blamed for all the country's economic woes, South Africa has suffered from the policies pursued for so many years by his party. The chickens came home to roost in the 1980s. Sanctions, boycotts and disinvestment brought South Africa ever closer to a siege economy and economic misjudgments like the Mossgas fuel-from-gas project and ambitious local manufacturing programmes by armaments-maker Armscor. Du Plessis had to find money to fund these as well as an expensive and byzantine tricameral parliament and homeland structures.

Political instability led to major foreign banks calling in their loans, precipiting financial isolation and a steady outflow of capital after the unilateral debt standstill in August 1985.

This, as Du Plessis has mentioned, not only inhibited economic growth but also restricted the financial authority's policy options.

Savings, crucial for growth and job creation, fell steadily in the 1980s and are estimated to have fallen to 18,8 percent of GDP in 1991. Du Plessis admitted this year the trend was attributable to the almost constant dissaving by government itself since the 1985 debt standstill.

Du Plessis has said that since the debt standstill South Africa has had some years of reasonable growth and one good year, 1988, of 4,2 percent growth.

But on average growth in those years, which coincide with Du Plessis' tenure, has been poor — particularly when population growth is taken into account. Look at the measure of wealth per person, adjusted for inflation: the real gross domestic product (GDP) per capita. Real GDP per capita for 1991 at R3 487 is R256 short of the figure for 1971. In other words, over 20 years South Africans on average have become poorer. Growth was slow on average in the 1970s, but the rot set in in the 1980s. Since 1979, GDP per capita has fallen by around eight percent.

Opportunities for growth have been lost while disparities in spending on black and white continued and backlogs of housing, schools, and medical facilities mounted.

Just as growth opportunites were lost, money leaked away forever through the complicated hard-to-control apartheid bureaucracies and by blatant buying off of the white electorate. The tricameral parliament can be scrapped, but the savings will be a one-off and small compared to what has already vanished.

The country now has an estimated unemployment figure of more than 40 percent. Double digit inflation has persisted for two decades, while food prices have soared out of control.

These problems can now only approach being solved by a major reshaping of the economy, and that is the job of Derek Keys in his role as economic co-ordination minister rather than that of a finance minister.

Where does Du Plesses come in? The job of a finance minister, Andrew has pointed out, is a political rather than a technocratic one. Among the government's self-appointed tasks is to rein in government spending and cut income taxes.

u Plessis could be excused his failure to curb spending under the autocratic PW Botha, who once sprung a 10 percent civil service pay increase on Du Plessis while Du Plessis was at an IMF meeting in Berlin.

Government spending, as a percentage of GDP, rose steadily during the 1980s, an anathema to those who believe the private sector should be the driving force of the economy.

Spending in this Budget year is budgeted to rise by two percent in real terms, but could be higher. Only one month after the Budget, the Finance Department is reportedly looking at a "worst-case" scenario of another R2-billion being spent above that budgeted.

True, increased spending in this year's Budget was aimed at reducing backlogs built up under apartheid. But the government has been accused of throwing money at the problem rather than ensuring the efficient use of money spent.

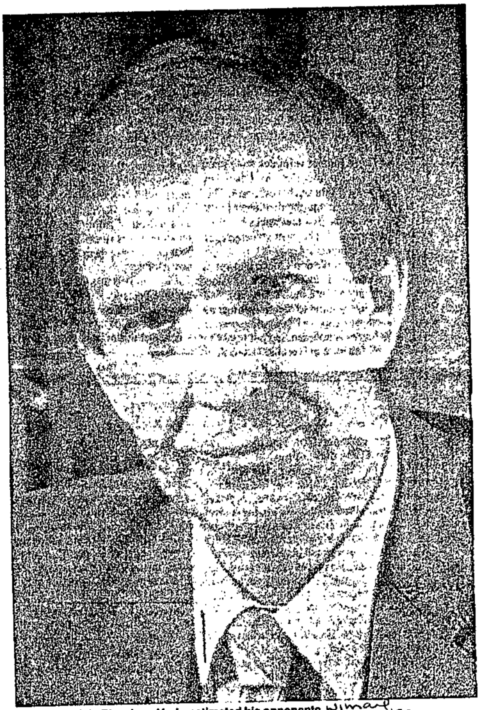
A finance minister's job is indisputably to ensure macro-economic balance. Had the African National Congress proposed a deficit before borrowing of 4,5 percent it would have been rounded upon by conservative economists. But that is the figure reached in this year's Budget.

More disturbing is R8,9-billion to be borrowed which will finance current spending. This, Boland Bank points out, is a continuation of a risky financial practice established in the early 1980s. It has meant that interest on public debt has risen to 16,2 percent of government spending in this Budget year. Using debt to finance current spending has been likened to buying food on hire purchase.

And in the end the government has not stuck to its own promise to reduce income tax. Though the top rates have come down, "fiscal drag" — the phenomenon whereby inflation pushes people into ever higher tax brackets without real increases in income — has ensured that the government has squeezed ever more out of individuals. While tax loopholes have been progressively closed, company tax rates are arguably still relatively high.

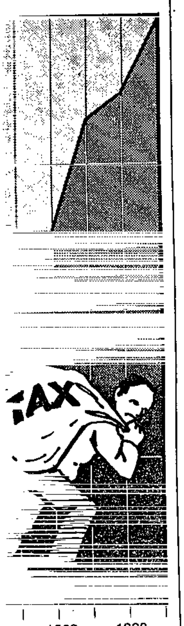
In part, Du Plessis had no room to manoeuvre on reducing direct tax. He could not increase the VAT rate and the temporary basic food exemptions he introduced meant less tax revenue. So the money had to come directly from the taxpayer.

In any case, the VAT debacle shows what drastic moves at this stage to restructure the tax system could have led to. And it sketches the considerable limits to the powers of any new NP-appointed finance minister.



Barend du Plessis ... Underestimated his opponents W/mail 30/4 - 7/5/92

OME TAX



individual shoulders

the aim. How much tax should come direct taxes and how much tax could be an area of conflict. would have to leave the VAT for the moment.

the finance minister, if he the next Budget, could redo the tax eliminate fiscal drag next year. Du reduced fiscal drag this year.

minister could not simply raise the But he could raise more revenue VAT by sullying it with differential foods could, for example, be zero all other items be subject to 15 per-

PENSIONS. As a gesture to the Africa, the minister would have all racial disparities in state pensions could also increase pensions, partly as delivering aid to rural areas.

LOTTERY. Introducing this would the various pseudo-lotteries that up in aid of charities, but could be source of government revenue.

AL AID SUBSIDIES. The Centre for Studies has estimated the government loses R1,1-billion to R1,7-billion through tax rebates on medical aid payments by employers. Scrapping these could be unpopular, and might have to wait for a complete restructuring of the health-care sector.

SAVINGS. Raising interest rates is not necessarily an effective way to encourage savings. Excessively high interest rates harm smaller businesses and curb economic growth. Tax incentives, on the other hand, distort the tax sytem. Some tax incentives to encourage savings could be introduced. A withholding tax taxes all savings income at source at a low rate. It has been weighed up and dismissed. Perhaps the idea could be dusted off again.

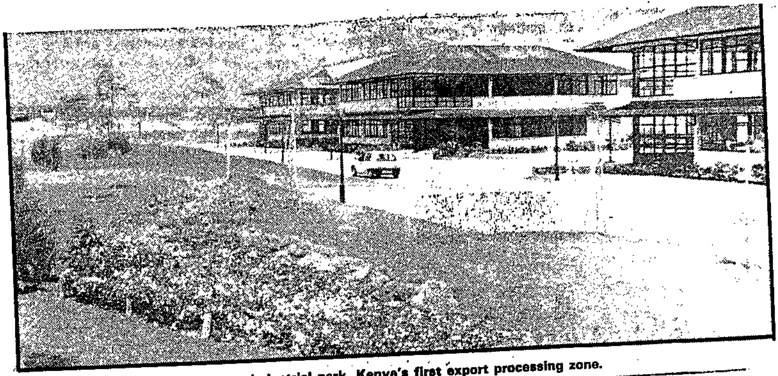
But government has a crucial role to play by ending its own dissaving, which has been a consistent trend since 1985.

Inflationary expectations will have to be brought under control, and the rand's foreign exchange value kept steady, a job for the Reserve Bank rather than the minister alone. The minister, arguably, can help the Bank by curbing spending. However, in the drawn-out present recession it has been argued the government's stimulatory policy has mitigated the effects of recession.

The worrying persistence of outrageously high food price inflation is something that government, not the minister himself, must obviously address. How is not exactly clear yet. (320) (49)

FIXED INVESTMENT. Some way has to be found to encourage fixed investment. The ratio of gross domestic fixed investment to GPP fell to a low of 19,4 percent in 1990. The International Monetary Fund believes it should rise to around 27 percent by the end of the 1990s. Again, tax incentives, unfashionable as they are these days, should be investigated. More important will be a stable political environment with the prospects of good profits for both domestic and foreign investors. That is not immediately in the hands of the finance minister.

Importantly, now that a Minister can be appointed who does not have to split his time between a demanding political role and the Ministry of Finance, there is no further reason to have a separate Ministry for State Spending.



Sameer industrial park, Kenya's first export processing zone.

Amendent broadens scope of Income Tax Act incentive

B|Day 30|4|92 (320)

BARRY SERGEANT

THE key amendment to Section 37(e) of the Income Tax Act announced in the Budget broadens the scope of incentives aimed at encouraging investment in the industrial sector.

The amendment allows for the beneficiation of imported raw materials and immediate products which could be internationally competitive.

The original legislation restricted the incentives to the use of locally sourced minerals and intermediate products. Minister of Trade and Industry and for Economic Co-ordination Derek Keys says this will ensure the incentives reach more large-scale capital projects.

Section 37E of the Income Tax Act was first approved in September 1991 as a temporary measure aimed at promoting investment in industries geared to the beneficiation of locally produced minerals and intermediate products where substantial value was added. In addition, it was required that the project be internationally competitive and intended to export more than 60% of output.

It was primarily aimed at helping project owners bridge prohibitive start-up costs.

It also provided for the accelerated deduction of the expenditure on qualifying machinery, installations, buildings and pre-production interest on cost.

Negotiable tax credit certificates are issued for deductions that cannot be immediately written-off against income.

Definition

The latest amendments concern principally:

☐ The definition of beneficiation; that is, to provide for the inclusion of local and imported raw materials and intermediate producers;

☐ A new method of calculating value added to the value of the raw material or intermediate product; and

☐ Further amendments to earlier government decisions already implemented.

A beneficiation process is defined as a process approved by a committee whereby any new material or any intermediate product is processed to yield any intermediate product or final product, if in the opinion of the committee:

(a) such a process will add at least 35% to the value of the raw material or intermediate product processed, such value added being determined in accordance with the formula —

$$\frac{A - (B+C)}{A} \text{ X } \frac{100}{1}$$

in which formula

(i) A represents the ex-factory price of the intermediate product or final product produced by the taxpayer;

(ii) B represents the cost of raw materials and intermediate product used by him in the production of such intermediate product or final product; and

(iii) C represents the cost of electricity consumed by him in such production:

(b) such process will be carried on on a scale which makes it internationally competitive:

(c) at least 60% by value of the intermediate product or final product produced by such process will be exported directly or indirectly to a country other than a local country; and

(d) where the taxpayer intends acquiring any imported capital goods for use in such process, he will make use of any foreign terms credits which may be available for the purpose of financing the acquisition of capital goods, but excludes any process which is either a simple purification process in consequence of which the raw material or intermediate product in question remains unchanged except for the removal of impurities or a physical process resulting merely in a change of shape and any process which is a mining operation which is normally carried on in the course of mining operations;

(B) commencement date means September 12 1991.

FM 11/5/92.

PENSIONS

520

Taxation headache

Last week's meeting convened by State actuary Piet Robbertze, to consider equitable ways of taxing pension funds, was inconclusive. It was, apparently, more an effort to glean ideas than reach a verdict. By mid-May Robbertze has to have a report ready for Japie Jacobs, special adviser to the Finance Minister. It will be included in Jacobs' own analysis of the taxation of financial institutions.

Pension industry leaders invited to the discussion were close-lipped afterwards because, apparently, it was not to be public knowledge that a pensions tax was being considered. This, despite the fact that former Finance Minister Barend du Plessis referred to the issue in his March Budget speech.

Contributions to retirement schemes are, within limits, tax-deductible. There is no tax on the periodic accrual in value of the pension fund. When retirement arrives, one-third of most pensions may be taken tax-free in a lump sum, while the annuity purchased with the balance is taxed at normal rates. Effectively, the fiscus receives little in the way of tax from an amount which averages between 15% and 20% of the remuneration paid out in the formal sector. ■

New system of tax must be thrashed out

STAR 2/5/92

(320)

The issue is emotive, especially for overtaxed middle-class whites. But a system that redistributes and fuels economic growth is possible, MAGNUS HEYSTEK hears.

INCOME tax in the "new" South Africa is not only an important issue but also a very emotive one — especially if you happen to be an average property-owning middle-class white.

The standard reaction to the issue is that the income-tax load on whites is set to increase sharply to pay for a forced redistribution of wealth.

White fears about such a possibility have not been helped much by banner headlines in the country's largest Sunday paper proclaiming that the ANC is considering a one-third tax on whites' wealth.

The unfortunate treatment of the matter has set the tone for further discussion, and pronouncements by the ANC's economic spokesman — mostly made in private — have done nothing to allay white fears.

I agree with Professor Dennis Davis, director of the Centre for Applied Legal Studies at Wits University, that this issue should be one of the primary issues to be placed on Codesa's agenda.

Davis was recently a guest on Financially Speaking, my Radio 702 programme. Reaction from those who called in during the broadcast underlined the need for assurance and clarity on this issue.

Davis argued that it was possible to have a tax system that contributed to redistribution of resources and economic growth. Such a system would have to be thrashed out by a commission set up by Codesa as soon as possible.

Davis — unlike the International Monetary Fund — said he did not think the average income-tax burden in South Africa was very high compared with that in other countries. The burden was carried disproportionately by middle-income brackets, while the earners in the higher brackets paid relatively less tax, implying room for a form of tax redistribution from the middle-income earners to the higher-income earners.

Significant source

His answer to how this could be done without scaring away even more talented entrepreneurs already paying very high rates of taxes was: "A combination of capital gains taxes, increased estate duties and possibly a land tax at a low rate."

While conceding that capital gains taxes would not generate billions of rands a year, he said it would constitute a significant source of revenue.

The same applied to estate taxes, which currently stand at only 15 percent if the estate is in excess of R1 million.

Another source of revenue would be company taxes. Davis contended that more taxes could be raised by lowering company taxes. Explaining this apparent contradiction, he said: "At the moment we have a company tax of 48 percent, but we don't get close to that. Most major corporations are not paying anywhere near that. We should be lowering company taxes to between 35 percent and 40 percent and make damn sure we get all of it. That will give some justification for capital taxes."

But it was unlikely, he said, that capital gains taxes would be payable on private residential properties. In cases where a capital gains tax was likely to be levied — like on second properties and holiday homes — it would have to be linked to the inflation rate

It's not what you do, but how that can save a mint

STAR 2/5/92 (320)

TAX TIPS: A series by ERNEST MAZANSKY, senior tax partner, Kessel Feinstein.

ALL too often during the course of an audit, accountants come across significant transactions entered into which, if they had been structured in a slightly different way, would have had significant tax advantages.

Two examples discussed below reflect how these could have been to the client's disadvantage but, fortunately, were to their benefit.

In the first situation, the client was a landlord. One of his tenants, tenant A, wished to expand his premises. The client therefore approached tenant B and offered to relocate him if he would move so as to allow tenant A to occupy tenant B's premises. Tenant B agreed provided the landlord undertook to bear all costs. Such costs related primarily to building costs, such as relocation of partitioning, flooring, etc. The client agreed, but, fortunately, sought advice first.

In the circumstances there would have been no doubt that the expenditure to be incurred by the client in relocating tenant B would have been of a capital nature and hence not deductible for tax purposes.

It was suggested that the client instead pay a lump sum to tenant B as consideration for agreeing to vary the terms of the lease. Now a lease in a tenant's hands is a capital asset and compensation received for variation of his rights under the lease would represent a receipt of a capital nature, hence not taxable.

The suggestion was that tenant B, out of this compensation, would then fund the building costs. Since the building costs would also be capital expenditure as far as tenant B was concerned, the transaction was entirely tax-neutral from tenant B's point of view. Previously his costs would have been paid for and now he was receiving a tax-free receipt out of which he would fund non-deductible costs.

As far as the landlord was concerned, such a payment, given the right circumstances, is deductible for tax purposes. I believe the circumstances were such that the client had a good argument for claiming the payment for tax purposes. Even if, at the end of the day, the client would be unsuccessful in his claim, the changed arrangements converted a situation where the client would definitely not have obtained a deduction to one where he had a reasonable chance of obtaining a deduction.

The second example relates to a taxpayer which, a number of years previously, had bought a business including the vendor's signed restraint-of-trade agreement as well as service contracts over a period.

Before the expiry of that period the client sold the business and agreed to pay the original seller a lump sum — say R100 000. The client sought advice as to whether anything could be done to minimise tax exposure.

On the facts it was considered that there was the distinct danger that the payment of R100 000, or at least a part, would be taxable.

On further investigation it was established that the full purchase price for the business had not yet been paid. The balance had to remain owing in terms of the original purchase agreement to be adjusted, if necessary, depending upon the level of profits.

In this the balance owing was, say, R175 000, and it was intended that the seller would waive payment as part of the settlement.

Accordingly it was suggested that there be no link whatsoever between the payment of R100 000 and the termination of the restraint and service agreements.

Instead it was suggested that the documentation make it absolutely clear that the payment of R100 000 was in full and final settlement of all amounts owing in respect of the original purchase agreement, ie the vendors would accept R100 000 as full payment for the debt owing of R175 000.

In this way, with proper tax-planning, the receipt was put beyond the grasp of the taxman.

Prize money for tax thesis doubled

BDay 5/5/92 (320)

Business Day Reporter

THE SA Fiscal Association (Safa) has launched its second annual tax thesis competition, intended to stimulate debate on tax matters and fiscal policies in the context of political reform.

Introduced last year, the competition is also aimed at encouraging a greater degree of fiscal research at universities, thus allowing Safa to contribute impartially to the development of SA fiscal policy.

The first winner was Riel Franzsen, a postgraduate law student at the University of Stellenbosch whose doctoral thesis examined the future of transfer duties and property taxes in SA.

The recognition and wide exposure given to his work played a part in stimulating a major conference on land tax, held in March at the University of Pretoria.

The 1992 competition is sponsored by Ernst and Young chartered accountants and attorneys Hofmeyr Van der Merwe and Sentrachem.

It is open to all SA universities which have a postgraduate tax course.

Thesis and dissertations submitted to universities in the 18 months between December 31 1990 and June 30 1992 will be considered. The closing date for entries is June 30.

The prize money for 1992 has been doubled to R6 000, two thirds of which will go to the winning student and the balance to the winning university faculty.

Former finance minister Barend du Plessis presented the prize at the inaugural banquet at the Sandton Sun last year.

At this year's award ceremony — at the same venue on September 17 — the prize will be presented by JSE president Roy Andersen.

For a copy of the competition rules, contact Fiona Walker at fax (011) 333-0104.

No settling-in period for Keys

W/Mail 8/5-14/5/92

320 [redacted]

By REG RUMNEY

THE Congress of South African Trade Unions has wasted no time in challenging new Finance Minister Derek Keys.

Keys now has to handle the Cosatu-led VAT Co-ordination Committee's continued demand that Value Added Tax be reviewed.

In a statement on the cabinet changes this week Cosatu urged Keys meet the VAT Co-ordinating Committee "to address the fundamental problems which a range of organisations have with the way in which VAT has been implemented (VAT on basic foods, medicine, water and electricity; the issue of poverty relief; and negotiation of measures for small business) and the problem of rocketing food prices".

Cosatu added: "Similarly, we will be looking to Keys to expedite the process of setting up a National Economic Negotiations Forum, an area in which progress is urgently needed, particularly on the issue of unilateral economic restructuring."

Keys' predecessor Barend du Plessis defused the VAT bomb temporarily by extending interim zero-rating.

But in a recent interview Deputy Finance Minister Theo Alant reiterated the government view that it was intended to lift the temporary zero-ratings soon.

VAT, he said, has to be a broad consumer tax, with few or no exceptions to be effective.

At the time of going to press Keys had not responded to the Cosatu challenge.

Keys... to the economic kingdom?

While there is still the chance the Finance Ministry may be prove as politically problematic for Keys as it was with his predecessor, there is some logic behind adding to his load as the new finance minister the responsibility of trade and industry and economic co-ordination.

South Africa's transition period should mean major structural changes. If Keys can pull it off politically, he will now be able to co-ordinate the financial and economic planning necessary to make those changes.

On the other hand there is a stopgap feeling to the appointment, with State President FW de Klerk spreading available cabinet talent thinly.

The extra load means that the State Spending Ministry cannot be reabsorbed into the Finance Ministry.

Though, as Boland Bank economist Francois Jansen points out, it is too early to assess what kind of a job State Spending Minister Ami Venter has done, it has been criticised as an unnecessary duplication. Moreover, it clearly has not been able to rein in state spending so far, which one month into the new financial year is already showing signs of exceeding the Budget.

Keys is least likely to cause offence to the two constituencies whom he now has to please. There is no doubt that he is the private sector choice for the job.

As a successful businessman in his own right he can be surer of having the confidence of the business sector than his predecessor — who was initially sneered at as a ex-IBM salesman.

On the other hand, Keys' recent announcement on protection for the textile industry show he is not about to embrace sweeping free-market reforms overnight.

Keys also has the reputation as a facilitator, gained during his time at head of Gencor.

The fear is that three posts may load too much on to one man.

Moreover, Keys admits to still learning the ropes at parliament. He has still to find his way around the political system — though coming from a company the size of Gencor, which has its own bureaucracy, must help.

Tax ‘lib’ puts new onus on women

STAR 9/5/92.

(320)

IN the 1990 tax year, Minister of Finance Barend du Plessis invented for tax purposes an entirely new female class — the *married woman* — but not many people took much notice of the significance at the time.

In the weird world of tortured tax nomenclature, the *married woman* is docketed as a “female who is married”.

She most definitely is not to be confused with a *married person.*

But note this: a woman whose husband earns less than R10 000 during the tax year, along with a widow and a woman who is the mother of a child, can still be docketed as a *married person*, who is quite different in tax terms.

And out of this blinding confusion, says Deborah Tickle, tax consultant at chartered accountants KPMG Aiken & Peat, flows an entirely new order of taxing married working women, starting in the 1991-92 tax year.

In taxspeak, the *married woman* should not be confused with the *married person.* The taxman’s new *married woman* can now take control of her own affairs and become financially responsible in her own right.

She said that to understand this new way of looking at the case of the married woman, it is necessary to “divorce” her from the category of the married person, and most certainly from that of the unmarried person, both of whom the taxman still regards as being either of the masculine or the feminine gender, which is comforting.

How the burden is spread

Annual income	Married persons (no children)	Single persons	Married woman
10 000	—	—	900
20 000	1 475	2 100	3 150
40 000	6 375	8 500	9 550
60 000	14 075	16 840	17 350
80 000	22 475	22 440	25 350
120 000	39 675	42 640	41 350

Gymnastics

Ms Tickle said these semantic gymnastics served to identify and isolate the taxpayer who is married, living with her husband, has sufficient income in her own hands to be taxed totally separately, and who from the 1992 tax year must be responsible for accounting fully for her own income tax affairs to the Receiver of Revenue.

The problem is that a good many women income earners may not be aware that they fall into this unusual category and may run foul of the taxman by failing to fulfil their legal responsibilities through ignorance, Ms Tickle said.

For a start, they may believe they still fall under the Site (standard income tax for employees) rules which, in 1990, applied to all married women with net remuneration. (Site now applies to taxpayers with net remuneration below R50 000 a year).

Or they may have private income from trusts or investments that did not declare dividends (which are tax free) and which were previously lumped with their husband’s for tax purposes.

Married women now have their own tax table which, when comparing the tables for married persons and single persons under 63 and married women (under 65), tells its own story (see accompanying figures).

Ms Tickle said: “A married woman in tax terms needs to become financially aware and ‘educated’ about her obligations. She can no longer leave it all to ‘hubby’ because she believes these obligations do not apply to her. They do.”

If a working married woman’s net remuneration is subject only to Site, she need not worry about registering as a taxpayer.

However, if she earns remuneration which is subject to Site and pay-as-you-earn, or earns interest above the tax-free amount of R2 000 but less than R3 000, she has to register as a normal taxpayer and fill in a tax form at the end of the tax year.

But if she earns trade income, or is a member of a close corporation (CC) or is a director of a private company, or earns interest exceeding R3 000 a year, she is re quired to register as a provisional taxpayer, must make provisional payments three times a year and must submit a tax return.

“On the plus side, the married woman is entitled, in her own right, to an exemption from tax on any lump sums that do not cumulatively exceed R30 000 in her lifetime which she receives from her employer on leaving work to get married or to retire.

“Similarly, she will be entitled to tax exemptions relating to lump sums paid from pension, provident or retirement annuity funds when she retires. She can also earn up to R2 000 in interest, tax free, each year.

“Moreover, these exemptions do not affect or reduce the lump sum exemptions to which her husband would be entitled.”

Ms Tickle said that any belief that separate taxation might offer opportunities for creative tax dodges should quickly be dispelled.

“There is, I’m sure, many a financially aware husband out there who may consider reducing his own tax burden by paying his wife a salary from his business.

High earner

He should think again: the Receiver of Revenue will tax the income in the husband’s hands if he decides the work performed by the wife in the husband’s business is not commensurate with her salary.

“Or, a taxpayer may try shifting some of his income into his wife’s hands, for example, by donating income-generating funds to her. Likewise, there may be cases where the wife is the high earner and she might wish to shift some of her income into her husband’s hands in the same manner.

“Legislation neatly covers either course of action by using only the word ‘spouses’ in closing these ‘loophole’ attempts at reducing tax obligations.”

Ms Tickle also warned that if the Commissioner of Inland Revenue believed that, for the “sole or main purpose of avoiding, postponing or reducing any type of tax”, a spouse entered into a transaction, operation or scheme on or after March 20 1991, which effectively placed income-earning assets with an element of gratuity in the hands of the other spouse, he would tax that income in the hands of the first spouse.

Of course, in the clear absence of any intent to avoid, postpone or reduce tax, the income would be taxed in the recipient spouses’ hands, Ms Tickle said.

Overall, Ms Tickle said, separate taxation for married working women — a long sought goal — was to be welcomed because at long last they could gain control over their affairs and become financially responsible in their own right.

SUNDAY TIMES, Business

MORE MONEY IN YOUR POCKET

Another separate taxation break for married women

(320)

S/Times 10/5/92

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

THE system of separate taxation reaches its final stage of implementation in the 1992 tax year with the introduction of separate taxation of investment income.

Previously, a married woman was taxed on her salary. Any interest, rental payments etc — so-called investment income — was taxed in her husband's hands.

A woman married OUT of community of property is with effect for the 1992 tax year, taxed on ALL her income.

Bequest

However, a woman married IN community of property although also taxed separately on most income, is taxed only on half of her interest income. She is now also required to include half of her husband's interest income in her return (Part 11 of the return).

The same applies to any rental income (retrospective to the 1991 tax year) — Part 15 of the return.

The effect of all this above is that all investment income — for example, interest, rental income — is now taxable in equal shares in the hands of the spouses where they are married IN community of property.

Should a married woman receive any income from a pension, provident, benefit or retirement annuity fund, the income is taxable in her hands.

Any income, investment or otherwise, which does not fall into the joint estate of the spouses is taxable in the hands of the one who is entitled to it. Such a situation may arise on the donation or bequest of an income-bearing asset to one spouse.

Because of the retrospective application of the rental provisions to the 1990-91 tax year, the Receiver of Revenue will allow taxpayers married in community of property, who have submitted their 1991 returns, to apply in writing — the letter must be signed by both spouses — before December 31, 1992, to amend their return or assessment.

However, before doing so you should first determine if this would result in your paying more or less tax.

Where a married woman is the sole breadwinner, whether married in or out of community of property, she has the option of including her income in her husband's return or being taxed separately.

A married woman will be treated as a sole breadwinner where her husband's total income, plus any income from a foreign source, does not exceed R10 000 a year.

As a sole breadwinner, she may include her income in her husband's return only if she has elected AND obtained a directive from Inland Revenue to do so. She is then taxed at the lower married person's rates instead of married women's.

Additional

This will be most beneficial where the husband is over 65 years of age and obtains the additional R2 100 rebate and a deduction of all medical expenses. These amounts would not otherwise be available to a married woman under 65 years of age. She should also ensure that monthly PAYE is withheld at the married person's rates and not the married women's with the additional over 65 rebate, if applicable.

PROVISIONAL taxpayers are required to render provisional tax returns at the end of August and February. Such returns and their payment effectively settle the liability on the taxable income which has not been subjected to employee tax deductions.

With the introduction of separate taxation of investment income earned by married women, Inland Revenue has granted relief to married women provisional taxpayers. Married women who earn only investment income, which was previously taxed in their husbands' hands, need not make provisional tax payments for the 1992 tax year.

However, if such married women received provisional tax forms, they should be submitted as a nil returns. Their first provisional tax payment will therefore be on August 31, 1992, for the 1993 tax year.

MEDICAL expenses (Part 3.1) and expenses relating to a physical disability may be deducted only to the extent that they exceed the greater of R1 000, or 5% of a taxpayer's taxable income. All medical expenses are deductible for persons over 65.

A married woman is allowed for the first time in the 1992 tax year to claim a deduction of medical expenses actually paid by her, including those of her spouse and her children.

THE Department of Inland Revenue previously allowed the deduction of retirement annuity fund contributions by a husband on behalf of his wife in certain circumstances.

This practice was discontinued from March 1, 1991. Inland Revenue intends to propose that the law be amended to allow a married woman to elect to have her contributions claimed by her husband in the 1992 tax year.

It would appear that this concession will apply only if the married woman was a member of a retirement annuity fund at February 29, 1992.

Unfortunately, the note relating to completion of Part 3.6 of the return says this option is available only where a married woman would not be liable for tax as a result of claiming the deduction — that is, the deduction can be claimed by the husband only if the wife would not receive any benefit in doing so. This approach has however been amended as indicated.

Delay

Such an election will be desirable where the husband's marginal rate of tax is greater than his wife's. The benefit of the tax deduction will, therefore, be greater.

It should be noted that although the 1992 tax return does not refer to this election, this does NOT mean that such an election will not apply.

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

Copies of Pay Less Tax can be obtained at a cost of R29 (including VAT and postage) from L Mlambo, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3 Benmore, 2010.

Ceramic merger

DEBEX and Greenbank Malvern Engineering, large manufacturers of ceramic wear tiles, have joined forces in an effort to improve the efficiency. S/Times (B455)

Greenbank Malvern supplies the coal-mining and power-station industries and has considerable experience in marketing these products. The merger will complement the technical and manufacturing skills of the Debex ceramics division. 10/5/92.

Poor show as VAT receipts trail GST

320

ARG 12/5/92

DEREK TOMMEY

JOHANNESBURG. — Value-added tax receipts in four of the five months since it started were less than general sales tax receipts a year ago.

However, it is probably too early to label the introduction last October of value-added tax (VAT) a dismal failure.

The latest tax receipts certainly show it is not yet a howling success.

For this the government is probably the main culprit because of its failure to stand up to political pressure and maintain the original rate of 12 percent.

In reducing the rate to 10 percent it seems to have emasculated the tax.

Receipts so far have not financially justified the introduction of the new impost, nor the the political flack the government encountered when it was launched and which it is still experiencing.

Tax returns show that in the five months to February, VAT brought the Treasury R7,8 billion — which includes some late GST payments.

This was only 2,4 percent more than the R7,6 billion that GST yielded in the same five months a year ago — despite a 15 percent increase in inflation.

Perhaps more telling, is that VAT receipts in four of these five months were less than GST receipts a year ago.

Only in December did VAT produce a healthy increase in revenue on a year earlier.

For a tax which was hailed as eliminating evasion and broadening the tax base, this is a poor performance.

In return, the government has had to face severe criticism for the extension of VAT to foodstuffs, medical services and medicines.

It has had to employ, at least temporarily, an extra 1 000 people to cope with the changeover.

It has had to spend many millions launching VAT. Last but not least, VAT has increased the rate of inflation by 1,2 percent, according to figures issued by Central Statistical Services.

It is clear that the retention of the 12 percent rate would have produced a very different result.

Tax receipts for the five-month period would have been around R9,4 billion, which would have been about R1,4 billion more than was actually received, and an increase of 23 percent on the year-ago GST figure.

With the benefit of hindsight it seems that once it had been decided to reduce the rate to 10 percent, the right decision would have been to postpone or dump VAT completely and stick to GST.

As receipts from GST would have risen partly in line with inflation, it would not have generated less than VAT and would have saved a great deal of unnecessary pain for those who have been called on to pay substantially more for goods and services which were tax-free a year ago.

With the government desperately short of revenue, it seems that at some time in the near future, Minister of Finance Derek Keys will have to grasp the nettle and restore the two-percent cut.

But he might find this more difficult now than was the case a year ago, for revelations about wasteful government spending are not likely to make the public receptive to a further rise in tax.

Large deficit-spending by the government is expected to do much to stimulate the economy this year.

But so far the economy has not received much help from government spending.

In the first quarter of this year government spending exceeded income by only R526 million, which was not likely to help business much.

However, business has the consolation of knowing that between the end of March this year and the end of March next year the government intends pumping into the economy some R18 billion, (or R1,5 billion a month) more than it takes out.

So there is at least a small reason for optimism in the coming months.

Keys sows tax cut doubts

B/Day 12/5/92 (320)

BILLY PADDOCK

CAPE TOWN — Government's commitment to reducing company and individual tax was in question despite President F W de Klerk's address to Parliament in January in which he said it was of "urgent importance".

Doubt was cast on the NP's and government's 1989 commitment to voters — to reduce taxes by 5% over five years — when new Finance and Trade and Industry Minister Derek Keys said in an interview in a Sunday newspaper that he was not sure it was his problem. In answer to a question on the NP commitment, Keys was reported as saying: "Yes, well that is somebody's trouble. I'm not sure it is my trouble."

He made it clear that he was not of the same opinion as De Klerk and government that South Africans were overtaxed, and indicated that he was also not sure that he was bound by the commitment.

Asked for clarification yesterday, Keys said: "At this stage I have no intentions with regard to taxation. My comments are just comments."

De Klerk's office did not want to comment on whether government was committed to this course of action.

● **Comment: Page 8**

Much-vaunted VAT fails to make the grade

STAR 12/5/92.

By Derek Tommey 320

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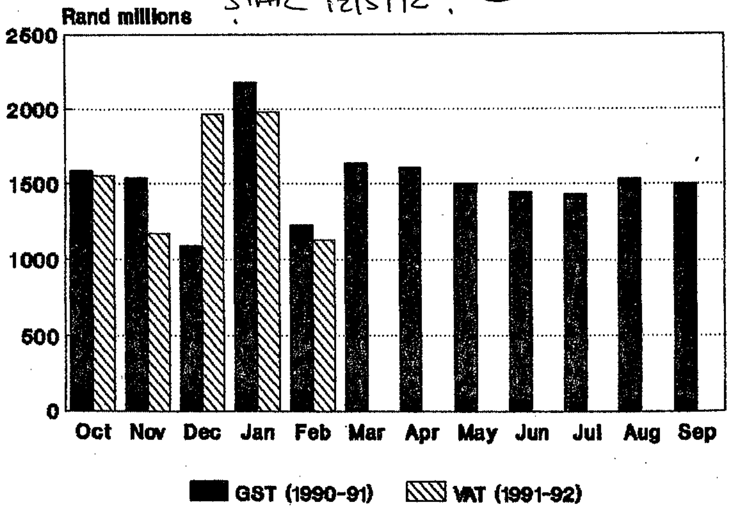

Vat revenue has fallen below corresponding GST revenue a year ago in four of the five months for which figures are available

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VAT made food prices 'rocket'

320 CT 15|5|92

FOOD would become unaffordable if prices were not monitored continuously, the Consumer Council said in its annual review tabled in Parliament yesterday.

A survey showed that the price of a sample basket of foodstuffs reflected only slight differences for the first five months of last year.

When it had become known that VAT would be levied on most food and that prices would include VAT, prices had skyrocketed.

The result was that a basket costing R78,54 in January 1991 had cost R92,34 in October.

Although the basket included meat and fresh produce not taxed previously, it had to be kept in mind that tax on all other food should have decreased by three percent.

The importance of a country-wide monthly price survey could not be stressed enough.

"While the country is striving after a market-oriented economy, dealers are free to determine their prices themselves. If food prices are not monitored continuously, food will become unaffordable for the consumer in the future."

The weak rand, staff retrenchments, the unacceptably high inflation rate, oppressive interest rates, drought and soaring food prices were facets of the economic scene over which consumers had no control.

They had to look on helplessly while prices of all products and services rose and the cost of living choked them month after month.

During the year, the council received 41 825 telephone inquiries and 10 398 written complaints and the monetary values of resolved complaints amounted to R4 999 631, compared with R3 321 676 the previous year.

The value of resolved complaints between February and March this year was more than R1,4 million. — Sapa, Own Correspondent

No. 1362 **15 Mei 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1991 tot 31 Maart 1992. (Voorlopig).

Tesourie, Pretoria.

No. 1362 **15 May 1992**

Statement of Revenue collected during the period 1 April 1991 to 31 March 1992. (Preliminary).

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimate	Maand Maart Month of March		Totaal 1 April tot 31 Maart Total 1 April to 31 March	
		1991/92	1992	1991	1992	1991
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Binnelandse Inkomste:	Inland Revenue:					
Belasting op inkomste	Tax on income	43 202 200 000	4 382 172 858	3 638 372 675	42 450 779 424	37 098 402 645
Leningsheffing 1989-94	Loan Levy 1989-94	—	—	—	2 032 358	2 422 935
Verkoopbelasting	Sales tax	18 742 630 000	(16 768 115)	1 566 131 175	10 546 590 899	17 976 692 691
Balasting op toegevoegde waarde	Value added tax	—	1 505 389 017	—	7 800 184 190	—
Ander belastings:	Other taxes:					
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	335 000 000	18 305 531	19 147 840	334 786 669	416 071 104
Rentebelasting op buitelanders	Non-residents' tax on interest	—	398	1 964	38 224	718 620
Onuitgekeerde winste	Undistributed profits	400 000	—	6 447	365 617	2 250 742
Geskenkbelasting	Donations tax	5 500 000	1 304 888	505 484	6 828 573	6 507 833
Boedelbelasting	Estate duty	75 000 000	3 544 698	4 264 234	78 537 535	81 859 242
Handelseffekte	Trade securities	210 000 000	13 738 340	27 475 926	199 755 733	243 288 313
Seëlregte en gelde	Stamp duties and fees	735 000 000	50 491 859	59 222 631	689 784,295	650 492 585
Hereregte	Transfer duties	920 000 000	102 111 260	72 294 236	915 158 384	766 433 591
Diverse	Miscellaneous	—	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	391 000 000	75 417 212	92 186 164	324 994 919	432 194 803
Rente en dividende	Interest and dividends	60 200 000	16 260 954	13 764 676	73 799 936	68 190 805
Heffings	Levies	18 500 000	5 813 038	193 558	29 155 049	13 606 521
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	62 300 000	10 805 409	25 494 293	45 604 221	90 538 117
Departementele bedrywighede	Departmental activities	1 101 000 000	897 891 034	145 462 266	1 954 829 519	1 227 104 811
Kapitaalinkomste	Capital Income	832 725 000	—	—	—	—
	R	66 691 455 000	7 066 478 381	5 664 523 569	65 453 245 545	59 076 775 358
Min: Betalings aan selfregerende nasionale state	*Less:* Payments to self-governing national states	1 089 200 000	172 256 274	75 272 000	1 412 589 987	910 043 257
Betalings aan TBVC-state	Payments to TBVC Countries	308 630 000	—	—	—	—
Totaal: Binnelandse inkomste	Total: Inland revenue R	65 293 625 000	6 894 222 107	5 589 251 569	64 040 655 558	58 166 732 101
Doeane- en aksynsregte:	Customs and excise duties:					
Doeanereg	Customs duty	2 750 000 000	198 810 733	208 757 608	2 735 957 090	2 504 402 290
Aksynsreg	Excise duty	3 902 500 000	613 705 222	343 489 272	3 825 163 626	3 157 831 400
Bobelasting	Surcharge	1 470 000 000	108 392 208	162 289 827	1 455 696 806	2 073 279 792
Diverse	Miscellaneous	15 100 000	(53 619 200)	17 739 264	60 300 674	196 312 637
Brandstofheffing	Fuel levy	5 200 000 000	481 752 807	309 097 120	5 207 228 824	3 946 146 265
Gewone Heffing	Ordinary Levy	60 000 000	11 934 616	2 678 420	67 180 392	108 130 605
	R	13 397 600 000	1 360 976 386	1 044 051 511	13 351 527 412	11 986 102 989
Min:	*Less:*					
Bedrag tot krediet van Sentrale Inkomstefonds	Amount to the credit of Central Revenue Fund	—	—	—	—	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	4 655 000 000	702 000	223 500 000	4 499 724 000	3 175 291 812
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	8 742 600 000	1 360 274 386	820 551 511	8 851 803 412	8 587 311 177
	R	74 036 225 000	8 254 496 493	6 409 803 080	72 892 458 970	66 754 043 278
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	12 486 428	2 821 981	70 280 587	60 143 012
Fonds vir Sorghumbiernavorsingfonds	Sorghum Beer Research Fund	1 200 000	—	—	—	—
Toewysings uit grandstofheffing:	Allocations from fuel levy:					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	—	—	—	—
Suidwes-Afrika	South West Africa	10 000 000	—	—	—	—
TBVC-lande	TBVC Countries	140 000 000	—	—	—	—
	R	207 200 000	12 486 428	2 821 981	70 280 587	60 143 012
	R	74 243 425 000	8 266 982 921	6 412 625 061	72 962 739 557	66 814 186 290
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste	Inland revenue	—	68 063 597	23 708 246	257 988 372	224 271 046
Inkomtesrekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste	Inland revenue	—	2 273 609	3 113 195	32 548 625	37 348 743
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***					
Binnelandse inkomste	Inland revenue	—	185 731	839 910	7 014 511	6 277 624
	R	—	70 522 937	27 661 351	297 551 508	267 897 412
Groottotaal	Grandtotal R	—	8 337 505 858	6 440 286 412	73 260 291 065	67 082 083 703
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 1079 in *Staatskoerant* van 16 April 1992:	Reconciliation with statement published by Government Notice 1079 in *Government Gazette* of 16 April 1992:					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	—	—	—	198 934 099	—
In Transito/Te veel oorgedra, 28 Februarie 1992	In Transit/Overremitted, 28 February 1992	—	(432 974 058)	—	—	—
Invorderings soos hierbo	Collections as above	—	8 337 505 858	—	73 260 291 065	—
	R	—	7 904 531 800	—	73 459 225 164	—
In Transito/Te veel oorgedra, 31 Maart 1992	In Transit/Overremitted, 31 March 1992	—	163 807 318	—	163 807 318	—
In Transito Inkomsterekening: Administrasies	In Transito Revenue Account: Aministrations	—	(39 219 671)	—	(227 028 570)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	8 029 119 447	—	73 396 003 912	—

European tax can be reclaimed

STAR 16/5/92

THELMA TUCH-GABAY

NEXT time you take a business trip to Europe, make sure you keep all your receipts — they could save your company thousands of rands.

Many companies are unaware that they can reclaim the value-added tax (VAT) charged on services used by their employees on business trips in Europe.

This includes money spent on accommodation, car rentals, meals, trade fairs, conferences, exhibitions, professional fees and training. 320

Businesses are entitled to a sizeable tax refund from European governments, says Meridian Reclaim Services director Ian Smith.

Meridian — a subsidiary of Kirsh Industries Ltd — recently set up an office in Johannesburg to help companies claim refunds.

The claims are sent to Meridian's London office, which submits them to the European authorities. Refunds are usually issued within four to six months.

● *Companies interested in this service can contact Ian Smith at 788-1557.*

MORE MONEY IN YOUR POCKET

Perks that ease tax pain

S Times (Buss) 17/5/92

320

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

THE most common question raised about fringe benefits is whether a taxpayer should choose a company car or a travel allowance.

The answer depends largely on the vehicle's cost, the employee's marginal rate, distance travelled and ultimate selling price of the car. These variables differ from taxpayer to taxpayer, so it is impossible to give a categoric reply.

On a company car (part 5.4 of the income tax return) you are taxed on the value of private use. Until July 31, 1991, it was obtained from prescribed tables based on the vehicle's determined value and engine capacity. Thereafter the fringe benefit value is calculated monthly by simply taking the determined value of the vehicle multiplied by 1,2%.

If your private travel is lower than 10 000km a year, the fringe benefit value can be reduced. Should you pay for all fuel for private use, the monthly taxable value of the fringe benefit should be reduced by R120. Where you bear the full cost of maintaining the vehicle, you may reduce the monthly taxable value by R85.

Should you pay for fuel and maintenance, for example, while on leave, that amount may be deducted on assessment.

A travel allowance (part 5.1) should be determined to ensure that at least the running costs of the vehicle are covered. This allowance must be included in your income on your return. You may claim the appropriate deduction which may not exceed the amount of your allowance.

The deduction calculated in part 9 of the return may be based on your actual costs or the table of gazetted rates. The latter assumes a fixed cost element and may be more beneficial than actual costs, especially when you have paid for the vehicle in full. You are effectively allowed to deduct the business portion of the total kilometres multiplied by the total cost, or the gazetted rate multiplied by business kilometres.

Where a taxpayer receives a travelling allowance and does not maintain accurate records of business and private travel, he may deem his private travel to be 12 000km (1990-91 tax year and earlier — 10 000km). A maximum of 32 000km a year has also been introduced for the total distance travelled where no log book is maintained.

Log

Therefore, if you use the deemed 12 000km private travel limit, you will not be able to claim more than 20 000km for business unless accurate records of both are kept.

Part 9.2 of the return reflects these maximum and minimum kilometres. Ensure that you do not restrict your travel claim to these limits if you maintain a log book.

From 1 August 1, 1991, 25% of all travel allowances became subject to PAYE.

Accordingly, individuals receiving genuine travel allowances will have both SITE and PAYE reflected on their IRP5, even if their remuneration is less than R50 000.

These individuals will have to submit an income-tax return and will be subject to tax on the non-deductible portion of the travel allowance (less the PAYE already withheld on the allowance).

* * *

AN employee may receive a subsistence allowance (part 5.2) for each night he is away from home on business. The allowance that is deemed to be have been spent and is not taxed is R150 a day if it covers accommodation, meals and other incidental costs and R65 a day in other cases.

The first may be beneficial when you stay with friends or relatives. Your empoyer is not required to reflect a genuine subsistence allowance on your IRP5 provided the limits have not been excedded.

If this allowance has been reflected in your IRP5, complete part 5.2 and attach a schedule detailing the number of days multiplied by R65 or R150, as appropriate. The deduction can be claimed under part 3.10, "other deductions". You are deemed to have spent the above, unless you vouch a higher amount to your employer.

* * *

AN entertainment allowance (part 5.3) is subject to employees tax unless a directive to the contrary is obtained from Inland Revenue. You may claim the appropriate expenditure (part 3.8) and receive a credit for the employee's tax paid.

Your deduction will be limited to the allowance received, which may not exceed the lower of R2 500 or 5% of your taxable income before this deduction.

A reimbursement of entertainment expenditure will not be taxed, nor need such amounts be reflected on your IRP5 and will not be subject to any maximum amount. A combination of an allowance and reimbursement is therefore beneficial.

Entertainment expenditure includes meals, drinks, tickets to events, club subscriptions and home entertainment. Vouchers should be kept with names of those entertained, their position and the business transacted.

Better

If your remuneration, including the entertainment allowance, does not exceed R50 000 you will still be required to submit a return if the deduction to which you are entitled exceeds 1% of your remuneration. In such circumstances, a reimbursive allowance may be a better option as you will then not have to submit an income tax return.

Should such amount not exceed 1%, then you will be

320 CT 19/5/92

ANC's view on land taxes, rates

By MAGGIE ROWLEY
Property Editor

A CAPITAL gains tax on land to discourage speculation and a tax on second properties have been mooted by the ANC.

In an interview, the ANC's national co-ordinator on local government and housing, Thozamile Botha, said a capital gains tax would discourage developers from buying up large tracts of land, subdividing them and selling them off at a large profit and at prices beyond the means of lower income families.

Other measures the ANC would consider to curb land speculation would be the application of high municipal rates on well located undeveloped land and the use of legal arrangements and tenure forms which would take land and housing transactions "out of the market and guard against downward raiding by the relatively more affluent groups".

It was ANC policy, he said, to reintegrate "apartheid" cities and bring people closer to places of work and opportunity.

As such, they were opposed to the privatisation of large tracts of state-owned land at this stage and had called for the formation of a Land Trust to hold all this land until such time as a co-ordinated housing policy "approved by the majority of the country's population" was in place.

"Only then can we decide how best this land should be developed," he said.

"By privatising this land — much of which is close to the city centre — private developers will be the only ones to benefit and an ideal mechanism for re-integrating the city and providing affordable accommodation for low income families will be lost."

Botha said a capital gains tax on second properties and higher rates and taxes on these properties were also seen as ideal mechanisms to aid redistribution.

White residential areas, he said, could also expect to pay more for electricity in a post-apartheid South Africa.

"To date these areas have had their electricity subsidised by industrial and commercial areas under white local authorities. Black local authorities were unable to raise money in this same way and residents in many black areas bore the brunt of higher electricity charges than white areas.

"And in future electricty charges will have to be loaded in favour of the lower economic areas," he said.

Besides integrating cities through the development of low-cost housing close to the city centre, the ANC also advocates the buying up of properties close to the city and redeveloping these to allow greater density.

"Woodstock and Salt River are prime examples," he said.

At the same time, Botha said, it would be imperative to upgrade existing townships to rid them of their "monotony" and to provide all the normal amenities of well planned suburbs such as shopping and commercial centres as well as industrial facilities providing job opportunities close to people's homes.

Responding to the De Loor discussion document on housing provision released last week, Botha said it had two major flaws.

"It fails to address the dire need for the state to provide affordable rented accommodation and sees the role of the state in the provision of housing to be that of a mere facilitator."

The ANC on the other hand, he said, was committed to providing a mixture of different types of tenure in a post-apartheid society and saw the provision of housing being seen as a process.

"And rented housing stock is seen as part of the housing process. There are many who cannot or do not wish to buy and have the right to affordable accommodation. If providing rented accommodation is left in the hands of the private sector alone, this will not be possible.

Tenants in state housing, he said, would have the right to convert to buy the accommodation at a later stage when they were in a financial position to do so.

Botha said while housing was seen by the ANC to be a basic right of all South Africans, a new government would be unable to redress all the apartheid created inequalities and fulfil pent-up aspirations of black South Africans overnight.

"However, if the right structures are put in place and the process is started people will be able to see where we are going and will be patient," he said.

Botha said of concern to the ANC was the concentration of ownership in the building materials industry.

"The ANC is committed to unbundling this industry and to introducing mechanisms which will help cheapen building materials," he said.

FW does a good job, say SA teenagers

Political Staff

SA teenagers of all races, except young whites, white boys and Afrikaans-speakers, believe President FW de Klerk is doing a good job, a new survey has found.

It found that 53% of all white teenagers and 74% of black teenagers supported De Klerk. The poll, conducted door-to-door by Research Surveys, established that 63% of teenagers of all races believed De Klerk was doing a good job.

White teenagers entitled to vote, those between 18 and 20, gave De Klerk above-average (65%) support.

However, only 46% of white boys between the ages of 13 and 15, 44% between 16 and 17, 46% of all white teenaged boys in general and 44% of Afrikaans-speaking white teenagers agreed.

The highest percentages of those who did not think De Klerk was doing a good job were whites aged between 16 and 17 (35%), white males (29%), Afrikaans-speakers (32%) and those living in the PWV area (30%). B/Day 19/5/92.

Black teenagers of both sexes and all ages felt De Klerk was doing a good job with support of between 72% and 75%.

Those between 18 and 20 (19%) and black males (18%) did not agree.

The highest backing for De Klerk came from Durban (80%) and Soweto (74%) among black teenagers, and Cape Town (71%) among white teenagers, but the lowest support was from white teenagers in Durban (40%) and the PWV area (49%), Research Surveys said.

ANC moots second-properties tax

Own Correspondent

CAPE TOWN — A capital gains tax on land to discourage speculation, and a tax on second properties, have been mooted by the ANC. B/Day 19/5/92

In an interview, ANC national co-ordinator on local government and housing Thozamile Botha said a capital gains tax would discourage developers from buying up large tracts of land, subdividing them, and selling them off at a large profit and at prices beyond the means of lower income families.

Other measures the ANC would consider to curb land speculation would be the application of high municipal rates on well located, undeveloped land, and the use of legal arrangements and tenure forms, which would take land and housing transactions "out of the market and guard against downward raiding by the relatively more affluent groups". (320)

The ANC was opposed to the privatisation of large tracts of state-owned land at this stage. "By privatising this land — much of which is close to the city centre — private developers will be the only ones to benefit . . ."

Botha said a capital gains tax on second properties, and higher rates and taxes on these properties, were also seen as an ideal mechanism to aid redistribution.

White residential areas, he said, could also expect to pay more for electricity in a post-apartheid SA. In future electricity charges would have to be loaded in favour of lower economic areas.

(2) Yes.

Since being commissioned both vessels are used regularly to transport passengers as well as small quantities of cargo such a bread, milk, vegetables etc.

Ferry-boat *Wolraad Woltemade*/*Dias*

*16. Mr R V CARLISLE asked the Minister of Correctional Services:

Whether the ferry-boat *Wolraad Woltemade* had its name changed to *Dias*; if so, (a) why, (b) when and (c) for what purposes is it being used?

B641E

The MINISTER OF CORRECTIONAL SERVICES:

(a), (b) and (c)

The ferry-boat *Wolraad Woltemade* was taken over from the South African Navy during 1961. When application was made to the Department of Transport at the beginning of 1962 to register the *Wolraad Woltemade* in Cape Town, it could not be done as it was found that another vessel with the name of *Wolraad Woltemade* had already been registered in Cape Town. The name of the ferry-boat was then changed and it was registered as the *Dias*. The vessel is still being used for the transportation of passengers and small quantities of cargo between Cape Town and Robben Island.

Private/state-aided schools: tax concessions

*17. Mr A GERBER asked the Minister of Finance:†

(1) Whether he is considering making tax concessions in respect of (a) parents and (b) sponsors making financial contributions for educational purposes to private and/or state-aided schools; if not, why not; if so, what are the relevant details;

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

B642E

The MINISTER OF FINANCE:

(1) (a) Section 18A of the Income Tax Act, 1962, already provides *inter alia* that donations made by parents to private and/or state-aided schools, may be deducted for tax purposes, to an amount of R500 or 2 per cent of the taxable income (whichever is the greater) of the parent. The deduction is however at present limited to donations made to special funds established by schools whose sole purpose is the promotion of secondary education.

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(b) Companies may, in addition to donations to the funds mentioned in (a) above, also claim a deduction in respect of donations to a few large educational funds for the advancement of both primary and secondary education, to an amount of 5 per cent of the taxable income of the company. The aforementioned measure was introduced last year after it came to light that the corporate sector had a pressing need to make donations to educational institutions for the advancement of primary and secondary education needs on a broad basis.

It may be that, with the use of the word "sponsors", the hon member has in mind not an out-and-out donation, but rather a contribution made mainly for the purpose of obtaining publicity for his business. In such case, the expenditure will constitute a normal business expense which will be fully deductible.

(2) An interdepartmental committee, consisting of representatives from the Department of Finance, the Department of National Education together with other interested parties, has conducted extensive discussions regarding the possible extension of the deductibility of donations to, especially, primary schools. As a result of practical problems that are being experienced, not only with the extension, but also with the current deductions, no solution has as yet been found. In the light of this, the commitee has considered various alternative suggestions for State assistance in respect of education costs and proposals in this regard will be submitted to the Government shortly.

INTERPELLATION

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

Own Affairs:

Pre-primary education: extension

*1. Mr A GERBER asked the Minister of Education and Culture:

(1) Whether his Department is contemplating extending the provision of pre-primary education; if not, why not; if so, what are the relevant details;

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

B665E.INT

*The MINISTER OF EDUCATION AND CULTURE: Mr Speaker, pre-primary education is not compulsory education. For that reason the present subsidy formula does not generate funds for the maintenance and extension of pre-primary education. In simple terms this means of course that the Department does not receive money that is specifically earmarked for this type of education.

As a result, provincial education departments that are already under great financial pressure, have to make provision for pre-primary education out of funds for compulsory education. Money for pre-primary education is therefore limited. In co-operation with the organised teaching profession and the other education partners it was agreed that the *status quo* in respect of the financing of pre-primary education be retained. Among other things, this means firstly that pre-primary education will *pro rata* retain its part of the budget. Should there be a decrease or an increase in the funding of education, pre-primary education's share of the budget will be adjusted accordingly.

Secondly, it means that it will not be possible to establish any new facilities for pre-primary education. Communities are free, however, to establish pre-primary classes at existing schools with their own funds.

I am thoroughly aware of research findings that indicate the importance of pre-primary education for the promotion of school readiness, particularly for learners from underprivileged environments. We are therefore looking anew at ways of utilizing the money that can be made available for pre-primary education at present, for the benefit of the greatest possible number of pre-school children. We regard it as our responsibility to use this facet of education to maximum advantage within the financial means of the Department.

*Mr A GERBER: Mr Speaker, the policy of the Government and the reply that the Minister gave here today on the position of the provision of pre-primary education, specifically in his Department, is to the detriment of the whole of South Africa, because a lack of pre-primary education provision inhibits the full utilization of our potential manpower and eventually stunts the economic growth and development of our country.

According to researchers pre-primary education is of the utmost importance to realize our children's full potential. Many researchers have come to the conclusion that achievements later in life are so often associated with high quality intellectual stimulation at an early age that they virtually regard it as a prerequisite. It is therefore extremely short-sighted of a government to try to save on pre-primary education. It is during this phase that the best investment in a country's manpower can be made. It is an investment that can eventually be extremely advantageous, financially and otherwise, to the individual but also to the country as a whole.

In the USA research findings reflect, for example, that 67% of the children who attended pre-primary school completed their high school careers, compared with 49% who did not receive pre-primary education. I think we can learn a lesson from Japan in this regard. In this country the learning process, also with regard to pre-primary education, is not limited to an elite group of the people, but is for everyone. That is the reason for the high standard and success that they achieve in their education, as reflected by their share of world markets and their achievements in the economic sphere. In Japan, as in most countries in the world, pre-primary education is not compulsory yet their attendance figure for three-year-olds is 40% and that for four- and five-year-olds 92%.

If the Japanese were asked for the recipe of their success in respect of productivity and their place in the world economy they would attribute it to the high standard of education. They would also

HOUSE OF ASSEMBLY

INTERPELLATIONS

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

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General Affairs:

Direct tax responsibility of taxpayers

*1. Dr W J BOTHA asked the Minister of Finance:

(1) Whether he is contemplating any steps to alleviate the direct tax responsibility of taxpayers; if not, why not; if so, what steps;

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

B650E.INT

*The MINISTER OF FINANCE: Mr Speaker, decisions on rates of taxation will be taken when the next National Budget is prepared, in other words, around about February 1993. These decisions will in the final instance be taken by the Cabinet. I hope to be able to offer my hon colleagues a few alternatives on that occasion and I expect that at least one of them will indeed be based on lower rates of taxation.

It probably goes without saying that the proposal I shall recommend to the Cabinet will be the one most likely to promote economic growth. It will not necessarily be the one with the lowest taxation rates. In this regard I refer the hon member and hon members to the recent unofficial document of the IMF entitled "Economic policies for a new South Africa". The so-called "medium-term baseline scenario" in that document predicts a real growth rate of 3,5% per annum resulting from an investment level of 24,8% of the GDP.

This level of 24,8% compares to our 18%-19% and of course additional savings are required to finance it. There are three possible sources for this—foreign capital, additional savings by the private sector or additional savings by Government. Government savings can only be achieved by a reduction in State expenditure or by an increase in State revenue, or both. To sum up it can therefore be said that the ability to reduce taxation rates in a scenario of 3,5% growth depends on more favourable developments in providing foreign capital, private sector saving and a reduction in State expenditure.

I can assure hon members that I have made all three these factors, and many other aspects, the subject of intensive study and that to the extent that it is possible to influence them positively, I shall do so. I do not propose to make a statement, but I welcome the opportunity given by this interpellation to address these matters.

*Dr W J BOTHA: Mr Speaker, since I came to this Parliament in 1989 we have consistently heard nothing but good intentions as far as the economy is concerned. When the Government promised a tax reduction in 1989—see *Key Issues* Question 4 and the reply—I said to myself that it was an election ploy.

Through numerous spokesmen the Government has also committed itself to reducing marginal rates for individuals and companies to 40%. The former Deputy Minister of Finance, the present hon the Minister for Administration and Tourism, said in September 1989, according to the *RSA Policy Review* of June 1991, that the Government promised—not undertook, but promised—to reduce company taxation from 50% to 40% within five years. [Interjections.]

Then the Government received the recommendations of the Margo Commission. One spokesman after another then jumped on the bandwagon and made promises in consequence of those recommendations. I quote what the former Minister of Finance said:

> Die Regering bly ooreenkomstig sy vyfjaarplan verbind tot die verlaging van die maksimum grenskoers van inkomstebelasting op individue.

He spoke of the large number of tax reforms in the 1991-92 budget, especially with a view to promoting the investment climate. He said reduced taxation would promote the investment climate. As regards company taxation, he said:

> Met die oog op die bevordering van 'n klimaat vir belegging en groei het die Regering hom reeds verbind tot die verlaging van die inkomstebelastingkoers op maatskappye.

cont.

He spoke of a final rate of 40%, and he also said that there must be a larger contribution to tax revenue from indirect taxation.

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The Minister for Economic Co-ordination and Public Enterprises said that tax must be reduced. The hon the State President said the following at the beginning of the year (Hansard, 1992, col 48):

> Our determination to keep State expenditure within rigorous limits is not a mere fad . . .
>
> We are still pursuing the systematic lowering of tax rates on companies and individuals . . .

I now want to tell hon members that promises were made to the voters of this country. The hon the Minister now says he will consider these possible tax reductions next year. I want him, as the new Minister, to take into consideration that definite promises were made on these matters. The electorate voted for the Government on the grounds of promises made in this regard. [Time expired.]

Mr B B GOODALL: Mr Speaker, I think the problem with the tax structure is that in recent years the burden has fallen increasingly on individuals. If one looks at 1982-83 one sees that individuals contributed 25% of the total revenue and in 1991-92 they contributed 38%. That is the one problem.

The second problem is that we should look at the impact on the actual person. A married person who was earning R60 000 in 1985 had an average tax rate of 19,8%. If his salary kept pace with inflation, he now has an income of R186 000, but he is paying 31.2% of his income in tax. This is demotivating, and it is a major problem.

However, it is not only demotivating. The other problem which was highlighted by the IMF is that the people who are paying the taxes are actually getting very little of the benefit from those taxes. That is what is demotivating.

However, it seems to me that before we can meaningfully address the question of tax reform, we have to look at two other issues. One is public expenditure and the other is economic growth. It seems to me that until one reduces public expenditure, it becomes difficult to actually reduce the tax rate. I accept that public expenditure can be both positive and negative, but if we look at the way in which money has been spent in South Africa, what we are seeing is that more and more of Government expenditure is going to meet current expenditure and less and less is going to meet capital expenditure.

Therefore the Government sector is tending to crowd out the private sector, and that has an impact on our growth rate. [Time expired.]

*The MINISTER: Mr Speaker, naturally I take note of the past as explained by the hon member for Rustenburg and I am sure my hon colleagues will also afford it the necessary relevance when I propose the alternatives. However, he is not arguing against the basic diagnosis that the most important thing we must strive for now is economic growth.

†I now turn to the hon member for Edenvale. Of course it is correct that there is a large burden on individuals. If one analyses taxation, in the end all taxation is borne by individuals. It gets there by different routes. The particular route which we have at the moment is one which has developed historically. These sorts of things cannot be changed overnight, but I will certainly give attention to the question of changing the burden and how it impacts on the average person.

The phenomenon of bracket creep is well understood, I think. As hon members will know, we tried to adjust and in fact did adjust that section of it which affects the most vulnerable, the lower-income earners, in the Budget this year. I cannot quite agree that the people paying are getting little benefit. I think that the way in which this country is being transformed is the ultimate benefit they are getting and that what they are paying for that actually represents quite a good bargain.

I am very pleased to have the question of public expenditure highlighted again by the hon member and put into the context of its bearing on economic growth. I am well aware of the connection and I will continue to monitor this situation and try to take the appropriate action.

*Mr J CHIOLÉ: Mr Speaker, I want to tell the hon the Minister that it it impossible to raise the level of investment in South Africa from 18% to 24,8% in the climate of violence which exists in South Africa and which is escalating as a result of the NP's policy of giving way, giving away and abdicating. The hon the Minister is living in a dream-world if he thinks he can manage to do that.

The real facts in South Africa of which the hon the Minister must take note are that as a result of the 1992 Budget alone, State revenue from direct taxation rose by R6 500 million.

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This means therefore that the taxpayer's personal contribution to the State rose by 54% in two years, at a time in which more than five million people in South Africa are unemployed and we are experiencing the longest recession this century. [Interjections.]

*Mr SPEAKER: Order! No, hon members need not be so helpful. The hon member may proceed.

*Mr J CHIOLÉ: With this money the Government is financing its scandals. They build thousands of toilets in the bush, but at the same time thousands and thousands of our people have to starve.

Only last year the Government boasted about how they had fulfilled at least one of their election promises when they reduced the marginal rate by 1%. What does this hon Minister from the English-speaking business world of this country say now? The *Sunday Times* of 10 May 1992 states:

> Asked about the NP's promise to cut top personal marginal tax rate by 5% during this term of office, he responded: "Yes well, that is somebody's trouble. I am not sure that it is my trouble."

What is the crux of the problem? The crux of the problem we find in the *Rapport* of 10 May 1992, in which it is reported:

> Vra jy hom of hy na vele jare van stille verset teen apartheid uiteindelik 'n Nasionalis is, glimlag hy dit weg met: "Sê ek is 'n De Klerk-volgeling."

The only involvement which this hon Minister has ever had in the political recruitment of the NP, was when he was recruited on the golf course by the hon the State President to be promoted, right over the heads of all his colleagues, to the most powerful financial position in South Africa. His appointment is a New World Order government appointment to demonstrate . . . [Time expired.]

*Dr W J BOTHA: Mr Speaker, the hon the Minister's remark that "we are not a high-tax country" as quoted in *The Sunday Star*'s financial supplement of two Sundays ago, caused quite a controversy in the press.

All of a sudden the media were worried that the State was not going to abide by the promises which it had made in connection with taxation. I want to say to the media: "Welcome to the club". When the State broke its promises in respect of open schools, there was not a word from them. Then they collaborated. When the State broke its promises in respect of own residential areas, the media was silent.

Now that the possibility exists that the Government is not going to abide by its promises in respect of taxation, they have woken up. Now they are also climbing on the bandwagon and challenging the Government on its broken promises.

I can tell the hon the Minister he is going to be closely watched. He has no room to manoeuvre to bring about tax reductions next year. The Government will first have to restore law and order and stability in this country so that the local investor can be the first to invest. Only once he invests and sets an example to the foreign investor, will we be able to speak of meaningful investment in South Africa.

*The MINISTER: Mr Speaker, I share the hon member for Pretoria West's aversion to violence. I think that is the only new point that he made in his speech.

As far as the hon member for Rustenburg is concerned, the fact that I said that it is not a high-tax country, is very easily proved on the grounds of the same report to which I referred. The rate in Australia is higher. The rate in Belgium is higher. The rate in Canada is higher. The rate in Denmark is higher. The rate in Finland is higher. The rate in Germany is higher. Ireland and Sweden's rates are higher. In the light of that evidence, how can this country be described as a high-tax country?

I shall go further. We are up against very much more than those countries. We must be thoroughly prepared for that. That includes financial preparation. I can give hon members the assurance that this country will not face its problems financially unprepared.

With reference to the last point made by the hon member, namely the fact that I am a follower of the hon the State President, I want to say that I

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am not at all ashamed of that. I am very proud of it.

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Debate concluded.

Black citizens: pensions/disability grants

2. Mrs C H CHARLEWOOD asked the Minister of Local Government and National Housing:

(1) Whether steps are being taken to ensure the complete and regular payout of pensions and disability grants to Black citizens of South Africa; if not, why not; if so, what steps;

(2) whether measures are being taken to inform recipients of such pensions and grants of alterations in procedures at any time; if not, why not; if so, how effective are these measures?

B660E.INT

The MINISTER OF LOCAL GOVERNMENT AND NATIONAL HOUSING: Mr Speaker, the payment of pensions and grants is administered by the Provincial Administration, and there have been problems in regard to the complete and regular payout of pensions and disability grants for Black citizens of South Africa.

Payments are made on a monthly basis at the various district offices and pay-points. Beneficiaries who prefer to do so, can have their monies paid into their banking accounts and can withdraw their grants from the 10th of the month, if it is on a working day; if not, the first working day thereafter.

Each branch office has a staff complement to handle the payments and administration for social grants in a specific area. However, only approximately 17% of the pensioners prefer to have their money paid into a bank account at this stage.

In order to encourage the payment of grants into banking accounts, negotiations are held with the various banking institutions on an ongoing basis. The Transvaal administration has offered to make a contra-investment to enable banks to open accounts for pensioners. The next meeting is arranged for 26 May this year.

Various factors, such as the high illiteracy rate, the increase in the number of people who qualify for allowances, the high rate of urbanisation and the massive concentration of people in informal settlements, as well as the identification problems, complicate the administration of social pensions and allowances payable to Black people. To overcome these barriers and to ensure the continuous and effective payment of pensions, attention is being given to the expansion and training of staff.

Information leaflets dealing with all matters in respect of social grants are being prepared in different languages. These leaflets will be made available at the pay points. A 24 hour toll-free number will also be established to enable people to air their grievances. Each grievance will be dealt with specifically and feedback will be given to the respective people.

Recipients are informed in writing of changes and alterations, such as reviews, cancellations, suspensions and requests for additional information or documents, six months in advance. Any messages are printed on the voucher which the pensioner or recipient receives with his money.

The officials operating the pay-point computers have instructions to inform the beneficiary verbally of these messages in the language preferred by the pensioner. In order to improve communication with beneficiaries, consideration is at present being given to furnishing notices in the language of the recipient. The contents of notices are verbally explained to the recipients. Written notices are mailed to recipients who receive their pensions through banking accounts.

Mrs C H CHARLEWOOD: Mr Speaker, having heard the hon the Minister, one can only say that the proof of the pudding will be in the eating. I find his solutions very simplistic, they sound very short term to me. We have had experience of these *ad hoc* solutions before.

South Africa has a long history of man's inhumanity to man. One would have hoped that the so-called dawn of February 1990 would have brought an end to the cavalier treatment of many of the people of this country, and yet the past few months have seen a tragedy enacted in which the victims have been old and disabled Black people, probably the most vulnerable members of our society.

Mr C L FISMER: What is your solution?

Mrs C H CHARLEWOOD: Wait. [Interjections.]

These people have struggled—painfully and slowly—to make their way to the pension payout points, many of them walking six kilometres or more, only to be told when they arrived that there was no pension or disability grant waiting for them.

Bewildered, hungry and afraid, they have tried to understand a system that has not been properly explained to them. In many cases these people cannot even read or write, let alone understand a payout slip that has the words "to be reviewed" printed on it. I do not know what the pamphlets are going to do for them.

Were these people properly informed in their own language on the radio? Were loud-hailers used to explain to them what the new system would entail? Was a symbol rather than lettering used on the slip to indicate that review was required?

I think not, because what has ensued is chaos, deprivation, illness and even death, with reports of old people collapsing regularly at the payout points, having walked all day and sat up all night to get into the next day's queue.

The Transvaal Provincial Administration, for one, has admitted that thousands of letters addressed to pensioners last August, were only sent out in March, leaving no time to respond. The pensions had already been stopped by the time those letters arrived. Thousands of old people returned home empty-handed.

Many of the people who have been receiving pensions and have been turned away were told that they were "too young" and that the new ID-book showed a wrong birthdate. This, too, is the result of administrative errors and inaccuracies dating back to the days of the old reference books.

Those people who had their pensions paid directly into a bank or building society account received no warning about review at all. They were simply informed by the financial institution that no money had come into their account.

People receiving disability grants are in the same plight. There has been a mass cancellation of these grants which they discovered only when they went to the payout point to collect their money and were told it was cancelled because they had not been for a medical review. These are people who hobbled there on crutches, many in pain, many even unable to see. I quote the example of a man without any legs at all—legs that will never grow again, irrespective of the medical review—who pulled himself to the payout point in a mealie sack to be told he had to come back with a new medical certificate. [Interjections.] [Time expired.]

*Mr H J COETZEE: Mr Speaker, with this interpellation the hon member for Umbilo once again set the cat among the pigeons. Typically of the DP, there were no questions about the pensions of Whites. They are not interested in the Whites. [Interjections.]

The hon the Minister must tell us how the State controls the payouts to these Black people. It is being alleged that some of these Black people who live in South Africa, also have citizenship of other countries and that they therefore receive pensions there as well as in South Africa. It is being alleged that some of them have citizenship of as many as three countries. How does the Government control and prevent this? We put the question to the hon the Minister.

How is the age of these people determined? Are they, like the Whites, also subject to the means test? [Interjections.] When these people pass away, how does the Government know that they are no longer there? It is being alleged that those pensions are still being paid out after their deaths. In an edition of *The Citizen* in October 1990 there appeared an article which amounted to the following: If Black people are not satisfied with the age which is given in their ID-books, they must bring persons who can testify that they are older than the age given in their ID-books. In this way such person can qualify for old-age pension.

I ask whether it is the State's policy to favour these people in this way—because surely hon members know how difficult it is for a White to get a pension—or was it just once again another demand of the ANC? As we know, the Government gives in to them all the time. I put it that there are thousands of people in South Africa in receipt of pensions who are not entitled to them. [Time expired.]

*The MINISTER OF LOCAL GOVERNMENT AND NATIONAL HOUSING: Mr Speaker, the hon member for Middelburg has no contribution to make and he demonstrated that in these two minutes. The hon member should

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Lost taxes recovered

Staff Reporter

THE Receiver of Revenue has recovered all state money after a revenue clerk defrauded the receiver of more than R100 000 in GST.

Mr Ernst Conradie, the Receiver of Revenue in Cape Town, said yesterday that Anthony Hartogh, 47, who was found guilty in the Cape Town Regional Court on Tuesday, was still under suspension for misconduct and steps would be taken to dismiss him "unless he resigned".

Mr Conradie said his office had traced all the buyers and had recovered R110 203 as well as R45 067 in fines from those people who had not paid their GST.

Exposé by Times ended tax frauds

(320) CT 21/5/92

Clerk sent to jail for 3 years

Staff Reporter

A CLERK sentenced to three years' imprisonment, coupled with correctional supervision, for defrauding the Receiver of Revenue would have cost the taxpayer even more were it not for a Cape Times exposé, a Cape Town Regional Court magistrate said yesterday.

Anthony Hartogh, 46, of Vega Crescent, Blue Downs, had pleaded guilty to 169 counts of fraud, amounting to R100 000, committed between November 1989 and December 1990.

Hartogh, who worked for the Receiver of Revenue, submitted lower sales figures of motor vehicles, allowing buyers to pay less GST.

His arrest followed a Cape Times investigation last year when a reporter pretended he had bought a vehicle and was paying tax on it. Hartogh offered to allow the reporter to pay less GST than was due.

In passing sentence yesterday the magistrate, Mr J D Huggett, said: "One wonders for how much longer you would have continued if the newspaper hadn't exposed you."

He said it could only be proved that Hartogh received about R5 000 in tips.

However, the crime was "corruption" and "the sentence must bite".

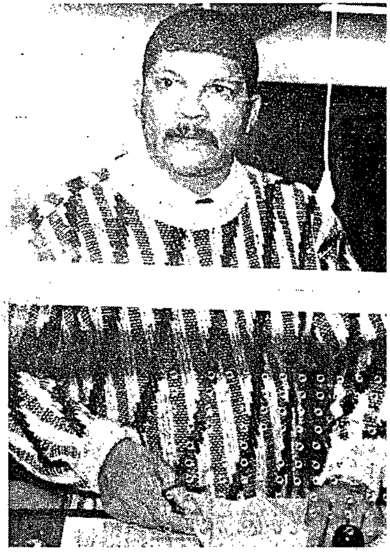
Mr Huggett also said that the state was not corrupt; it was individual's like Hartogh who gave the civil service a bad name.

Release

"He will be eligible for release when jail authorities consider that he does not need any further rehabilitation," counsel for the defence, Mr Jack Kudo, said after the trial.

"However, when he is discharged from jail, he will be placed under house arrest for the full period of the three years."

Mr D E M Fitschen prosecuted.



FLASHBACK ... Receiver of Revenue clerk M Anthony Hartogh photographed in July last yea after he accepted R300 GST payment on a car h had earlier been told cost R10 000.

'Don't bla

VAT shock in city rates

eT 21/5/92 (320)

Municipal Reporter

VAT on refuse removal and sewerage will add another 2% to the increase of 16,5% in Cape Town rates expected to be announced this morning.

Property rates are likely to be raised by 16,5% from July in today's city council budget — and a VAT increase on top of that.

In addition to the rise in rates, ratepayers will have an extra 2% added to their rates as a new government-imposed VAT charge for refuse removal and sewerage will come into effect.

As these two services make up about a fifth of the total rates bill, the 10% surcharge is going to be roughly equivalent to a 2% surcharge on the entire bill.

Thus although the rates are likely to go up by 16,5% — the same percentage increase as last year — the total amount that the ratepayer has to pay will probably be about 18,5% more than it was this year.

An effective increase of 18,5% in the rates bill will mean that someone paying R50 a month now will pay R59,25 from July.

crack of dawn

ments to end four days of bloody political unrest. the country. ● The European Com- anger — Page 7

Govt may hold back on tax cuts

cr 21/5/92

(320)

Political Staff

THE government would not automatically reduce individual and company tax by 5% in five years in line with the National Party promise in 1989, Minister of Finance Mr Derek Keys said yesterday.

Speaking during a mini-debate in Parliament, he said reduced tax rates would depend on foreign capital investment, private sector saving and reduced government spending.

Mr Keys said he would propose alternatives to the cabinet, one of which would be based on lower tax rates.

"It goes without saying the proposal I recommend will be the one most likely to promote economic growth. That proposal would necessarily recommend lower tax rates," he said.

Decisions on tax rates would only be made during the preparation of the next budget.

Referring to the IMF document "Economic Policies for a New South Africa", he said a forecast is made of a 3,5% annual growth rate in the medium-term resulting from investment amounting to 24,8% of GDP.

He said sources of extra saving, needed to reach the level of 24,8% compared with the present 18% to 19%, would be an inflow of foreign capital and more private sector and government saving.

Gold (Ldn close) $337,55

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ed at "a reduced load".

Govt eases line on objectors

BILLY PADDOCK

CAPE TOWN — Government introduced legislation yesterday extending the basis for refusing to do military service to include moral and ethical grounds.

Until now, provision for conscientious objection has been on the basis of strict religious universal pacifist conviction.

The new legislation provides for alternative community service.

The Defence Amendment Bill states that those refusing military service must appear before a board under the auspices of the Manpower Department. They will be given community service for three years at military pay scales. The present maximum is six years. B/Day 21/5/92

Those refusing to do the alternative service will be jailed for a period equivalent to one-and-a-half times the length of the original military service. Military service, including subsequent camps, currently totals two years.

The Bill also made provision for military conscripts to be seconded to the SA Police without option. Previously consent was necessary.

The classification of conscientious objector will apply to those "who are opposed to all forms of military service", the memorandum to the Bill states.

To avoid the problems of people not registering while at school, the amendment proposes that a new mechanism — referred to as the "call-up" — effect the process and render people liable for service. Provision is also made for increasing penalties for failure to respond to a call-up "in order to adjust to inflation", the memorandum states.

ECC spokesman David Bruce said yesterday said his organisation would reject the amendment. "Conscription still only affects whites — it is part of the apartheid structure. For the government to expect us to take these concessions seriously at this time is simply ludicrous."

He said if government was going to have conscription, the alternative of community service had to be a matter of free choice not a punitive measure.

Tax rate cuts not guaranteed, says Keys

BILLY PADDOCK 320

CAPE TOWN — Government would not automatically reduce individual and company taxes by five percentage points in five years in line with the NP promise in 1989, Finance Minister Derek Keys indicated yesterday. B/Day 21/5/92

Speaking during a minidebate in Parliament, he said the ability to reduce taxation rates would depend on foreign capital investment, private sector saving and a reduction in government spending.

Keys said he would propose some options to Cabinet and at least one of them would be based on lower taxation rates.

"It goes without saying that the proposal I recommend to Cabinet will be the one most likely to promote economic growth. That proposal will not necessarily be the one recommending lower taxation rates."

Decisions about taxation rates would be taken only during the preparation of the next national Budget in February and the final decision would be taken by Cabinet.

He referred to the unofficial IMF document titled "Economic policies for a new

☐ To Page 2

Tax cuts

B/Day 21/5/92

320

☐ From Page 1

SA" and said its medium-term baseline scenario forecast a real growth rate of 3,5% a year as a result of an investment level amounting to about 24,8% of GDP.

"This level of 24,8% compares with our present 18% to 19% and naturally requires additional savings to finance it," he said.

The three possible sources of additional funding were foreign capital flowing in, more private sector saving or more government saving. Keys said government saving could be achieved only by a reduction in state expenditure or an increase in state revenue, or both.

He assured Parliament that he had made these factors as well as a number of others the subject of intensive studies and would "act to influence them as positively as is possible".

All taxation was carried by individuals in the end, and he would give attention to reducing the burden. But it had to be noted that a number of countries, including Canada, Belgium, Australia, Germany and Sweden, had higher tax rates, Keys said.

B/Day 21/5/92

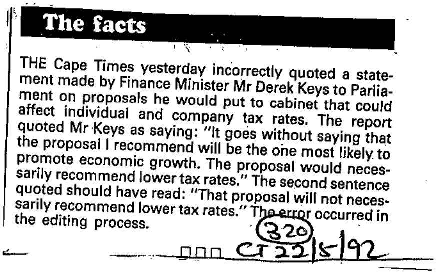
Tax clerk guilty

A TAX office clerk who defrauded the Receiver of Revenue of more than R100 000 has been sentenced to three years in jail by the Cape Town Regional Court.

(320)

Antony Hartogh, 47, of Blue Downs, pleaded guilty to 169 counts of fraud. He deflated selling prices of cars when buyers paid GST. For instance, a car sold for R10 000 was recorded as having been sold for R1 000, enabling the buyer to pay R130 in GST instead of R1 300.

The magistrate said Hartogh had reinforced the average man's idea that the State was corrupt.



The facts

THE Cape Times yesterday incorrectly quoted a statement made by Finance Minister Mr Derek Keys to Parliament on proposals he would put to cabinet that could affect individual and company tax rates. The report quoted Mr Keys as saying: "It goes without saying that the proposal I recommend will be the one most likely to promote economic growth. The proposal would necessarily recommend lower tax rates." The second sentence quoted should have read: "That proposal will not necessarily recommend lower tax rates." The error occurred in the editing process.

(320)

CT 22/5/92

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Keys dampens hopes of tax rate reduction

STAR 22/5/92 320

By Peter Fabricius
Political Correspondent

Income tax rates will not necessarily come down in the next Budget, Finance Minister Derek Keys has warned.

Mr Keys was responding in Parliament on Wednesday to Conservative Party demands for an undertaking that he would stick to the National Party's 1989 general election promise to bring down the maximum marginal rates of personal income tax from 45 to 40 percent and of company tax from 50 to 40 percent.

Mr Keys said the Cabinet would decide on new taxes only in about February.

"At that stage I hope to propose some alternatives to my colleagues and expect that at least one of them will be based on lower taxation rates.

"It goes without saying that the proposal I recommend to Cabinet will be the one most likely to promote economic growth.

"That proposal will not necessarily be the one recommending lower taxation rates."

Mr Keys said a recent International Monetary Fund document on South Africa had forecast a real growth rate of 3,5 percent a year.

This was based on an investment level of 24,8 percent of gross domestic product, compared with the present 18 to 19 percent.

Additional savings were therefore required to finance the 24,8 percent rate of investment.

There were three possible sources of additional funding: foreign capital, more private-sector saving or more Government saving.

"Government saving can only be achieved by a reduction in State expenditure or an increase in State revenue, or bo

"The ability to redu
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Official sources poi
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Tax clerk jailed for GST fraud

Sowetan 22/5/92 320

A CLERK who defrauded the Receiver of Revenue of more than R100 000 has been sentenced in the Cape Town Regional Court to three years' imprisonment and correctional supervision.

Antony Hartogh (47) of Blue Downs in Cape Town, pleaded guilty to 169 counts of fraud committed between November 1989 and July 1991.

Hartogh, who worked for the Receiver of Revenue, deflated selling prices of cars when buyers paid general sales tax, enabling them to pay less tax.

For example, a car sold for R10 000 was recorded as having been sold for R1 000, enabling the buyer to pay R130 GST instead of R1 300, prosecutor Mr DEM Fitshen said.- *Sowetan Correspondent.*

Tax scam claimed: Call for inquiry

(320)
ARG 23/5/92

JEAN LE MAY
Weekend Argus Reporter

INVESTIGATIONS into allegations of corruption and maladministration in the Department of Inland Revenue by a one-man interdepartmental commission was completed as long ago as March — but, the report has been kept under wraps.

The Minister of Finance, Mr Derek Keys, referred questions put to him this week by Weekend Argus about the probe to Mr Gerhard Croeser, Director-General of Finance. Mr Croeser said through a spokesman that a statement would be issued "within days".

The one-man investigation was appointed after Mr Justice Fagan in the Cape Town Supreme Court ordered that a proper investigation should be made as part of a settlement between Mr Gerhard Croeser in his capacity as Director-General of Finance and Mr Trevor Foster, former Inland Revenue investigating officer.

During the court hearing, Mr Foster made serious allegations of maladministration and corruption in the department.

Weekend Argus has established that the retired magistrate who did the investigating, Mr P J Botha, completed his report without taking further evidence from Mr Foster.

Mr Foster, who has since retired from the department, declined to give evidence during the investigation because, he told Weekend Argus, he did not believe the appropriate action had been taken by the authorities.

The Democratic Party has demanded a full-scale, public, judicial inquiry into the allegations.

Mr Robin Carlisle, MP for Wynberg, said in Parliament that although the DP did not doubt Mr Botha's credentials, "appointing a career civil servant to investigate other civil servants" did not meet the court's requirements in respect of the independence of the investigators.

"All the people who have supplied me with further evidence about alleged corruption in the tax department absolutely refuse to give evidence in an inter-departmental inquiry in which they do not have the protection afforded by a judicial inquiry," Mr Carlisle told Weekend Argus this week.

He said he intended taking the matter up with the Minister.

Mr Foster, formerly a deputy director and also deputy head of the special investigations team of the department, brought two court actions against the department on the grounds that his promotion had been blocked.

Yet, between 1984 and 1989, he had been so highly regarded by the department that he was given two special promotions.

In the first court action last June, Mr Justice F D J Brand and Miss Justice Leonora van den Heever overruled the department's decision that he was "unpromotable".

The court heard that during an argument between Mr Foster and his immediate superior, Mr Ulrich Horstmann, Mr Foster made allegations of serious corruption in the department.

The second court hearing in December was brought by Mr Foster on the grounds that he had been blocked again for promotion because it was said he had "poor personal relations" and was, once again, not promotable.

Central to the issue was that he had, over a long period, drawn the attention of his superiors to evidence of corruption and maladministration.

In court papers, Mr Foster alleged a senior member of the Cape Town tax office delayed replies to wealthy taxpayers for up to two years, thereby delaying their tax payments.

He made other serious allegations in other affidavits given to Mr Croeser in August last year. These were not handed to the court because of their sensitivity.

In the subsequent settlement, Mr Croeser undertook to pay Mr Foster R164 000 in legal costs and to have Mr Foster's allegations "properly investigated by an independent committee or commission".

Mr Foster agreed to resign from the department on December 31 and to "refrain from further investigations or action".

Mr Carlisle was later given additional information by other former tax officials. Among them were allegations that:

- A large oil company had multi-million rand capital expenditure "treated as maintenance and written off within a year";
- Many multinational companies and businessmen were seen as "untouchable", and requests from Mr Foster that they should be investigated were "seldom, if ever, granted";

Tax office probe done — results not known

S/Times
(Cape Metro) 24/5/92
(320)

By DIANA STREAK

AN investigation into corruption and mismanagement in the Department of Inland Revenue was completed in March but its findings have not yet been made known.

Mr P J Botha of the Department of Justice was appointed to investigate the allegations in terms of a Supreme Court settlement in which a former department employee, Mr Trevor Foster, received R164 000.

Mr Botha said on Friday he had completed his investigation in March and had handed the report to the Department of Finance.

The Director General of Finance, Mr Gehard Croeser, confirmed he had received the report and said "a statement would be issued within days".

Sources have indicated that a possible reason for the delay is that officials implicated in the allegations are due to retire this year.

Mr Foster, a deputy director and also head of the special investigation team of the Department of Inland Revenue, claimed he had twice been blocked for promotion after he had exposed corruption within the revenue service.

MORE MONEY IN YOUR POCKET

Housing, holidays on your employer

STimes (Buss] 24/5/92

320

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

MANY employers provide residential accommodation for employees.

Part 5.7 of your income tax deals with this. If you are provided with accommodation that your employer owns or leases and that you or your immediate family do not hold an interest in, you will be taxed on the fringe benefit.

It is normally calculated on 15% of your previous year's remuneration. The previous year's remuneration may be reduced by an abatement (R20 000) in certain circumstances.

Hiring

If you are provided with holiday accommodation that is owned by your employer, the amount on which you will be taxed is the lower of R35 a day or the market-related rent, less any payment made by you.

Meals and services included by the employer will not constitute an additional benefit and the provision of such a fringe benefit may, therefore, be beneficial.

Where the holiday accommodation is not owned by the employer, the cost to the employer of hiring the accommodation and services and providing meals then constitutes the fringe benefit.

* * *

PART 5.8 covers other fringe benefits.

Where you acquire an asset from your employer at less than actual value, you will be taxed on the difference between the value of the asset or cost where it consists of trading stock or was acquired by the employer for that purpose and the consideration paid by yourself.

The provision of certain services by your employer, for example a travel service to or from home provided to all employees, will not be taxed.

Your employer may also pay for casual services not exceeding R500 a year — your legal or accounting fees, haircuts, local travel, etc without attracting a fringe benefit liability.

The direct payment of your home telephone cost by your employer will not be taxed in the 1991-92 tax year, provided that your telephone is used for business. This benefit will be subject to tax from the 1992-93 tax year.

The payment by your employer of any subscription to a professional organisation where such membership is a condition of employment will not be taxed.

Generally bursaries and scholarships will also not be taxed for the 1991-92 tax year. This exemption was withdrawn from March 1, 1992.

When you are transferred to another centre, begin or end employment, your employer may pay for your relocation costs without its being subject to tax.

Such costs may include, inter alia, temporary accommodation in the new centre (up to 183 days) and other costs incurred in settling you and your family in permanent residential accommodation at your new place of residence. Examples are estate agent's commission on the sale of your previous residence, new school and motor vehicle registration fees.

You may use a study at home exclusively for business. If it is a condition of your employment to do so, you may receive an allowance to cover the associated costs.

Although this will be subject to employee's tax, a deduction may be claimed under part 3.10 of your return.

Computed

This deduction will be computed on the area of your residence exclusively used for business, divided by the total area of your residence, multiplied by your associated running costs — viz rent-bond interest, insurance, cleaning, etc.

All of this information should be submitted on a schedule with your return to Inland Revenue.

- *Copies of Pay Less Tax can be obtained at a cost of R29 (including VAT and postage) by writing to Mlambo, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3, Benmore 2010.*

Revenue officials cleared by inquiry

BlDay 27/5/92

320

BILLY PADDOCK

CAPE TOWN — A judicial committee of inquiry has cleared four Cape Town Inland Revenue officials of alleged corruption, but found practices in the department that lent themselves to abuse, Finance director-general Gerhard Croeser said yesterday.

In a statement he said the committee had found that:

☐ There was no evidence of corruption against any of the four officials;

☐ Certain procedural and other practices existed that lent themselves to possible abuse and which should be rectified departmentally;

☐ It could not, given the magnitude of the work performed by the Receiver in Cape Town, pass any judgment on maladministration on the basis of only a few deficiencies; and

☐ The department investigated the allegations timeously and thoroughly.

Croeser said that it should be noted that the committee had at its disposal all the relevant documentation and also took oral evidence.

"The former officer who made the allegations, Mr T N Foster, was invited verbally and in writing to provide further evidence, but chose neither to appear before the committee nor to submit further documentation," he said.

Any allegations of maladministration or corruption, Croeser said, were promptly investigated as a matter of course and in accordance with proven procedures.

Taxpayers, therefore, could rest secure in the knowledge that their tax affairs were treated with the utmost responsibility and that prompt and severe action was taken when irregularities surfaced.

Our political staff reports that Croeser's statement was issued after the conviction last week of Cape Town tax official Anthony Hartogh on 169 counts of fraud amounting to R100 000.

This fraud was perpetrated by submitting lower sales figures of motor vehicles, allowing buyers to pay less GST.

Hartogh was subsequently sentenced to three years imprisonment, with correctional supervision.

Croeser said that after allegations of maladministration and corruption in the Cape Town offices of the Inland Revenue branch of the Department of Finance, a senior jurist, Regional Court president P J Botha was appointed by the Justice director-general to serve as a one-man committee. The committee was to determine whether there was substance in the allegations, and if there was, who were the people involved and what was the extent of the alleged maladministration and corruption.

The committee was to determine, also, whether in its opinion the department's investigation was timeous and thorough.

The summary of its conclusions was quoted in full in the statement and "the committee could find no prima facie evidence of corruption against any of the four officials against whom allegations had been made".

Croeser said: "Unsubstantiated allegations or suspicion-sowing involving the administration of tax collection are in no one's interests, as is shown by these recent events and the findings of the committee.

"Such things place a needless question mark over the high integrity consistently maintained by the broad corps of Revenue personnel."

Corruption: Tax officials cleared

(320) CAPE-TIMES 27/5/92

By BARRY STREEK

THE Botha committee of inquiry into the Cape Town tax office found no prima facie evidence of alleged corruption by four officials, the director-general of finance, Mr Gerhard Croeser, said yesterday.

The committee, however, found that "certain procedural and other practices exist that lend themselves to possible abuse and which should be rectified departmentally".

Mr Croeser said in a statement the committee "could not, given the total magnitude of the work performed in the office of the Receiver in Cape Town vis-a-vis that which was investigated by the committee, pass any judgment on maladministration on the basis of only a few deficiencies/actions".

It was also "of the opinion that the department investigated the allegations timeously and on the whole thoroughly".

His statement followed the conviction last week of Cape Town tax official Mr Anthony Hartogh on 169 counts of fraud amounting to R100 000 by submitting lower sales figures of motor vehicles, allowing buyers to pay less GST. Hartogh was sentenced to three years' imprisonment with correctional supervision.

Mr Croeser said following allegations of maladministration and corruption in the Cape Town tax offices a senior jurist, Mr P J Botha, president of the Regional Court, was appointed to serve as a one-man committee to determine whether there was substance to the allegations and, if this was the case, who were the persons involved and what was the extent of the alleged maladministration and corruption.

‘Taxpayers paid to placate officials’

Political Staff 320

STAR 28/5/92

CAPE TOWN — Taxpayers paid out at least R160 000 to silence five of the officials implicated in the corruption in the Department of Development Aid because the officials challenged their suspension in court.

This information was revealed in Parliament yesterday by Jacob de Villiers, Minister of Regional and Land Affairs, in another interpellation on the report of widescale corruption in the disbanded department unearthed by the Pickard Commission.

Recent reports have pointed out the problems that police probing the corruption in the department have had in finding concrete evidence of the alleged crimes.

But while taxpayers are baying for the blood of the cheating officials, Mr de Villiers described how they had to pay the officials to placate them.

The minister also said that from 1984 to the end of March this year when the department was abolished, 183 cases of staff misconduct and inefficiency had been investigated under the Civil Service Act.

Mr de Villiers told Parliament that of the 12 people implicated in the Pickard Report, eight were still in the employ of the State, two of whom were still suspended. These two “are presently conducting civil cases in the Supreme Court against the State for reinstatement”.

Another 12 officials had been suspended by the then minister, Dr Gerrit Viljoen, in 1988 and 1989. Criminal cases against some had been dropped, some appeared before departmental tribunals and some were still suspended pending further police investigations.

Five of this group “instituted legal action against the State because they alleged they were illegally debarred from resuming their duties in their former fields of employment”.

“On the advice of the State Attorney, an amount of nearly R160 000 has been paid out to these five officials on their claim for damages totalling R2,7 million.”

The suggestion that a minister should be held responsible or accountable for each and every malpractice of civil servants within his department was unrealistic and unacceptable, Mr de Villiers added.

“After maladministration is exposed, the test for ministerial responsibility lies in the handling and effective corrective steps taken.”

Married women's tax burden eased

STAR 30/5/92

(320)

COUPLES married in community of property will benefit from the Receiver's latest amendments to the Income Tax Act, some of which may apply to last year's tax bill. LEIGH HASSAL reports.

THE taxman has written the final page of the saga of separate taxation of married women. The Receiver recently announced that he would amend the Income Tax Act to enable investment income (largely interest income and fixed property rentals) accrued to a couple married in community of property to be taxed in the hands of husband and wife in equal portions.

This amendment applies to February 1992 returns.

It allows interest and rental income of the couple married in community of property to be taxed at a much lower overall rate and a double allowance of the R2 000 annual interest exemption to be claimed.

Prior to this announcement, all interest income and fixed property rentals were taxed in the hands of the husband even though half of it legally belonged to his wife.

Under the community of property marriage contract, the couples' assets are jointly owned, as is resulting income unless specifically excluded.

However, the assets of those married under ante-nuptial contract or the accrual system are owned by individual partners, so resulting income belongs to the individual.

With the introduction of separate taxation for married women, the taxation of jointly owned interest and rental income in the hands of the husband alone was clearly inequitable.

The inclusion of total income in the husband's return would have pushed him into a higher tax bracket, costing him a higher tax charge.

Ernst & Young tax consultant Andi Neugarten says: "The fact that investment income is now taxed separately will in most cases result in a more favourable tax situation for the couple married in community of property."

The proposed amendment will be most beneficial in the situation where the wife has no other income of her own. Her half of interest income will be boosted by the R2 000 interest exemption, taxed at a lower rate than her husband's (assuming he has other income), and the tax charge will be further reduced by rebates.

Maximum rate the last hurdle to be addressed

A husband earning a salary of R80 000 with interest income of R14 000 would pay R28 160 in tax after deducting the primary rebate. With this amendment, the couple would pay a combined tax bill of R25 150 — a saving of R3 010.

Half of all deductible expenses relating to the interest and rental income should be included in the wife's tax return.

The exception to the shared investment income rule is where income is legally excluded from community, for example an inheritance from a will trust, in which case the income will be taxed in the hands of the partner to whom it accrues. Trade income should be included in the tax return of the spouse who earns it.

Similarly, lump-sum payments from a pension fund, retirement annuity fund, provident fund or purchased annuity accrue to the spouse who is the fund member.

Monthly contributions to these funds may be deducted only by the contributing spouse.

The Receiver will allow a reassessment on the 1991 return where the total amount of fixed property rental income (not interest income) was included in the husband's return. However, this reassessment will only be done if requested in writing.

Neugarten suggests: "It may well be beneficial for the taxpayer to reopen his 1991 assessment to allow each spouse to be taxed separately on the rental income at probably a lower rate and thus reduce the overall tax charge.

"However, the taxpayer should recalculate his 1991 liability before making written representaion to the Receiver."

The taxman has made great strides in emancipating married women as separate taxpayers. The final issue to address is the penalisation of married women through a maximum tax rate at R40 000 when their counterparts, married persons, reach maximum tax rate at R80 000.

Get ready for a tax shock

(320)

ARG 30/5/92

JOHN SPIRA
Business Staff

FEARS are surfacing that tax rates will be increased.

That's the crux of the heated debate that has surfaced in the wake of Finance Minister Derek Keys's belief that South Africans aren't overtaxed.

Several economists have reached the conclusion that government's interest in supply-side economics may well have disappeared with the resignation of Barend du Plessis as Minister of Finance.

And, disappearing with it is the programme to lower personal and company tax rates to 40 percent over five years.

Keys's views on the tax issue are, to say the least, controversial, reviving the suspicion that the government, whose spending has run out of control for more than a decade, may now have lost even the will to curb its outlays.

This implies higher tax rates.

But can the tax burden on individuals be further increased, bearing in mind the resultant massive disincentive impact?

Individuals now contribute more than 40 percent of total tax revenues.

Certain black political groups advocate higher company tax rates, arguing that this would achieve wealth redistribution.

The same disincentive bogey would apply. Nevertheless, this lobby will surely be taking heart from Keys's comments.

The burden of company tax has changed over the years. Back in 1980, the gold mines contributed 10percent of total government revenue, whereas in 1991 it amounted to 1,1 percent.

It's been a sharp fall, mainly reflecting the progressive decline in the gold price and the consequent squeeze on gold-mining profits.

Non-mining companies' tax contribution to the Exchequer has remained static around 18percent over the past decade.

Last year meat-producing giant Kanhym paid no tax on an operating income of R33 million, while in the forestry sector Sappi enjoys a relatively low tax rate.

The corporate tax system is accordingly biased in favour of sectors where relatively inefficient firms may be subsidised.

From all of which stems the argument that:

- The tax base should be broadened by eliminating arbitrary tax privileges.
- The corporate tax system should stimulate investment on a sector-neutral basis.
- The non-neutrality of the corporate tax system has distorted the flow of investment resources and reduced the productivity of capital.

The current high nominal rate of corporate tax has been necessitated to some extent by the erosion of the tax base caused by special allowances.

High company tax rates stimulate tax-avoidance practices and special pleading by certain sectors for exemptions and allowances.

The granting of such privileges, in turn, erodes the tax base and renders it more crucial to impose high nominal rates to sustain the revenue yield to the Treasury.

The answer, surely, is that any removal of existing special tax incentives favouring certain sectors (which, in effect, would raise tax revenues from the corporate sector) should be accompanied by a reduction in the nominal rate of corporate tax.

For a start, such a reduction could expand the tax base by stimulating investment and economic activity.

Yet the most compelling argument in favour of a reduction in the corporate tax rate concerns the potential impact of such a move on foreign investment in SA.

The local corporate tax of 48percent is high in comparison with countries such as Britain (33,3percent) and New Zealand (28percent).

MORE MONEY IN YOUR POCKET

Deductions which lighten the burden

320

S/Times [BUSS] 31/5/92

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

THIS article deals with various deductions relating to employees and the self-employed.

You are entitled to deduct donations made to recognised educational institutions or registered educational funds. Your deduction will be limited to the greater of R500 or 2% of your taxable income.

Part 10.5 canvasses information about other donations. You are entitled to give away R20 000 a year before becoming liable for donations tax at a flat rate of 15% on those exceeding R20 000 a year. Donations between spouses are exempt from tax.

Your pension fund contributions (part 3.4) may be deducted up to the greater of R1 750 or 7,5% of remuneration from retirement funding employment. If you contribute a lower percentage than this, you may increase it and hence your deduction — provided your employer agrees and the pension fund provides for it.

Arrear pension fund contributions (part 3.5) are deductible up to R1 800 a year (married woman R900). Any amount exceeding this will be carried forward to your next tax year. Arrear contributions increase your pension benefits.

Provident fund contributions are only deductible when made by the employer (ie, the employee is effectively a non-contributory member). Provident fund contributions are therefore not tax beneficial to the self-employed person who does not trade through a company or close corporation.

The main advantage of a provident fund is that the entire proceeds are available on retirement, instead of a third lump sum with the balance as an annuity from a pension fund.

Retirement annuity fund contributions (part 3.6) are deductible by the taxpayer subject to the greater of:

- R1 750 (married woman R875); or
- R3 500 (married woman R1 750) less any deductions claimed in respect of pension fund contributions; or
- 15% of taxable income, excluding any taxable income from employment which is taken into account in determining its pension fund contributions.

It seems incongruous that married women are discriminated against in this regard now that they are treated as separate taxpayers.

"Other expenditure" (part 3.10) covers various types of deductions not proved for elsewhere in the return. Contributions to income continuation policies are deductible here.

Such individuals should attach a schedule detailing the expenditure that they have claimed and reflect the total under this section. This expenditure may include wear and tear on assets used in the taxpayer's trade, home office spending, stationery, gifts to customers, telephone and so on.

You will also claim a deduction for expenditure relating to a room in your house which you use exclusively for business (part 3.10 of the return). This deduction will be computed on the area of your residence exclusively used for business divided by the total area of your residence, multiplied by your association running costs — rent, bond interest, insurance, cleaning etc.

All this information should be submitted on a schedule with your return.

If it is a condition of your employment that you work at home, you may receive an allowance to cover associated costs. Although this will be subject to employee's tax, a deduction may be claimed under part 3.10 of your return.

Part II of the return requests a detailed analysis of rental income and associated expenditure. Such expenditure may include bond interest, insurance, rates and taxes, repairs (but not improvements), wear and tear on furniture.

The period that the property was let must be given and reasons supporting why it may not have been let for the entire year. If net rental loss occurs, you are asked to give reasons why the property was bought and why a loss was incurred.

In the year in which you acquired the property, you would have completed part 10.1 of the return reflecting the details and reasons for acquisition. If your intention for the use of the property has changed — for example, from residence to rent producing — it should be clearly indicated to support the deductibility of the loss.

A loss on rent-producing property that was acquired for retirement may be disallowed as capital expenditure.

If you rent out your holiday home, you will not generally be allowed to deduct any expenditure relating to the property. As a rule, holiday home rental losses are disallowed on the basis that you are renting out the property to recover holiday costs.

If you can illustrate to Inland Revenue that your primary intention is to obtain rental income and it is a well-planned investment, you may well succeed in claiming a deduction.

Copies of Pay Less Tax can be obtained at a cost of R29,00 (including VAT and postage) from L Mlambo, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3, Benmore, 2010.

Job revenue stamp row

JOHANNESBURG. — The sudden re-inforcement of a long-standing requirement that contracts of employment must bear a R2 revenue stamp could have serious financial and administrative implications for SA, according to the Johannesburg Chamber of Commerce and Industry.

(320) CT 3/6/92

In a statement released yesterday, the JCCI said the requirement in terms of the Stamp Duties Act of 1968 had not been enforced for over two decades, but the Receiver of Revenue was now suddenly enforcing the requirement.

The Receiver of Revenue was not immediately available for comment. — Sapa

Revived stamp duty could hurt business

320

THE sudden revival of a long-standing requirement that employment contracts must bear a R2 revenue stamp could have serious implications for business, says the Johannesburg Chamber of Commerce and Industry (JCCI). B/Day 3/6/92

The requirement in terms of the Stamp Duties Act of 1968 had not been enforced for decades, but the Receiver of Revenue was now reviving it.

JCCI CE Marius de Jager said it had been widely assumed employment contracts did not require revenue stamps and appealed for an exemption on existing contracts.

Unstamped contracts could incur a penalty of twice the duty if less than six months old, and three times if older. The commissioner could also impose a R4 000 penalty. — Sapa.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

SAP: civilian personnel

35. Mr M RAJAB asked the Minister of Law and Order:

(1) Whether, with reference to his reply to Question No 1 on 1 April 1992, any policy decision has as yet been taken regarding the salary and rank structures of civilian personnel in the employ of the South African Police; if not, why not; if so, what are the relevant details;

(2) whether such personnel are given any work incentives; if so, what are these incentives; if not, why not;

(3) whether any consideration has been given to making special provision for civilian personnel who have been at the top of their salary scales or ranks for a number of years; if not why not; if so, what provision has been made or is envisaged in this regard?

D180E

The MINISTER OF LAW AND ORDER:

(1) The salary and rank structure of civilian personnel in the South African Police are determined by the Commission for Administration (CFA), and the South African Police is not empowered to bring about any adjustments or amendments.

(2) Civilian personnel are considered for merit awards on an annual basis which serves as work motivation. This motivational scheme is also prescribed by the Commission for Administration (CFA).

(3) Civilian personnel who have already been on the maximum notch of their salary scale for a number of years, have normally reached the highest rank or post within the particular occupational class and do not qualify for a salary increase, except for a salary increase which will apply to all members in the occupational class.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Revenue from GST and VAT

260. Mr L F STOFBERG asked the Minister of Finance:†

320

What has been the revenue from (a) general sales tax (GST) and (b) value-added tax (VAT) in each of the first five months since the introduction of VAT?

B624E

The MINISTER OF FINANCE:

(a) *General Sales Tax*

November	−R50 995 449
December	−R13 982 607
January	R48 846 000
February	R10 446 531
March*	−R16 768 115

The negative amounts reflected above arose as a result of refunds made in terms of section 6(1)(x) of the Sales Tax Act, No 103 of 1978.

(b) *Value Added Tax*

November	R1 219 590 583
December	R1 963 934 662
January	R1 983 964 793
February	R1 126 947 045
March*	R1 505 389 017

(*) Provisional figure.

Amounts paid out in terms of General Export Incentive Scheme

279. Mr G C ENGEL asked the Minister of Trade and Industry:

(a) What amounts were paid out by the Government in terms of the General Export Incentive Scheme for the financial years ended 31 March 1991 and 31 March 1992, respectively, (b) (i) to whom or to which companies and (ii) under which categories of the scheme were the above amounts paid, (c) what amount is outstanding in respect of each of the above two financial years in the form of promissory notes or similar instruments and (d) what is the budgeted payment total for the current financial year?

B687E

The MINISTER OF TRADE AND INDUSTRY:

(a) Amounts paid out by the Government for the financial years ending 31 March 1991 and 31 March 1992, respectively, under the General Export Incentive Scheme were as follows:

1. Amount paid until 31 March 1991 = R46 997 812

2. Amount paid until 31 March 1992 = R457 197 401

(b) (i) The amounts were paid out to just over 2 000 exporters under the following categories (item (b)(ii)). (It is not customary to reveal the names of recipients of export incentives. Should the hon member require further information in this regard, particulars could be provided on a confidential basis):

	1991 R	1992 R
Category 2	6 786 484	66 019 304
Category 3	22 540 150	219 271 874
Category 4	17 671 178	171 906 223
	46 997 812	457 197 401

(c) Amounts outstanding in respect of the two above-mentioned financial years in the form of promissory notes are:

1. *31 March 1991*

Promissory notes issued in January and February 1991 for presentation on 1 April 1991 were still outstanding on 31 March 1991. All the promissory notes were however presented and paid out during the 91/92 financial year:

	R
Promisory notes:	90 657 195
Interest (warrant vouchers)	2 384 760

Capital gains tax no shortcut to equity and simplicity

BDay 4/6/92

ERNEST LAI KING

320

IN THE coming months, as political groups jockey for power, the debate over the optimal fiscal policy for SA will undoubtedly escalate. Economic feasibility may at times be sacrificed for the sake of political expediency — it would be naive to expect otherwise.

Up to the second half of 1991 it appeared capital gains tax (CGT) was almost a certainty but, like the tide, the popularity of this tax has ebbed in the corridors of government buildings. It would, however, be opportune to revisit the findings and recommendations of the Margo commission on this matter and to analyse its overseas experience.

The Margo commission rejected the introduction of a CGT on the basis that the net revenue intake would be small while the legislative requirements to introduce such a tax would be very complex.

The Carter commission of Canada, in its 1966 report, favoured the introduction of a CGT for, among others, the following reasons:

☐ Equity in the taxation of revenue gains and capital gains, as "a dollar gained through the sale of a share, bond or piece of real property bestows the same economic power as a dollar gained through employment or operating a business";

☐ To simplify the tax system; and

☐ To reduce uncertainty as to whether a gain would be taxed as revenue or not taxed due to it being of a capital nature.

In an introduction to the 1965 UK budget, James Callaghan said "the failure to tax capital gains is widely regarded . . . as the greatest blot on our existing system of direct taxation". He went on to say that the non-taxation of capital gains was unfair and was exploited by tax avoidance schemes.

The Irish tax commission stated in 1982 that the major reason for charging CGT was to prevent the avoidance of tax by switching income gains into a form regarded as capital gains. Insofar as CGT prevents this switching, it will serve to protect the tax yield notwithstanding the fact that a CGT itself provides a low net yield.

The major objectives of a CGT would therefore appear to be equity, simplification of the tax system, and the prevention of tax avoidance. However, while these objectives are admirable they are, like all holy grails, extremely elusive — ask the Margo commission.

Providing a more equitable tax treatment of capital gains and revenue gains requires the consideration of, among others, the following four factors:

☐ Will the capital gain be taxed on a cash or accrual basis. For example, should a listed share investment attract CGT only when it is sold or will CGT be levied on the owner simply when the share increases in value?

☐ When a taxpayer sells his house of principal residence only to purchase another, will he be subject to CGT or will some type of relief be granted on the basis that a man's house is his most substantial capital asset and to tax any profit on its disposal would further prejudice the purchase of a new home which would, in any case, be at a new inflated price?

☐ What exceptions should be made to CGT in the interests of equity? Would charitable institutions, businesses which relocate, individuals who dispose of capital assets during their retirement or have attained the age of 60 or more, farmers who transfer farming property to their children, capital assets disposed of as a result of death, disposals of capital property due to insolvency or financial hardship, receive special treatment? and

☐ How would the inflationary portion of a capital gain be treated? Would the total capital gain be taxed or will inflation be taken into account so as to tax only the "real" gain? To ignore the inflationary gain would in effect cause an erosion of the taxpayer's capital base — obviously an undesirable result — by subjecting to tax, fictitious gains.

Countries which have a CGT have attempted to address the problem of inflation by a special CGT rate, lower than the rate which would be applicable should the gain have been included in other revenue income; subjecting the capital gain to a decreasing rate which decreases the longer the period the asset is held; spreading the gain over the period the asset was held; subjecting to CGT only the "real" gain by using a system of indexation to quantify and exempt the inflationary gain; or adjusting for inflation through some other ad hoc estimation.

Unfortunately, all these methods to account for inflation involve a certain amount of guesswork and subjectivity which leaves them open to criticism. The critics would argue that the tax system cannot with any certainty completely recognise the effect of inflation, and that income is income and should be subject to tax irrespective of its nature. The UK, up until the '80s, adopted the latter argument, but in the face of fierce opposition from the taxpayer adopted a system of indexation.

Legislation to take the above four factors into account would not in any way simplify a tax system, and this analysis takes into account only four of the possible complications when considering equity in a CGT.

Legislation would also have to take into account measures to cater for non-residents, existing double tax agreements and methods of enforcement. Overseas experience has shown that a CGT does not simplify a tax system but just the opposite, and furthermore increases the administration burden of both the taxpayer and the tax collector.

But would not a CGT allow greater certainty and protect the country's tax base from the ingenuity of tax avoidance schemes? Certainty *would* be improved to the extent that all gains would now be subject to tax, but uncertainty would simply be moved on to another level. The CGT rate will be lower than the normal rate applicable to revenue income, and uncertainty will still exist as to what rate of tax will apply to the gain, since the question of what is capital and what is revenue will not magically disappear.

Regarding the anti-avoidance objective, whether a gain is of a capital or revenue nature is a question to be tested in our courts. A taxpayer cannot simply "switch" a revenue gain to a capital gain to escape their share of the tax burden and the attentions of our revenue assessors. The number of cases heard before the income tax special courts and the higher courts arguing the difference can attest to that.

There is no doubt that subjecting real capital gains to taxation is equitable. A rand from a revenue gain is no different from a rand earned from a real capital gain. The economic feasibility is, however, questionable — from a cost versus benefit point of view — after taking into account the large additional administration costs and the additional complications to our tax system.

The real advantage of introducing a CGT is not the additional revenue it will raise, which could be used by the fiscus to alleviate the tax burden of the underprivileged, but is to be found in the political arena. Economic feasibility may have to bow to political expediency, and perhaps a CGT may be less disruptive than other wealth taxes. But do not regard it as a panacea to cure all ills.

The cost of a CGT versus the benefit that will be gained must be seriously examined.

☐ Lai King is Sentrachem's group tax consultant and SA Fiscal Think Tank vice-chairman. This is an edited version of a lengthier article.

Tax evasion blitz has begun

B/Day 4/6/92

GERALD REILLY

THE Department of Inland Revenue, with a corps of highly trained inspectors, has stepped up its blitz on tax evaders. (320)

Inland Revenue deputy director Aiden Keanly said yesterday that it was possible to take a closer look at likely tax avoidance. This had been neglected in previous years because of a dearth of trained staff.

He was responding to a complaint by the Johannesurg Chamber of Commerce and Industry (JCCI) that for the first time in 24 years the Receiver of Revenue was enforcing a R2 stamp duty on employment contracts "with serious financial and administrative consequences for business".

JCCI executive director Marius de Jager said few companies had been using revenue stamps on work contracts.

Documents not stamped could be subject to a validating penalty of twice the unpaid duty and three times the duty if older than six months.

It was strange that after 24 years of non-enforcement the department should suddenly and without warning start levying penalties. There were hundreds of thousands of contracts, probably unstamped, in the business sector.

Keanly said the capabilities of the Inland Revenue inspectorate had been increased steadily since 1989. It was now now in a stronger position to detect and track down evasions.

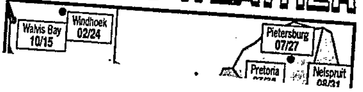
Asked whether in the case of employment contracts the tax would be imposed retrospectively and with penalties, Keanly said: "Certainly — there has been a statutory duty since 1968 on employmers to pay R2 stamp duty on work contracts."

The inspectorate was also looking closely at hire purchase agreements, which were also subject to stamp duty.

Doctors too had recently started entering into contracts with patients because of a court decision that would otherwise not allow them to charge interest on overdue accounts.

These contracts were also subject to stamp duty, Keanly said.

TODAY'S WEATHER



DP warning on economic forum

Tax break for foreign investment

BDay 4/6/92. 320

BILLY PADDOCK

CAPE TOWN — Finance Minister Derek Keys yesterday provided a major boost for foreign investor confidence, announcing government was exempting from tax all interest on foreign investment.

Opening his first debate as Finance Minister, Keys said SA had to compete for foreign investment in an increasingly competitive international environment and it was essential not to discourage foreign investors from making funds available.

"In order to introduce certainty into the area of foreign investment and to remove whatever disincentive remains in the form of taxation, it has been decided ... to exempt from tax all interest which from today accrues to a person who is not ordinarily resident in the Republic or to a company which is not managed or controlled in the Republic," he said.

The exemption would also apply to emigrants, subject to the further condition that they do not carry on business in SA.

He said the move had the unanimous support of the Tax Advisory Committee.

Interest earned in SA by non-residents was already exempt from tax in certain circumstances and this latest exemption was pulling all the remaining areas into the same net.

Keys said little revenue was being forgone by introducing this exemption, particularly in view of the problems in obtaining returns and raising assessments on foreign lenders.

"Furthermore, there is a move in the European Community towards taxing interest income only in the country where the recipient of the interest is resident."

SHERIDAN CONNOLLY reports that foreign investors took fright in February when the then Finance Minister, Barend du Plessis, announced that Inland Revenue officials were reviewing the taxability of non-residents' earnings.

Reports then arose that non-residents would be taxed on interest earned from deposits in SA banks.

This resulted in a sharp deterioration in foreign investment sentiment as anxious foreign investors dumped finrands.

In Parliament yesterday the DP launched a two-pronged attack on previous management of the Finance portfolio and suggested areas Keys should concentrate urgent attention.

Finance spokesman Ken Andrew welcomed negotiations on an economic forum but warned that this should not become a cartel of economic elites.

It was essential that organised business, labour and government were in the forum but other stakeholders such as consumers, women, environmentalists, the unemployed and the rural poor needed to also have their voices heard "specifically and directly in any economic forum", he said.

He also called on Keys to eliminate the anomaly of retirement annuities suffering severe taxation penalties, and to allow people access to more than the current third of their annuities in a lump sum.

DP deputy finance spokesman Jasper Walsh said Keys had to attack with vigour government's overspending. He said the lack of control over spending had caused the private sector to be crowded out, thereby restricting job creation.

Food price hikes 'a scandal'

COSATU yesterday described as a "national scandal" the warning by Foodcorp that prices of basic foodstuffs could rocket by up to 45% this year.

"This comes on top of 28% food inflation over the last year. The suggestion that this can all be attributed to the drought is indefensible," the union federation said in a statement.

Government, food producers, boards, and the wholesale and retail sectors were all to blame for the "totally unacceptable burden" consumers had to shoulder. B/Day 4/6/92

Cosatu believed that government had the capacity and the resources to intervene decisively to arrest the crisis, but lacked the political will.

Government intervention should see:

☐ A zero VAT rating on basic foodstuffs;

☐ Reduction and regulation of food prices; and

☐ Renegotiation of drought relief to ensure that it went to the most needy. (320)

Cosatu said the VAT co-ordinating committee, at a meeting with government last week, had secured an undertaking that high food prices and VAT would be negotiated.

However, lengthy negotiations could delay meaningful action. — Sapa.

Keys under attack over company rates

(320)

JONO WATERS

AMIC deputy chairman Les Boyd yesterday fired a broadside at Finance Minister Derek Keys, saying that contrary to recent statements by the Minister, SA was overtaxed. BDay 4/6/92

He added that the high level of company tax was a deterrent to foreign investment.

Speaking at the opening of the second phase of Univel Transmissions' R17m plant in Port Elizabeth, Boyd said government had to continue to reduce company tax which was now down to 48%.

He said in countries which were competing against SA, company tax was much lower. He cited Hong Kong where it was 16,5%, Taiwan (25%), Chile (32%) and the Republic of Ireland where some investors were offered 10%.

Boyd said even in the major industrial countries the tax rate was significantly lower than SA. In the UK it was 35%, France 37%, US 40% and even in highly taxed Sweden the rate was 40%.

Government had made some progress in tailoring tax incentives to attract investors with the introduction of Section 37E last year in response to the Columbus project. Boyd said these concessions were only for major exporters and had to be extended to other industries.

To encourage new investments SA would also need lower real interest rates which meant lower inflation. He said this meant supporting Chris Stals's policy of tight money supply.

SA needed an atmosphere of "certainty", said Boyd. The country could not keep changing the "rules of the game" or "levelling the playing fields" as the government had been prone to do over the past 10 years.

Therefore, one had to be disappointed by the recent utterances of the ANC regarding foreign investment and the continued emphasis on nationalisation as an option, he said.

The Univel plant is expected to save R29m in foreign currency a year and brings Univel's investments in CV and drive shaft capacity to R33m.

It is 60%-owned by JSE-listed Dorbyl and 40% by its UK associate GKN. Dorbyl group exports are valued at R450m a year.

IRP 5 tax delays

(320) Sowetan 4/6/92

By RUTH BHENGU

HUNDREDS Of employees have not submitted their 1992 income tax returns because they have not yet received their certificates from employers, according to the Receiver of Revenue.

Spokesman for the Commissioner For Inland Revenue in Pretoria, Mr DM Goosen, said his office had received many requests for an extension of time to submit returns, from people whose employers had caused the delay.

"Because of this we have decided not to take steps against taxpayers who have not been issued with their IRP 5 certificates before July 1 1992. The deadline for tax returns is June 9 1992," he said.

"It must be emphasised that this does not represent a general extension for all taxpayers but merely a concession to those taxpayers who have not received their certificates in time."

Goosen said those taxpayers who were unable to render their income tax returns by 1 July 1992 would have to apply in writing to their local Receiver of Revenue for extension to prevent a penalty.

‘No tax on interest paid by foreigners’

CT 5/6/92

Business Editor

MANY foreigners living overseas have paid no tax on interest earned in SA because the Inland Revenue department has no record of their existence, a spokesman for the department said yesterday. 320

In this case, he admitted, it was almost impossible to trace them and he could not estimate the sums that have been lost to the fiscus over the years except that they must have been “substantial.”

He said the concession announced by the Minister of Finance, Derek Keys, yesterday exempting foreign investors from paying tax on interest was not retrospective.

Tax should be paid on interest earned before Wednesday, June 3 except:

● When the investment is in the debt standstill net;

● When it is in certain stock, such as Eskom;

● When the capital invested is from a source outside SA.

The third category is confusing. If the investment was made in financial rands (finrands), even though the initial capital to make it was earned or raised outside SA, it is not considered to have been sourced outside SA.

The spokesman explained that this is because a bank buying finrands must deposit them in a SA bank.

Bold govt 'injection' required

326

CT 5/6/92

By AUDREY D'ANGELO
Business Editor

A DRAMATIC gesture — such as reducing taxes and giving a firm undertaking that they will not be raised again — is needed to kick-start SA's flagging economy, says Pepkor chairman Christo Wiese.

But he emphasised that it would be necessary to have a standby agreement with the International Monetary Fund (IMF) that a loan would be available to avoid a balance of payments (Bop) deficit before the economy could be allowed to grow rapidly.

Wiese was commenting on the state of the economy and the outlook for his group, following the release of its annual report.

He said he agreed with Finance Minister Derek Keys that the government should "get its expenditure in order" so that inflation would come down and taxes could be reduced.

He thought SA should adopt "a very much more supply-side philosophy.

"But to get our economy going we need something as dramatic as the State President's speech in February, 1990. We can't pussyfoot around."

Reducing taxes, with an undertaking not to undermine forward planning by raising them again, would have such an effect.

"But we would have to get our timing right. We don't yet have an IMF standby facility and we would be running an enormous risk if we got our economy zooming without one."

In the annual report Wiese and Pepkor MD Arnold Louw say that Pepkor's expertise in catering for the basic needs of the lower income group will enable it to expand internationally.

They point out that with the acquisition of Checkers "the weight of the group's turnover shifted to food for the first time, although clothing will continue to be the main profit contributor for the foreseeable future.

"With the takeover of Cashbuild, Pepkor's operating companies now cater for all the basic needs of the mass consumer market — namely food, clothing and shelter.

"Pep's management believes that, although coloured by cultural and regional differences, low-income groups worldwide share the same basic requirements.

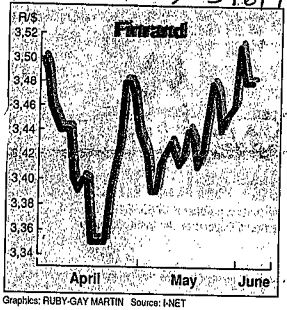
"It also believes this market is not effectively served by big retail organisations and that an opportunity exists for Pepkor, with its extensive experience of mass market retailing, to enter this market successfully on an international level."

Wiese commented that Pep International's chain of 17 stores in the UK was doing well in spite of the recession there. The group would wait until the UK operation was firmly established before moving into continental Europe.

Discussing the domestic market, he says in the annual report that trading conditions are likely to remain tight, but there are already signs that an upswing will start in the third quarter of the year.

Tax break boosts investor confidence

BIDay 5/6/92



Graphics: RUBY-GAY MARTIN Source: I-NET

SHERIDAN CONNOLLY

FINANCE Minister Derek Keys' tax break for non-residents yesterday boosted foreign investor confidence and saw the financial rand climb to a five-week high against the dollar, dealers said. (320)

Keys' comments sparked off buying from Europe and the Far East and lent support to the foreign investment unit, which climbed to an intra-day high of R3,39 to the dollar before slipping back to R3,48 at the close as the early euphoria subsided.

Dealers said although the decision on non-resident tax was a positive move, continued political uncertainties and the ANC's threats of widespread mass action remained overwhelming concerns for po-

☐ To Page 2

Confidence

BIDay 5/6/92

(320)

☐ From Page 1

tential investors.

The announcement that government was exempting all interest on foreign investment from tax was described as "a long-awaited step in the right direction".

Dealers said it was important for foreign investors to know exactly what their tax position was.

Some analysts were bullish on the finrand in the short term as it could take time for confidence to build up abroad. "There's a lot of steady interest from the Far East, Switzerland and Germany despite all the trouble in SA," said one.

Improved confidence after Keys' announcement spilled over into the capital market. Dealers speculated that foreign confidence would pick up, saying a bullish undertone was strengthening.

The key Eskom 168 closed lower at 15,76% from a previous 15,81%. The government RSA 150 stock was easier at 15,99% compared with Wednesday's finish of 16,01%.

Decline in official interest rate will benefit taxpayers

BILLY PADDOCK (320)

CAPE TOWN — Government announced yesterday that it intended dropping the official rate of interest by two percentage points, signalling marginal relief for taxpayers on fringe benefits.

In a statement Deputy Finance Minister Theo Alant said government would be recommending to Parliament that the official rate be reduced two percentage points from 19% to 17% from August 1.

Following the announcement last month by major banks that they were lowering their bond interest rates, Internal Revenue decided to adjust the official rate to keep it at the traditional one percentage point below the prevailing bond rates.

Alant said taxpayers receiving loans from their company at no interest or at a rate less than the official rate would benefit from the reduction because the taxable value is calculated on the difference between the two.

BDay 5/6/92

The cash equivalent of the value of the taxable benefit in these circumstances was the amount the employee would have paid on the loan during the year if he had been obliged to pay interest at the official rate less than the amount of interest incurred.

Finance spokesman Barry Hechter said the interest rate was being reduced to keep it in line with the bond rates.

If the bond rates increased the department would have to adjust the rate upwards to keep it about one percentage point below the prevailing market rate.

INCOME TAX: *Receiver of Revenue aware of glaring disparity between the sexes*

Married women still penalised

STAR 6/6/92.

IT IS indisputable that married women carry more than their share of the family tax burden. Tax planners ought to address these inequalities of the Income Tax Act, writes LEIGH HASSALL. ③②⓪

WHILE the Receiver of Revenue deserves a bouquet for totally separating married people for income tax purposes, he still gets a brickbat for the fact that wives still pay significantly more tax than husbands.

"Assuming a taxable income of R50 100 and after deducting the primary rebate, a married woman will pay R3 375 more tax than her husband and R750 more than a single person in the 1993 tax year.

In fact, she will continue to pay more tax than her husband until her taxable income reaches R100 000 and from then on, she will pay less.

Equalise

This is an advantage indeed, considering the number of women who earn this amount!

Compared to the unmarried person, the wife will pay more tax until her taxable income reaches about R70 000, after which her tax charge will be slightly lower but still higher than that of her husband.

A representative of the Commissioner of Inland Revenue's office says: "The policy of the Minister of Finance is to try to equalise the situation as far as possible, but any change we make affects the total availability of money.

"In the long term we intend to bring the married woman's tables , in line with those of the unmarried taxpayer."

The married woman is further penalised as the limit on her retirement annuity fund contributions is only half that of her husband's — notwithstanding the fact that the female life expectancy is proved to be longer than that of the male.

The representative acknowledges the disparity here but says the costs involved to change this are prohibitive.

It appears that although the Receiver taxes the married woman separately, the effect is one of treating the husband and wife as a single unit.

A true separation of taxation would surely allow the wife just as much of a retirement benefit as her husband.

Nevertheless, the taxman is proposing new legislation which will provide some light relief to the wife's reduced deduction for retirement annuity fund contributions.

Where contributions to such a fund are paid for by the husband on behalf of his wife — the member — the contributions may be claimed by either spouse.

This applies only to policies entered into before March this year and will cover the 1992 tax year retrospectively as well as the following five years.

In effect this allows these contributions to be claimed either in the wife's return or the husband's.

The couple should first do the calculations before completing their returns.

Justin Cowley, tax partner at Ernst & Young, says there is an exception to the overall rule of separate taxation.

"If the wife is the sole breadwinner of the couple (her husband earning less than R10 000 a year), then she may apply for a directive to include her income in her husband's return and be taxed at the lower rates," says Cowley.

The fact that this exemption exists indicates that the Receiver is aware of the disparity.

However, the prescribed income level of R10 000 narrows the scope of this provision considerably.

Cowley adds: "There are, in fact, two instances where the Income Tax Act favours the woman over the man.

"Firstly, the retirement age in respect of receiving tax-free lump-sum benefits is 55 for a man and 50 for a woman.

Indisputable

"Secondly, there is a provision in the Act which allows the woman a tax-free grant of up to R30 000, if she receives such grant from her employer as she relinquishes her job to get married."

For all the expert advice from the tax pundits, however, there remains the indisputable fact that Eve continues to come off worse in the family taxation burden.

Tax planners, regardless of the additional cost involved, might do well to address the inequities in the current Income Tax Act.

Employee benefits like medical aid s

STAR 6/6/92.

DEREK TOMMEY [redacted]

SOUTH Africans must expect to pay more for their employee benefits. This is the message from Garth Griffin, general manager, employee benefits, at the Old Mutual.

He says that as employees grow older and need more medical attention they are likely to have to pay higher contributions for medical aid.

The increasing incidence of Aids will also force them to put their hands deeper in their pockets to pay substantially more for group life cover.

But on the other side of the coin, as fewer workers are expected to reach pensionable age owing to Aids, there should be no need for any major increase in pension contributions.

Griffin says that controlling costs these days is the top priority of company executives responsible for employee benefits.

The is partly the result of the dramatic increase in the cost of providing health benefits. In recent years these have escalated at a rate of about 25 percent a year — significantly more than the 15 percent inflation rate.

The average annual increase in the charge for a consultation at a general practitioner's rooms has been 27 pe cent. Recently, government hospita have raised private patient charges b 30 percent.

And in the medical aid schemes a ministered by the Old Mutual Em ployee Benefits (OMEB), the claim frequency has increased by almos 50 percent in the past four years.

An examination of OMEB's claim showed that members under the ag of 30 were actively subsidising thos above this age, with the rate growin

MORE MONEY IN YOUR POCKET

Dividends, gifts and sales profits

S/Times [BUSS] 7/6/92?

(320)

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

CERTAIN interest and buildings society dividends were either fully or partly exempt from tax in the 1989-90 and earlier tax years — for example, Post Office savings and building society subscription shares.

With effect from March 1, 1990, this exeception has been phased out. In the 1991-92 tax year only 60% of such interest income and previous fully tax-free dividends is exempt. Partly tax-free building society dividends which were previously subject to a dividend deduction (normally up to a third of the payout) are now treated as other similar building society payments. Only 60% of the dividend deduction may be claimed in 1991-92.

Note that this phasing in applies only to investments with no set term. Fixed-period shares-deposits made before March 1, 1990, will remain partly tax free for the duration of the fixed investment term. Dividents or interest on building society fixed-period shares-deposits made on or after March 1, 1990, are fully taxed as interest income and are not subject to phasing-in concessions.

The basic interest exemption of R2 000 is available to each taxpayer. Thus, where a husband and wife both earn interest income, up to R4 000 is exempt. Building society dividends are classified as interest income for tax purposes. Therefore, where you earn less than R2 000 actual interest the remaining part may be deducted against your building society dividend income.

Other dividends received from public and private companies are still exempt from tax in 1991-92. You are required to disclose the dividend income under part 8.3 (exempt income) of your tax return. Other exempt income, such as transfer-relocation costs paid by your employer, must also be disclosed under part 8.3.

Other non-taxable amounts may comprise income from sources outside SA (disclosed under part 8.2) and profit from the sale of shares, fixed property and other marketable securities (disclosed under part 8.1).

Donations, proceeds from insurance policies and the sale of jewellery, inheritance, prizes, gambling profits, losses etc. must also be disclosed under part 8.1. Supporting information to the amounts declared under part 8 must be supplied.

WHENEVER you buy or sell any fixed property, shares or other marketable securities, you are required to complete part 10.1 of the return. This canvasses the dates, cost and selling prices, your reasons for acquisition or sale.

Unless your intention was to deal in these assets for gain, the profits should generally be of a capital nature and not subject to income tax in 1991-92.

However, be warned that a person's intention can be questioned by Inland Revenue, especially where several similar transactions have occurred, even if spaced over a few years.

Your reasons for acquisition and sale are of great importance and should be clearly noted on your return. Likewise, any change in intention should be noted.

Where you have sold listed shares which have been held, inter alia, for a continuous period of at least 10 years, so-called "affected shares", you may elect in part C of schedule A (page 7 of the return) to have the profits treated as being of a capital nature and therefore tax free. Such an election will be binding on any future disposal of "affected shares".

The nature of large gambling profits may be questioned where there are a many transactions each year.

Otherwise the recipient of proceeds from inheritances, donations, insurance policies (provided they are standard) should not encounter problems with Inland Revenue concerning taxation.

The general problem pertaining to taxation of profits derived from the sale of assets is complex and each case is decided on the facts. The important issues are the taxpayer's intention and the circumstances surrounding each purchase and sale.

Bear in mind, that the onus rests on the taxpayer to convince Inland Revenue about intentions. The 1992 tax return does not require information concerning purchases or sales or non-taxable receipts of your spouse.

Copies of Pay Less Tax can be obtained at a cost of R29 (including VAT and postage) from L Mlambo, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3, Benmore 2010.

Computer to help combat tax dodgers

BDay 8/6/92.

GERALD REILLY

PRETORIA — A sophisticated computer-controlled audit system is now in place at Inland Revenue's head office to identify VAT payment cases which need closer investigation 320

An Inland Revenue spokesman said at the weekend that the new system would support the work of special investigators involved in recovering taxes.

Meanwhile, VAT recoveries between October last year and April netted an additional R121m. And VAT collections in April — the first month of the new financial year — totalled R1,039bn, while late GST payments amounted to R10m. This total compares with GSTof R1,607bn for the previous financial year.

The decrease was accounted for by the fact that the GST rate was 13%, while VAT was levied at 10%. However, income tax collections in April were up by R355m to a total of R3,271bn.

Investigating teams recovered more than R400m in income tax evasions and untaxed income in the first four months of this year.

NEWS IN BRIEF

(320)

Mining tax contribution down

THE mining industry had paid R2,2bn in tax in the 1990/91 tax year as against R3,45bn in the 1986/87 year, Finance Minister Derek Keys said in Parliament yesterday. B/Day 19/6/92

He said this represented a contribution of 3,3% against 10,1% of state revenue. In 1989/90 mining's contribution was R2,274bn or 3,7% of state revenue.

ANC cashes in on 087 lines

THE ANC has joined the 087 pay-line operation to raise funds. It will cost R5,97 a minute to phone on the ANC's 087 line and a top prize of R1 000 will be presented at a special luncheon.

Coast guard may be established

THE possibility of establishing a coast guard in SA is being investigated by an inter-departmental committee following the De Beer commission of inquiry's recommendations. Environment Affairs Minister Louis Pienaar and Transport Minister Piet Welgemoed said yesterday the committee would investigate the formulation of a national maritime policy.

High-tech NP campaign starts

B/Day

THE NP launched a countrywide, hi-tech campaign yesterday to draw black supporters. The party caucus gave the six-language marketing package the nod yesterday and at least 2 500 meetings will be held using videos, full colour leaflets, cartoons and display portfolio folders. B/Day 19/6/92

Indian, coloured MPs join NP

PRESIDENT F W de Klerk welcomed four former independent MPs from the House of Delegates into the NP yesterday, while two more members of the Labour Party crossed the floor to join the NP in the House of Representatives.

B/Day 19/6/92 REPORTS: Political Staff, Sapa.

Bill targets mine land for property tax

(320) **BILLY PADDOCK**

CAPE TOWN — All mining land exempt from property tax will now be subject to rates, levied "according to the system of market value", if the new Bill government introduced in Parliament yesterday is passed.

BD aug 9/6/92

All agricultural land which falls within municipal boundaries will also be subject to tax but at a reduced rate and in accordance with a formula based on the pro rata valuation of the land's site value.

The new Local Authorities Rating Ordinance Amendment Bill introduced by Local Government Minister Leon Wessels is the result of several inquiries in the past decade into the various rating and valuation systems in the four provinces.

It provides that "full rates be payable on mining land, but that they be phased in over three years".

The Bill envisages the rates to be levied on mining land as follows:

☐ with effect from July 1 1993, 25% ;
☐ from July 1 1994, 50%;
☐ from July 1 1995, 75%; and
☐ from July 1 1996, 100%.

The memorandum to the Bill states that after the inquiries' conclusions had been studied by government departments, the Provincial Administrations and organised local authorities the permanent financial liaison committee drafted proposals which were approved by Cabinet.

The Bill abrogates all exemptions from rates but local authorities could grant a "grant-in-aid" in respect of the rates which may be levied on certain classes of rateable properties such as churches, amateur sports fields and welfare institutions.

MATTHEW CURTIN reports that Anglo American tax consultant Marius van Blerck said last night that he could not comment on the Bill without examining it.

Van Blerck, an authority on mining tax, said that it was not "the most appropriate time to add extra costs to the mining industry, and the impact of the Bill would require careful analysis, especially with regard to marginal mines".

A Chamber of Mines spokesman declined to comment, as did Gold Fields of SA executive director Alan Wright.

Tax relief bid for severance payouts

BDay 9/6/92

320

ALAN FINE

REPRESENTATIVES of organised labour and management in the mining industry yesterday met Deputy Finance Minister Theo Alant in Cape Town for talks on proposed tax relief on the severance payments of retrenched workers.

And in another initiative related to shrinking employment levels in the industry, the NUM and Harmony were scheduled to meet Mineral and Energy Affairs Minister George Bartlett in Pretoria today for talks on ways of easing the effects of cutbacks at Harmony gold mine near Virginia.

Chamber of Mines vice-president Bobby Godsell, NUM assistant general secretary Marcel Golding and representatives of the Council of Mining Unions and the three officials' associations presented Alant with a memorandum detailing proposed amendments to the Income Tax Act to effect the change.

Golding said after the meeting it had been agreed to establish a working party to enable government to take a closer look at the proposals designed to apply not just to the mining industry, but universally.

The union/management scheme proposal was that lumpsum payouts to retrenched employees whose earnings were below the SITE threshold should be totally tax exempt. For those liable for PAYE, severance payouts should, up to a certain level, be treated in the same way as lump-sum pension payouts.

The proposed dispensation for employees taxed according to the SITE system was that they currently pay a large proportion of their severance payment in tax.

To challenge that would require a complicated process beginning with registration as a taxpayer — an onerous task for unskilled migrants.

The proposal was raised by the NUM at last June's mining summit as part of a discussion on short-term measures to alleviate the effects of gold mine cutbacks. The chamber and unions in the industry had finalised proposals on legislative amendments, and these would be considered by government. Alant could not be reached yesterday for comment.

The NUM planned to hand Bartlett a lengthy memorandum today detailing the effects of cutbacks at Harmony and other mines on foreign exchange earnings and on the national and regional economies, and requesting alleviation measures.

But it is understood Harmony will not support any measures amounting to direct subsidies.

Mining, farm land set to be taxed

(320) [redacted]

STAR 10/6/92

CAPE TOWN — A Bill which provides for the taxation of mining and agricultural land inside municipal boundaries has been tabled in Parliament by Local Government Minister Leon Wessels.

The Local Authorities Rating Ordinance Amendment Bill provides for all mining land exempt from property tax to be subject to full rates.

It is proposed that such rates be phased in over three years.

Agricultural land falling inside municipal boundaries would also become subject to tax, but at a reduced rate and in accordance with a formula based on valuation of the land's site value.

It is proposed that all rates exemptions be dropped but that local authorities may give a grant-in-aid.

The phasing in of rates is envisaged as follows: 25 percent from July 1 1993; 50 percent from July 1 1994; 75 percent from July 1 1995; 100 percent from July 1 1996.

The valuation of rateable property of both the land and improvements should be made according to the market-value system.

Several inquiries have been conducted over the past 10 years into various rating and valuation systems applied in the four provinces.

The findings of these inquiries and final recommendations — as approved by the Cabinet — were referred to the provincial administrations and Department of Local Government. — Sapa.

draft operating budget of R1 060 million of the Corporation for the 1992/93 financial year. A further R28 million is required, for which approval must still be obtained.

(a) The additional amount of R28 million is required because of the fact that the Corporation's five year security plan has been shortened to three years, and on account of the Goldstone Commision's investigation into violence on trains. The five year security programme which would have ended on 31 March 1995 has been expedited and shall already be fully phased in on 31 March 1993. This entails that all stations will be secured for policing by erecting security fences, providing lighting, introducing access control and providing on-site accommodation for the SAP. Communication between the train driver, control room and the SAP is being improved to permit the speedier reporting of dangerous situations and incidents. Approximately R96 million of the draft capital budget of the Corporation of R288 million for the 1992/93 financial year, will be spent on security.

(b) The five year security plan has been shortened to three years with the aim to protect travel fare income by means of more efficient access control, and to appoint additional personnel to ensure better control at stations, to ensure better safety and to accomplish better crowd control.

A total amount of R250 million has been budgeted for the five year plan and will remain the same for the three year programme.

Tax deduction scheme: films

*9. Mr K M ANDREW asked the Minister of Finance: (320)

(1) Whether, with reference to the film incentive tax deduction scheme, the Receiver of Revenue has reached a decision in respect of tax deductions for films for which deductions were claimed for the tax year ended 29 February 1988; if not, (a) why not and (b) (i) when is it expected that a decision will be reached and (ii) how long has the Receiver of Revenue been considering this decision; if so, what decision was taken;

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

(320) B734E

The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

(1) As the methods of finance as well as various other aspects of schemes of this nature differ from each other, it is necessary that every case is judged on its own merits and circumstances and each film scheme is decided upon separately. There is therefore no general decision which applies to all films.

In so far as the tax year ended 29 February 1988 is concerned, decisions have already been taken in respect of those films where sufficient information has been supplied by taxpayers. At present all film schemes are being dealt with by a special division which is situated in the office of the Receiver of Revenue, Johannesburg. Although it is a difficult and time-consuming task, the point has now been reached where assessments in respect of most of those schemes will be issued to the relevant taxpayers during the next few months.

(a) Not applicable.

(b) (i) Not applicable.

(ii) Not applicable.

(2) No.

Exemption of life-saving drugs from VAT

*10. Mr M J ELLIS asked the Minister of Finance: (320)

(1) Whether he is considering or will consider exempting life-saving drugs from value-added tax (VAT); if not, why not;

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

B735E

†The DEPUTY MINISTER OF FINANCE (Dr T G Alant): (320)

(1) No. The reasons are furnished in the following statement.

(2) During March 1992 the hon member posed a question in regard to medical services and as his question was fully answered at that stage, I do not consider it necessary to discuss VAT on medical services in general.

It is well known that sales tax at the rate of 13 per cent was payable on all medicines prior to the introduction of VAT. As the VAT rate is only 10 per cent and suppliers of medicines are now in a position to pass on to consumers the benefits of input credits in respect of capital and intermediate goods which are provided under the VAT system, the VAT system has created the climate to bring about a reduction in the cost of medicines.

As regards life-saving drugs, the question arises what are life-saving drugs. For one person a certain drug may be a life-saving drug but not for another. For practical reasons it is not possible to provide for the same item to be supplied to one person without VAT and to another with VAT.

Mr K M ANDREW: Mr Chairman, arising from the hon the Deputy Minister's reply, may I ask him, in the light of the fact that he has the answer to next week's question which has not as yet been asked, does he possibly have the results of the next by-election which has not as yet been held? [Interjections.]

(Question arising from wrong answer read by Deputy Minister of Finance (Dr T G Alant).)

Limited private practice: public service medical practitioners

*11. Mr M J ELLIS asked the Minister of National Health: 846

With reference to her reply to Question No 4 on 20 May 1992, what measures have been announced which enable registered (a) medical practitioners, (b) dentists and (c) (i) medical and (ii) dental specialists in the public service to participate in limited private practice?

B736E

The MINISTER OF NATIONAL HEALTH:

(Reply laid upon the Table with leave of House):

DEPARTMENT OF NATIONAL HEALTH AND POPULATION DEVELOPMENT

S29/7/3
S29/7/4

1 April 1992

POLICY IN CONNECTION WITH LIMITED PRIVATE PRACTICE

1. *Introduction*

With regard to the national goal of an effective, efficient and affordable health service, the Cabinet approved the principle of limited private practice during a session on 2, 3 and 4 December 1991 and on 11 March 1992 which will enable medical and dental personnel to perform work outside employment in the Public Service and receive and retain the income which is generated from this, subject to certain conditions.

2. *Purpose of limited private practice*

To promote the recruitment and retention of medical and dental personnel.

3. *Scope of application*

All officers and employees employed in a full-time or part-time capacity who are registered with the SA Medical and Dental Council as medical practitioners, dentists and medical/dental specialists, qualify for participation in limited private practice.

4. *Operational measures*

4.1 Approval for participation in limited private practice by officers/employees still rests with the relevant Minister/Administrator or his delegate.

4.2 Limited private practice is performed outside and over and above the prescribed official duty times and duty hours, in other words such work must be performed outside the approved duty times and after the official minimum of 40 hours of service per working week or 56 hours of service per working week in the case of personnel who declare themselves willing to comply with a working week of at least 56 hours, or in the case of part-time personnel after the relevant number of hours of duty. (A working week is that period which extends from midnight between a Saturday and

cont—D

No VAT on sale of gold coins

320

CT 10/6/92

PARLIAMENT. — Gold coins sold will not be subject to VAT, but VAT would be added to coins made into jewellery, the memorandum on the Taxation Laws Amendment Bill said yesterday.

The memorandum, tabled in Parliament, introduces amendments to the Marketable Securities Tax Act, the Stamp Duties Act, the Transfer Duty Act, The Self-Governing Territories Constitution Act, the Regional Service Councils Act, the KwaZulu and Natal Joint Services Act, and the Value-Added Tax Act.

Much of the legislation in the memorandum is deemed to have come into effect already.

- Tax on the transfer of property to a water or an irrigation board has been waived;
- The zero-rating on rice has been lifted;
- If a vendor acquired a business which carries on an exempt or non-taxable activity no VAT is charged on the purchase;
- Tax must be adjusted in the case of a vendor refunding the deposit on a returnable container;
- The tax portion of an amount recovered from a bad debt has to be declared; and
- The prices inclusive and exclusive of tax has to be displayed with equal prominence when both prices appear in advertisements. — Sapa

Sacob seeks ‘piggy-back’ tax for local financing

B Day 10/6/92

(320)

HILARY GUSH

BUSINESS would favour a “piggy-back” tax as a major metropolitan revenue source, Sacob said yesterday.

In a discussion document on metropolitan financing, Sacob proposed the “piggyback” tax — on an existing income tax or on VAT — instead of extra tax tiers or a comprehensive business tax as a way of paying for local services.

“While it has been argued that VAT is a highly visible tax and creates resistance — a resistance that might also attach to levies on VAT — this very transparency argues strongly in favour of basing metropolitan taxes upon VAT,” the document said.

“It is in principle desirable that the cost or impact of taxes should be seen.”

Business would favour existing forms of taxation to raise local revenues, in preference to the introduction of new types of fund raising. There already existed “an adequate plethora of impositions”.

“It is also imperative that tax collection be efficient, low in cost and centralised to minimise the size of the revenue bureaucracy,” Sacob said.

The document rejected suggestions that funds be raised from extra tax tiers or payroll levies. Turnovers and payrolls were imperfect indicators of ability to pay and of contribution to GDP. In addition, the turnover levy would introduce elements of double taxation.

“Furthermore, the law and the regulations covering these levies are excessively convoluted and complex and for that reason are in fact not being accurately imposed or complied with.

“If the present low rates of the levies were to be raised, formidable obstacles to both compliance and enforcement would at once emerge.”

A low-rated comprehensive business tax was also ruled out in the discussion document, which said such a tax was biased against labour-intensive industries, penalised exports, and was divorced from the principle of ability to pay.

Sacob added that this tax was just another form of VAT.

The document said it was inevitable that rates on land and fixed property would continue as a local revenue source.

Sacob called for the privatisation of services and the provision of housing.

“Market forces should be allowed to encourage efficiency in the delivery of such services and also to establish a balance between supply and demand,” the document said.

DP MPs slam 'inept and corrupt' NP government

BIDay 10/6/92

49 [illegible]

BILLY PADDOCK

CAPE TOWN — The euphoria of President F W de Klerk's reforms had been replaced by an air of despondency because of the poor state of the economy and the exposure of widespread government corruption, DP Finance spokesman Ken Andrew told Parliament yesterday.

He said democracy was unlikely to survive endemic violence and a lack of economic progress. But sustained economic growth and a reduction in violence were unlikely until there was significant progress towards a political settlement.

A successful, negotiated new constitution was the key to stability and certainty, Andrew said, adding that government had the prime responsibility in this regard. But the credibility of the NP's commitment to democracy was suspect, he said.

In another scathing attack on government, DP Justice spokesman Tony Leon said its ineptitude resembled that in a tragi-comic soap opera.

It had spent or committed R500m on three projects of spectacular folly, where the money could have been better spent elsewhere, Leon said.

"We now have no foreign enemies, but R205m is authorised on an underground bunker installation for the SA Air Force. While total strategy no longer features in government rhetoric, we spend R145m on a new headquarters for the National Intelligence Service — an overspend of R87m from the original estimate. We're committed to a lean bureaucracy, but R83m is to be spent on a new computer centre for the Commission for Administration," Leon said.

Meanwhile, back in the land of reality, famine, starvation, homelessness and despair stalked SA, he said.

Leon said if government's unnecessary expenditure was rechannelled, it could:

☐ Build 250 black primary schools at R2m each;

☐ Build 10 000 zinc houses with amenities for the homeless at R5 000 each; and

☐ Provide basic foodstuffs for 200 000 people for a year at an estimated R250 per person.

Leon said it appeared that government lacked the political will to bring violence under control.

Andrew said that a party which suspended an MP for more than seven months could hardly be said to have a commitment to or understanding of democracy.

He said the credibility of the NP's commitment to clean, honest and accountable public administration was shattered. "Its hands are covered in blood and gravy. The stench of corruption permeates public life in SA today," Andrew said.

He said if ministerial responsibility and accountability meant anything at all in SA, the three most senior members in the current NP Cabinet would not be there.

Many of the problems arose from undue secrecy and discretions granted to Ministers and officials.

But the underlying problem was the policy of economic patronage pursued by the NP since it came to power, Andrew said.

Gold coins VAT exempt

320

CAPE TOWN — Gold coins sold will not be subject to VAT but the tax would be added to coins made into jewellery, a memorandum on the Taxation Laws Amendment Bill said yesterday.

BDay 10/6/92

Tabled in Parliament, it introduced amendments to the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duties Act, the Self-Governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act, and the Value-Added Tax Act.

Tax on the transfer of property to a water or an irrigation board was waived.

If a vendor acquired a business which carried on an exempt or non-taxable activity, no VAT would be charged. — Sapa.

Doctors protest against

BDay 10/6/92

CAPE TOWN — About 120 doctors, dentists and other medical practitioners converged on Parliament yesterday to present a memorandum to National Health Minister Rina Venter opposing the amendments to the Medical Scheme Bill.

The group, marching under a banner calling for health care for all, handed the memorandum to Venter's administrative secretary Eric Cronjé at the gates of Parliament.

The memorandum objects to the Medical Scheme Amendment Bill on the grounds that it socio-economic and areas" to exploitatio men seeking to profit

Dispensing Famil Association (DFPA) c piti read the memo handing it to Cronjé.

"We further object the Bill dismally fail dire needs of health indigent, unemployed who reside in the per ral areas," he said.

SOWETAN Wednesday June 10 1992

VAT group set to take on the Govt

Sowetan 10/6/92 (320)

By IKE MOTSAPI

THE Co-ordinating Committee on VAT meet today to formulate a strategy on negotiations with the Government on the zero-rating of basic foodstuffs.

The meeting at a top Johannesburg hotel starts at 5.15pm.

Summit co-ordinator Ms Melody Emmett said the meeting would receive reports of contacts held with the Ministers of Finance, National Health, Agriculture, the Board of Tariffs and Trade and the National Interim Committee of Nutritional Development Programme.

She said: "The summit will be asked to approve proposals for negotiation with the Government on VAT, stabilisation and reduction of food prices and changes to the poverty relief and drought relief programmes.

"The summit is also expected to approve proposals for negotiating with the major food manufacturers and retailers for a reduction in the prices of staple foods."

Emmet said the Minister of Agriculture, Mr Kraai van Niekerk, had agreed in a meeting with the committee that he wuld "circulate for discussion proposals for the restructuring of the Control Boards and for the deregulation of the industry."

Endorse a demand

She said: "The summit will be asked to endorse a demand that there should be much greater representation of consumers on the Control Boards and that changes should not be made without full consultation with all parties."

She said a detailed proposals for poverty relief programme would be presented.

Warning on white tax burden

CT 11/6/92 ③②⓪

THE effects of further increasing the white tax burden needed to be guarded against, Mike Brown, leading economic consultant warned yesterday.

Addressing the Sapoa convention, Brown said South Africans, particularly in the upper income levels, were overtaxed.

The net taxation burden of whites (tax paid in relation to social benefits received) was among the highest in the world and double that of many countries. Coloureds and blacks on the other hand enjoyed a negative tax "burden".

"As such a significant degree of redistribution is already occurring through the taxation structure and increasing the white tax burden should be guarded against.

"Broadening the tax base through the further alliance on indirect taxes or taxing capital and not only income would be more equitable then raising the tax rates," he said.

Discussing other possible redistribution measures likely to be undertaken during the reconstruction of the SA economy, he said redistribution through the budget would be a lengthy process as the social expenditure portion was already high at 40% and further increases in this regard were unaffordable.

A third option — redistribution through wages — would also be difficult as the dualistic nature of the economy largely precluded the wide scale adoption of a low wage strategy as had been adopted successfully in other developing countries.

Brown said a greater orientation towards public investments was required to restore the balance in capital stock formation and to assist in better distribution of services to all.

Private sector investment on the other hand could be optimally directed towards manufacturing.

Savings would also have to be encouraged, he said.

SA faces barrage of wealth taxes

SA faces a variety of wealth taxes including a land tax under the next regime, which will inevitably be ANC or ANC dominated, the SAPOA Convention heard yesterday.

Pierre Le R du Toit, senior tax partner with Arthur Anderson and Co recent ANC policy guideline were "surprisingly moderate".

"They referred to the need to maintain sustainable growth and to leave redistribution to the expenditure side.

(320) CT 11/6/92

"There is a strong awareness that there needs to be a balance of fairness.

"If one overtaxes the producers they will simply leave; if one undersupports the needy they will destroy all prospect of production." He said that from policy documents and statements by ANC dignatories it was clear that tax reform in the shape of continuing reducing rates was out.

"On the other hand the income tax rates of 70% and over of the hey-day of Afrikaner socialism will not return."

He said wealth taxes including capital gains/transfer tax, land tax and death duties were highly likely but would be "more perceptual than seriously revenue producing".

Other resources such as prescribed investments would be revisited but in moderation.

He said while there may be some decentralisation, central governments would delegate rather than abrogate fiscal policy.

"This picture is by no means as horrific as we are often led to believe."

PERSVERKLARING

deur

DIE ADJUNKMINISTER VAN FINANSIES
DR. T. G. ALANT

MET BETREKKING TOT DIE VERLAGING IN DIE "AMPTELIKE RENTEKOERS" VIR DIE DOELEINDES VAN BELASTING OP BYVOORDELE

'n Belasbare voordeel val toe indien 'n lening aan 'n werknemer toegestaan is en óf geen rente deur die werknemer betaalbaar is nie óf rente daarop teen 'n koers laer as die amptelike rentekoers deur hom betaalbaar is. Die kontantekwivalent van die waarde van die belasbare voordeel is in hierdie omstandighede die bedrag aan rente wat die werknemer ten opsigte van die jaar van aanslag sou betaal het indien hy verplig sou wees om rente teen die amptelike rentekoers te betaal, min die bedrag aan rente (indien enige) wat hy werklik gedurende die jaar aangegaan het. Tans is die amptelike rentekoers soos in paragraaf 1 van die Sewende Bylae by die Inkomstebelastingwet, 1962, omskryf, 19 persent.

Daar word hiermee vir algemene inligting bekendgemaak dat daar by die Parlement aanbeveel sal word dat die amptelike rentekoers met ingang van 1 Augustus 1992 vanaf 19 persent tot 17 persent verlaag sal word.

Uitgereik deur: Die Adjunkminister van Finansies
Posbus 29
Kaapstad
8000.

Navrae: Mnr. B. Hechter.

Telefoon: (012) 315-5311.

Datum: 4 Junie 1992.

DEPARTEMENT VAN JUSTISIE

No. 1565 **12 Junie 1992**

WET OP HOWE VIR KLEIN EISE, 1984

VERANDERING VAN DIE GEBIED VAN DIE HOF VIR DIE DISTRIK WYNBERG

Ek, Daniel Pieter Antonie Schutte, Adjunkminister van Justisie, handelende namens en in opdrag van die Minister van Justisie, verander hierby kragtens artikel 2 (1) (c) van die Wet op Howe vir Klein Eise, 1984 (Wet No. 61 van 1984), die gebied van die hof vir die beregting van eise ingevolge genoemde Wet wat vir die gebied Wynberg by Goewermentskennisgewing No. 1003 van 27 Mei 1988 ingestel is, deur die distrik Mitchells Plain daarby in te sluit.

D. P. A. SCHUTTE,
Adjunkminister van Justisie.

PRESS STATEMENT

by 320

THE DEPUTY MINISTER OF FINANCE
DR T. G. ALANT

REGARDING THE REDUCTION IN THE "OFFICIAL RATE OF INTEREST" FOR FRINGE BENEFIT TAXATION PURPOSES

A taxable benefit accrues if a loan is granted to an employee and either no interest is payable by the employee or interest is payable by him at a rate less than the official rate of interest. The cash equivalent of the value of the taxable benefit in these circumstances is the amount the employee would have paid on the loan during the year of assessment if he had been obliged to pay interest at the official rate less the amount of interest (if any) he actually incurred during the year. At present the official rate of interest as defined in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962, is 19 per cent.

It is hereby notified for general information that it will be recommended to Parliament that the official rate of interest be reduced from 19 per cent to 17 per cent with effect from 1 August 1992.

Issued by: The Deputy Minister of Finance
P.O. Box 29
Cape Town
8000.

Enquiries: Mr B. Hechter.

Telephone: (012) 315-5311.

Date: 4 June 1992.

DEPARTMENT OF JUSTICE

No. 1565 **12 June 1992**

SMALL CLAIMS COURTS ACT, 1984

ALTERATION OF THE AREA OF THE COURT FOR THE DISTRICT OF WYNBERG

I, Daniel Pieter Antonie Schutte, Deputy Minister of Justice, acting on behalf and by direction of the Minister of Justice, hereby under section 2 (1) (c) of the Small Claims Courts Act, 1984 (Act No. 61 of 1984), alter the area of the court for the adjudication of claims in terms of the said Act which was established for the area of Wynberg by Government Notice No. 1003 of 27 May 1988, by including the District of Mitchells Plain therein.

D. P. A. SCHUTTE,
Deputy Minister of Justice.

ARGT 11/6/92 (320)

Some tax relief tabled in bill

CONDITIONAL tax concessions for bursaries and for physically disabled people under 65 are included in amendments proposed in the tabled 1992Income Tax Bill.

A bursary must not have been granted in lieu of salary, which must not exceed R36 000 a year, and is limited to the first R1 200 for each relative where the bursary is granted as a result of the employee's services.

Physically disabled people under 65 will have to bear only the first R500 of medical expenses incurred as a result of their disability. — Sapa.

BILLY PADDOCK

VAT changes for developers

B/Day 11/6/92

320 [illegible] [illegible]

CAPE TOWN — The major changes contained in the new Taxation Laws Amendment Bill, to be introduced in Parliament today, are amendments to VAT levelling the playing field for developers of share blocks, sectional title and freehold title.

Most of the other amendments are re-enactments of the Government Notice of November last year, when the Finance Minister amended provisions of the VAT Act, and formalising existing practice.

The Bill amends the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duty Act, the Self-governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act and the VAT Act. The amendment to the Self-governing Territories Constitution Act relates to VAT and neutralises the effects of introducing VAT in these territories by putting the TBVC states in the same position they were in before introduction of VAT.

The main area this affects is transactions under the Customs Union, where SA pays 10% VAT on imports etc but pays the territories 13%, as was the case under GST.

According to DP Tax expert Geoff Engel, the territories would not follow SA by introducing VAT unless the prejudice they felt under the new system was neutralised.

The major new development is relief given to developers of Share Blocks which allows them the benefit of claiming VAT input credits — denied until now. Developers had to pay VAT on materials and other input costs but had no way of claiming this back when units were sold off.

The Bill alters the position in the Transfer Duty Act and the VAT Act whereby the share capital and the loan capital/obligation on first sale becomes subject to VAT and the developer can claim/deduct input credits against VAT on the sale.

This applied to Sectional Title and Freehold Title developers in the past. Only new share block developers are affected by the amendment. Other share and loan obligations were unchanged and not subject to VAT.

The other important amendment plugs a loophole used mainly by banks to avoid VAT.

Apparently banks were providing VAT-able services, but dressing these up as financial services (which are not subject to VAT).

The Bill also exempts trade unions from VAT on member's subscriptions.

The period of grace has been extended from December 1991 to June 30 1992 to correct errors in registration. Many mainly small companies and business enterprises, whose turnover did not exceed R150 000 a year, erred at the introduction of VAT and registered, puttingthemselves in a disadvantageous position.

Another amendment also eases the cash flow of more than half the vendors required to pay VAT.

TOMORROW'S SOLUTION

Action over prices urged

B/Day 11/6/92

KATHRYN STRACHAN

PROTEST action was planned at yesterday's summit of the co-ordinating committee on VAT to highlight the effects of the tax and rocketing food prices. (320)

Organisations associated with the committee had planned a programme of marches and demonstrations, but a date was still to be decided.

Convenor Bernie Fanaroff said summit delegates endorsed demands to be put to government and to food manufacturers and retailers. The committee expected to meet Finance Minister Derek Keys later in the month and would discuss the zero rating of basic foods and basic services, and the reduction and stabilisation of food prices.

The starvation facing many was not caused only by the drought, but also by escalating food prices and distribution problems. Businesses were taking advantage of the drought to raise their prices, the summit accused.

It attacked government's nutrition development programme and put forward proposals to be presented to government.

Fanaroff also claimed the National Health Department lacked the managerial expertise to run the programme effectively, and accused it of using poverty relief for political ends by providing money to SADF front organisations.

Action over prices urged

B|Day 11/6/92

KATHRYN STRACHAN

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Anti-VAT group warns Govt

320

Sowetan 11/6/92

THE Co-ordinating Committee on VAT has warned it would link its struggle against VAT and poverty to the proposed mass action unless progress was made in its talks with the Government.

The warning was made after a summit of VCC constituent organisations in Johannesburg yesterday.

The organisations included Nactu, the ANC, Cosatu, business, church and consumer groups.

The summit endorsed the following demands, in preparation for forthcoming talks with both the Government and the food industry:

- The exemption of basic food stuffs (including meat, bread, maize meal, milk and vegetables), electricity, water and medicines from VAT;
- That the price of staple foods be reduced and stabilised until such time as an adequate "safety net" is established for the poor;
- That manufacturers and retailers do something to drive down the price of staple foods;
- That the existing control boards be restructured and that all deregulation and tariff changes in the food industry be carried out only in consultation with "representative organisations".

The summit decided to convene again in mid-July to assess progress made in talks with retailers and the Government.

A VCC delegation is to due to meet Finance Minister Mr Derek Keys on June 25 to discuss its demands.

It has already met representatives of Foodcor and Premier Foods, and is scheduled to meet those of Tiger Oats and Pick 'n Pay shortly.

VAT, mass action link mooted

[redacted] [redacted] 320 STAR 11/6/92

By Mike Siluma

The Co-ordinating Committee on VAT (VCC) yesterday warned it would link its struggle against VAT and poverty to the proposed mass action next month, unless it made progress in its talks with the Government on the issue.

The warning was made after a summit of VCC constituent organisations in Johannesburg, which included the National Council of Trade Unions, the ANC, the Congress of SA Trade Unions, and business, church and consumer groups.

The summit endorsed the following demands, in preparation for forthcoming talks with both the Government and the food industry:

● The exemption from VAT of basic foodstuffs (including meat, bread, maize meal, milk and vegetables), electricity, water and medicines.

● That the Government should reduce and stabilise the price of staple foods until an adequate "safety net" was established for the poor.

● That manufacturers and retailers drive down the price of staple foods.

● That the existing control boards be restructured and all deregulation and tariff changes in the food industry be carried out only in consultation with "representative organisations".

The summit decided to convene again in mid-July to assess progress in talks with retailers and the Government. A VCC delegation is due to meet Finance Minister Derek Keys on June 25 to discuss its demands. The VCC has already met representatives of Foodcor and Premier Foods, and is scheduled to meet those of Tiger Oats and Pick 'n Pay shortly.

VCC co-ordinator Bernie Fanaroff said the summit had decided to meet other organisations to draw up a plan of action to back its demands. This might include boycotts and demonstrations — linked with the proposed mass action — against sections of the food industry.

Also yesterday, the VCC criticised the Government's poverty and drought relief programme, saying there was a need for short-term emergency aid incorporating all Government-funded schemes.

Various organisations, including the ANC and Cosatu, have already indicated they would include demands on food prices and VAT in their mass action campaign, which is mainly over the Codesa deadlock.

DEPARTEMENT VAN FINANSIES

No. 1601 **12 Junie 1992**

13 PERSENT BINNELANDSE GEREGISTREERDE EFFEKTE, 2009/10/11: SERTIFIKAAT No. 8336 VIR R84 500 UITGEREIK TEN GUNSTE VAN MEV. RACHEL ANN BECKER

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloor of verlê is, word hierby bekendgemaak dat tensy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

No. 1639 **12 Junie 1992**

VERKLARING DEUR: MNR. DEREK KEYS, MINISTER VAN FINANSIES EN VAN HANDEL EN NYWERHEID: 3 JUNIE 1992

MET BETREKKING TOT RENTE WAT DEUR BUITELANDERS IN SUID-AFRIKA VERDIEN WORD

Suid-Afrika bevind homself vandag in die posisie dat hy in 'n al hoe meer mededingende internasionale omgewing vir buitelandse beleggings moet meeding, en dit is noodsaaklik dat buitelandse beleggers nie ontmoedig word om beleggingsfondse beskikbaar te stel nie.

Rente wat deur buitelanders in Suid-Afrika verdien word, is alreeds in die volgende omstandighede van belasting vrygestel:

- Alle rente verdien op fondse wat binne die skuldstilstand geblokkeer is.
- Rente verdien op effekte uitgereik deur die Staat, plaaslike owerhede en sekere ander instansies soos Eskom en Transnet. Hierdie bepaling word vrylik deur emigrante gebruik vir die belegging van hul gebrokkeerde fondse.
- Rente verdien op kapitaal wat buite Suid-Afrika aan die lener beskikbaar gestel is en wat derhalwe ingevolge bestaande inkomstebelastingwetgewing nie uit 'n bron binne Suid-Afrika verkry word nie.

Ander rente wat uit 'n bron binne Suid-Afrika verdien word, is tegnies steeds aan belasting onderhewig. Baie min belasting sou egter op hierdie wyse beskikbaar wees, veral in die lig van die probleme wat ondervind word met die verkryging van opgawes en die hef van aanslae op buitelandse leners. Daarbenewens is daar 'n beweging onder die Europese Gemeenskapslande om rente slegs te belas in die land waarin die ontvanger woonagtig is.

Ten einde sekerheid op die gebied van buitelandse belegging te verkry en om enige oorblywende ontmoedigings in die vorm van belasting te verwyder, is daar met die eenparige goedkeuring van die Belastingadvieskomitee besluit om alle rente van belasting vry te stel wat van vandag of toeval aan iemand wat nie gewoonlik in die Republiek woonagtig is nie, of aan 'n maatskappy wat nie in die Republiek bestuur of beheer word nie. Die vrystelling sal ook op emigrante van toepassing wees, onderworpe aan die verdere voorwaardes dat hulle nie in die Republiek besigheid dryf nie.

Navrae: Lesley Lambert.
Telefoon: (021) 45-3796/8.

DEPARTMENT OF FINANCE

No. 1601 **12 June 1992**

13 PER CENT INTERNAL REGISTERED STOCK, 2009/10/11: CERTIFICATE No. 8336 FOR R84 500 ISSUED IN FAVOUR OF MRS RACHEL ANN BECKER

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

No. 1639 (320) [redacted] [redacted] **12 June 1992**

STATEMENT BY: MR DEREK KEYS, MINISTER OF FINANCE AND OF TRADE AND INDUSTRY: 3 JUNE 1992

[redacted]

REGARDING INTEREST EARNED IN SOUTH AFRICA BY NON-RESIDENTS

South Africa has to compete for foreign investment in an increasingly competitive international environment and it is essential that foreign investors are not discouraged from making investment funds available.

Interest earned in South Africa by non-residents is already exempt from tax in the following circumstances:

- All interest earned on funds which are blocked in terms of the debt standstill.
- Interest earned on stocks and securities issued by the Government, local authorities and certain other bodies such as Eskom and Transnet. This provision is widely used by emigrants as an avenue for investment of their blocked assets.
- Interest earned on capital which was made available to the borrower outside South Africa and which is therefore, in terms of existing income tax law, not derived from a source within South Africa.

Technically, other interest which is derived from a source within South Africa remains subject to tax. Very little tax would however be available in this way, particularly in view of the problems obtaining returns and raising assessments on foreign lenders. Furthermore, there is a move in the European Community countries towards taxing interest income only in the country where the recipient of the interest is resident.

In order to introduce certainty into the area of foreign investment and to remove whatever disincentive remains in the form of taxation, it has been decided, with the unanimous approval of the Tax Advisory Committee, to exempt from tax all interest which from today accrues to a person who is not ordinarily resident in the Republic or to a company which is not managed or controlled in the Republic. This exemption will also apply to emigrants, subject to the further condition that they do not carry on business in the Republic.

Enquiries: Lesley Lambert.
Telephone: (021) 45-3796/8.

VAT FM 12/6/92 (320)

Exceeding expectations

Government is collecting much more money from VAT than it expected last August, when the rate was cut from 12% to 10% and a range of exemptions on staple foods was announced.

The intake from VAT in the last five months of the fiscal year ending March 31 amounted to R7,8bn, according to a preliminary Statement of Revenue gazetted last month. This is about R1bn higher than the August projection.

But the figure is only 1,7% up on the money raised by GST in the same period of the previous fiscal year, far below the 15,7% inflation rate recorded in March.

The tax was introduced at the end of September but the first inflows to the State Exchequer Account were recorded only in November.

Despite VAT's better-than-expected performance, both VAT and GST collections were hit hard by the recession. GST brought in R10,6bn in the first seven months of the 1991/1992 fiscal year, about R800m less than expected last August, and was up less than 1% on the same period the year before.

The total income tax collected for the full fiscal year amounted to R42,5bn, up 14,5% on the previous year. This is R700m down on a revised figure published in this year's Budget documents. This has implications for this year's revenue because Budget estimates were based on the revised figure for last year.

FM 12/6/92

(320)

An analysis of major items in the Statement of Revenue shows that:

☐ Nonresident shareholders' tax, at R335m, was down 19,5%;

☐ Donations tax rose nearly 5% to R6,8m;

☐ Estate duty was down 4% to R78m;

☐ Tax on trade securities was down nearly 18% to R200m;

☐ Stamp duties and fees were 6% up at R690m;

☐ Transfer duties were 19% up at R915m;

☐ Mining leases and ownership yielded R325m, down 25%;

☐ Revenue from interest and dividends was up 8% to R74m;

☐ Levies were up 114% to R29m;

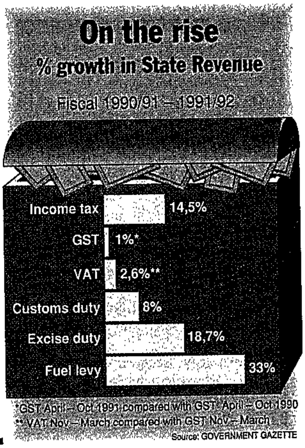
☐ Recoveries of loans and advances, at R45m, were half of the previous year's take;

☐ Nearly R2bn was collected from departmental activities, up 66% on the previous year. Included in this item is R809m transferred from the Central Energy Fund and the Land Supplies Procurement Fund to the Exchequer, intended for the financing of capital expenditure on social projects.

When payments to the self-governing states are subtracted, total inland revenue amounted to R64bn, compared with R58,2bn the year before.

Customs duty rose 8% to R2,7bn, excise duty nearly 19%, the surcharge fell 28% to R1,5bn (following the reduction announced in the 1991/1992 Budget) while the fuel levy jumped 33% to R5,2bn. The big increase in the fuel levy and the excise duty is the result of increases introduced in August to compensate for the expected loss of revenue from the two-percentage-point reduction in VAT. The revenue collected is in line with projections made in August.

The total Customs & Excise intake of R8,9bn was up 3% on the previous year. Together with the inland revenue, the combined total revenue amounted to R72,9bn — 9% up. Subtract from this the R809m earmarked for social projects and the total falls to R72,1bn. ■


On the rise
% growth in State Revenue
Fiscal 1990/91 – 1991/92

*GST April – Oct 1991 compared with GST April – Oct 1990
** VAT Nov – March compared with GST Nov – March
Source: GOVERNMENT GAZETTE

INTEREST RATES

Cresting a liquidity wave

FM 12/6/92 ([redacted]) (320) ([redacted]) ([redacted])

No wonder Reserve Bank Governor Chris Stals fears the effects of liquidity in the money market in the months ahead. Following a rise of R2,5bn in foreign exchange reserves in the first five months of the year, he last week announced measures to counter "a further substantial addition of liquidity to the money market from now until the end of August."

He was referring to government spending and what is bound to be a burgeoning deficit — because this spending will not be adequately offset by tax payments.

An indication of the dimensions of the problem comes in figures for April — the first month of the fiscal year — on receipts into and transfers from the State Revenue Account. Expenditure at R8,9bn was up more than 11% on the previous April. Though this is well below the inflation rate for that month it has to be measured against revenue collected:

☐ Inland revenue was up less than 0,1% over the previous April, at R4,646bn;

☐ In particular, VAT collections in April amounted to only R1bn, compared with GST collections of R1,6bn a year ago, and compared with an average monthly budgeted estimate of R1,75bn;

☐ Income tax receipts in April amounted to R3,3bn, compared with a budgeted monthly estimate of R4,2bn;

☐ Collections from Customs & Excise were up by 34% at R1,252bn, largely because of increased fuel levies, but these were dissipated by transfers amounting to R1,203bn, in Customs Union payments, producing a net R49,6m. This is down 59% from the previous April; and

☐ The grand total was barely changed at R4,7bn.

When amounts in transit are taken into account, the inflow into the Exchequer Account amounted to R5,3bn. It is the difference between this last figure and expenditure that has boosted market liquidity and softened interest rates.

No wonder Stals felt the need to take further action. He has decided to:

☐ Offer special, fully tradeable bills with a maturity of nine months to the market on tender. They will be rediscountable with the Bank only if they have a remaining outstanding maturity of 91 days or less. If not they will qualify as assets and will be accepted as collateral for overnight loans from the Bank;

☐ Double the balances which authorised foreign exchange dealers may hold abroad to $632bn; and

☐ Increase the level of cash reserves banks must hold against short-term liabilities, from 4% to 5%, by not later than July 21.

The move failed to halt the slide in rates.

Stals ... *battling liquidity*

FNB treasury head Ken Russell reports that the rate on bankers' acceptances was no higher at 14,55%, in the days following a *Business Day* report, on June 3, of a meeting at which Stals told bankers of his intentions. The rate on the RSA 12% declined from 16,17% on June 1 to 15,94% by June 4. And the rate on the Eskom 11% fell from 15,94% to 15,74%.

The outlook for the rest of the year is discouraging for Stals, who is attempting to keep interest rates above the inflation rate. He hopes that, by September, government revenue will catch up with expenditure.

However the April deficit — the difference between expenditure and revenue — is more than R4bn. Obviously this can't simply be extrapolated over the rest of the fiscal year because expenditure and revenue don't flow uniformly. But given that the budgeted deficit for 1992/1993, before capital income transfers, was R15,9bn (4,5% of estimated GDP), the figure is horrendous. It is more than 25% of the total.

Furthermore, only two months after the Budget, Minister of State Expenditure Amie Venter presented parliament with a supplementary budget of R2,8bn. "But, on his own admission, the supplementary budget is likely to be exceeded," says Nedcor chief economist Edward Osborn.

"The worrying aspect about the April revenue figures is that they point to the possibility that the budgetary revenue estimates were overoptimistic and did not take sufficient account of the depths of the recession we are going through (see p34)." He suggests the budget deficit in the fiscal year may be closer to R20bn — a huge 5,7% of GDP. ■

FM 12/6/92

(320) [illegible]

Government's recent decision to reverse its policy on the taxation of nonresident interest may be a move towards a more coherent and investment-orientated tax policy. When Revenue reminded investors, in February, that some categories of interest earned on foreign investment were subject to income tax, the finrand took a plunge as investors rushed out even more quickly than they had rushed in, lured by high rates obtainable on finrand-denominated interest-bearing accounts (*Economy* February 20). The move was criticised by the *FM* at the time as damaging to confidence.

Unfortunately a reversal of the decision has not had a symmetrical influence on the finrand. Confidence is easy to damage, difficult to restore, especially as the fortunes of the Codesa negotiations fluctuate. A renewed flow of funds into the finrand wouldn't have any immediate benefit because there would be no effect on reserves. But, as the first move towards abolishing exchange controls on nonresidents and eventually on residents, it would lay the groundwork for eventual benefits to the economy.

Of equal importance is the restoration of coherence to fiscal policy, which means an end to the recent sudden shifts in tax policy, to gain relatively small amounts in revenue. In his parliamentary speech announcing the concession, Finance Minister Derek Keys stressed that the loss of revenue would be modest, especially as many categories of interest derived by persons not ordinarily resident in SA, or to companies not managed or controlled in SA, were already exempt. The same goes for emigrants, to whom the exemption will also apply, provided they don't carry on business in SA.

Keys explained that various exemptions already applied to interest earned by nonresidents. On:

☐ Funds blocked in terms of the debt standstill;

☐ Stocks and securities issued by government, local authorities, Eskom and Transnet — a provision widely used by emigrants as an avenue for investment of their blocked funds; and

☐ Capital which was made available to the borrower outside SA and which, in terms of existing income tax law, is not derived from a source within SA.

Technically, other interest which is derived from a source within SA remains subject to tax, though the yield is low, partly because of the problems encountered by Revenue in obtaining returns and raising assessments on foreign lenders.

Moreover, said Keys, there is now a move in the EC towards taxing interest income only in the country where the recipient is resident. ■

Cont →

LABOUR BROKERS [redacted]

Logjam

FM 12/6/92

The uncertainty over the date for implementing the new labour broker requirements (*Economy & Finance* April 24) continues. Price Waterhouse Meyernel tax manager Lindsay Viljoen believes the Commissioner for Inland Revenue will demand more information about CCs or companies applying for exemption.

Cont →

FM 12/6/92

[redacted] (320)

This will include financial and cash flow statements over three years to prove income has been generated from more than one source, a description of services and an explanation of how these are marketed. If the CC or company can assure the Receiver it is independent, it will not have to complete an additional "independence questionnaire."

In evaluating the status of a company or CC, Revenue will consider all the surrounding circumstances. Failure to qualify on one point will not necessarily disqualify the CC or company. And, if a CC or company fails the test, it will be entitled to ask for the decision to be reviewed. Ultimately, the test will remain subjective.

Labour brokers can offset the Paye deducted from own earnings against provisional tax payments but net overpayments will be refundable only after assessment.

Problems might arise because a CC or company is obliged to deduct Paye from an employee's remuneration. This could result in an initial R70 tax being paid on every R100 earned (gross) by the labour broker.

The amount would comprise:

☐ R48 — Paye at the company rate, on the broker's own remuneration; and

☐ R22 — Paye, at the maximum marginal rate of 43% applicable to individuals, on the remaining R52, if the broker pays out the lot as remuneration to its own employee.

The new rules have been designed to sift genuinely independent businesses or professional firms from CCs set up to enable employees to avoid Paye on salaries.

Forms to apply for exemption from the requirements were to have been available on May 1 but Revenue failed to meet the deadline. Rumour has it that an official announcement is now imminent.

If a CC or company offers the services of its own employees to other businesses and does not obtain exemption from Revenue, the tax cost will be high. The ultimate employer of the services has to deduct Paye at the company tax rate of 48%, not at the sliding scale applicable to individual employees. If the ultimate employer fails to deduct Paye from the fees payable to the labour broker, it will incur penalties and interest. ■

Wealth tax on ANC agenda

STAR 13/6/92 290 320

FRANK JEANS

THERE could be a variety of wealth taxes as part of the economic policy of a future ANC-dominated government of South Africa. Predicting tax policy in a new South Africa, Pierre le R du Toit, a partner of Arthur Andersen and Company, told the 25th convention of the SA Property Owners' Association at Sun City recently: "While I cannot speak for the ANC and can only guage its intentions from its statements, it is my impression we will see something along the following lines:

- Tax relief in the shape of continuing reducing rates is out.
- On the other hand, the income tax rates of 70 percent and over of the heyday of Afrikaner socialism will not return.
- There will be a variety of wealth taxes — capital gains/transfer tax, land tax, death duties — but these will be more perceptual than seriously revenue producing.
- There may be some decentralisation, but central government will delegate, rather than abrogate, the fiscal policy.

"This picture is not as horrific as we are often led to believe, but the ultimate test for the success of our future tax system will be found in our adherence to the rule of law."

e/Press 14/6/92 320

Tips to keep the taxman at bay

■ MONEY TALK

MANY income tax payers find the task of filling in the forms daunting.

The net result being that they neglect to complete and submit forms. This inevitably leads to either prosecutions by the Receiver of Revenue or fines for late submission.

There are a few basic principles which can make filling in returns more manageable.

The first and most important is to be systematic. Put all the relevant documents in a file when you receive them. The most important of these is the IRP5 form, which are supplied by employers, and which shows the total pay you have received during the financial year and contributions.

If an employer neglects to supply the forms in time, report it in writing to the Receiver and ask for an extension. The Receiver will not be unreasonable if it is clear that something is being done about completion of the forms.

Bear in mind that there are two sides to an income tax return. Firstly, the income side and, secondly, allowable deductions.

Make sure you have all the insurance, especially annuity, receipts as well as details of contributions.

Once you have all the relevant documents you need to do some preliminary work before filling in the detail.

Use a pencil and record all your income on the left side of a piece of paper, and make a list of all the amounts you wish to claim on the right side.

If you have been doing part-time work from home, which has produced income, you are entitled to certain deductions, for instance rent for a room or garage, and electricity.

Generally speaking, you are not entitled to claim expenses necessary to produce your normal income, such as transport costs to and from work.

When you have completed your calculations, fill in your tax form. Use a pencil initially, because you may make mistakes which need to be rectified.

An important point to remember is that one should photocopy the completed income tax return form. It will make life so much easier next year, because it would then not be necessary to ask your wife the birth dates of the children, for example!

It will also help you to ensure that no continuing items have been missed which could well cost you money, because it is your responsibility to claim deductions.

If you are unsure of your situation once you have completed the form in pencil you need not spend a lot of money by going to a tax adviser. Simply make an appointment with an official at the Receiver's office. Normally, they are willing to assist.

Finally, remember that the basic underlying requirements for the completion of the return are very simple: your total income earned on the one hand and your claims for deductions on the other. Unless you lead a somewhat complicated life you will find all the guidance necessary in the handy brochure that normally accompanies the form.

VAT knocks cash and carry profit

S/Times (BUSS] 14/6/92 ([redacted]) (320)

By CIARAN RYAN

VAT has cost the cash-and-carry wholesale business a fortune.

Cashbuild, a building materials supplier, lost 19% of its business overnight when VAT was introduced last October.

Managing director Gerald Haumant says GST was difficult to enforce among general dealers in rural areas, many of whom gained a price advantage by not charging it to customers.

Mr Haumant says: "GST was often taken as profit margin which gave rural general dealers a passing advantage over law-abiding town competitors."

Drought

When VAT was introduced, many rural general dealers added VAT to the old GST which they had used to boost margins.

Mr Haumant says these price increases were rejected by impoverished rural communities and sales of building materials declined.

"There is strong resistance in rural communities to price increases because of the drought, rising food prices and lower remittances from miners."

The fall in wholesalers' demand for building materials has also punished manufacturers. They report a 35% drop in sales.

There has been some recovery in Cashbuild revenue because of inflation.

Metro Cash & Carry, which reported a R25,8-million profit for the 10 months to April after a R53,2-million loss last year, also felt the pinch when VAT replaced GST.

CARLOS DOS SANTOS: merger fears unfounded

Managing director Carlos dos Santos says Metro has picked up business from some smaller wholesalers who avoided charging GST to gain an advantage over competitors.

"It is a bit early to tell what the impact of VAT has been on our business. We closed 31 stores and restructured the group. Comparisons with last year are difficult. But we knew that sales would suffer when VAT was introduced."

Bophuthatswana, where no GST was charged, suffered most from the introduction of VAT. Businesses were forced to raise prices on all but zero-rated items by 10%. SA-based businesses charging the 13% GST were able to drop prices by 3% after VAT.

Food wholesalers in the cash-and-carry market appear to have survived better than those in appliances and building materials. Makro's sales shot up 46% in the month before the introduction of VAT and fell back 5% when the tax came into force.

Since then sales have become normal, says Mark Lamberti, managing director of Massmart, Makro's holding company. Appliance and building materials sales are largely discretionary, whereas food is not.

Sales in Cashbuild's Bophuthatswana stores fell by 40% as prices rose 10%, cutting "cross-border" and domestic trade.

Mr Haumant says the drop in turnover cannot be attributed to the recession because it was a sudden rather than a gradual. Bophuthatswana has been a model of resilience throughout the recession.

For the first time the company was able to gauge the extent of GST evasion among general dealers. Another reason for the drop in turnover is the negative impact on retailers' cash flows because the tax is charged on purchases, whereas GST was only payable when the sale was made.

Study

Sales in Cashbuild's Lesotho stores, which continue to charge 10% GST, were unaffected by VAT. Cash-and-carry chains in Lesotho have complained to the Government about unfair competition from smaller wholesalers who are able to offer discounts because they do not charge GST.

According to sources in Lesotho, the practice continues.

Cashbuild's internal inflation rate — based on a study of the 80 top-selling items representing two-thirds of turnover — is 5% compared with a year-on-year consumer price index of 15,6%.

This means fixed overheads are rising faster than sales, eating into profit margins. Since the introduction of VAT, turnover is down an average of 9%.

Merger

A price comparison of the 200 top-selling items in Metro, representing 80% of turnover, between March 1991 and March 1992 showed an inflation rate of 11,2%. This is well below the March 1992 food price inflation of 28,9%, although Metro does not stock meat, fruit and vegetables.

Mr Dos Santos says the study indicates that margins have not risen as a result of the acquisition of competitor Trador. There were accusations that the merger, which set up the largest food cash-and-carry group in SA would reduce competition and fuel inflation.

Customers are more price-sensitive than they were, says Mr Haumant. Building materials suppliers are not passing on costs to the degree they did in the past.

Cheaper imports started to hurt monopolies such as Iscor and Plate Glass. Corrugated steel was imported for 25% less than Iscor's selling price and glass imports were 40% below the SA sales price.

Bursary taxation backdown

S. Times (Buss)

Business Times Reporter

14/6/92

IN a complete about face, the Government this week reinstated favourable tax treatment for bursaries and scholarships after withdrawing them in 1991 amid an outcry.

Ironically, the amended tax law is more generous than its predecessor. It allows almost anyone either paying or receiving a bursary or scholarship to claim a tax benefit.

The Government gave widespread abuse as the reason for withdrawing the dispensation in 1991.

Price Waterhouse Meyernel tax consultant Pieter Malan says: "Bursary and scholarship schemes must be properly structured to enjoy the benefit. (320) [redacted]

"The amendment to the Act is welcomed. It will alleviate the extra financial burden on parents as a result of changes to the schooling system."

Any bona fide scholarship or bursary will be exempt from tax if the recipient attends a recognised educational institution, such as a school or college. [redacted]

A bad time to pick up the reins at Saambou

SI Times (Buss) 14/6/92

SAAMBOU chief executive of 16 months Johan Myburgh would not have chosen to start his career at the banking group at the point he did.

He faced bad news by the bucketful — losses, write-offs, nightmarish systems technology. In short, every single department needed some attention when he signed on. Mr Myburgh told the Investment Analysts Society in Johannesburg this week: "The group was losing money at a rate of R2-million a month when I joined.

"Management did not know it because the management information system was so bad."

JOHAN MYBURGH: Skeletons out of the coffins Picture: ANDY KATZ

Results for the year to March 1992 showed a R9-million profit, but abnormal items of R75-million on top of a R25-million provision against advances were taken on the chin.

Mr Myburgh broke the abnormal items down into gilt losses of R25,5-million, losses arising from revaluation of property development advances and inventory to a realisable value of R43,3-million and another R6,3-million in rationalisation costs.

Saambou is not alone in losing on property development.

Mr Myburgh says the scrapping of the Group Areas Act last year had a devastating effect on property earmarked for up-market houses for blacks.

Saambou tried to cut the size of the stands to encourage sales, but this led to protests from neighbours about squatter camps on their doorsteps.

Mr Myburgh used this as an example of why the group's audited and signed 1991 accounts noted property revalued by plus-R28-million when only six months later R44-million had to be written down.

Saambou also stopped capitalising interest on property developments.

Now the knock has been taken, property can be sold and any return treated as bonsella. The disastrous gilts operation has been closed.

Saambou will aim to provide affordable banking services to salary earners and pensioners in order to raise living standards.

Saampro, the quoted property-owning company, is to be delisted to facilitate Saambou's disposal of its costly properties.

"A bank of our size cannot afford to have investments in property, not even for its own use. Counting all costs, we are paying R70/m² for our head office when we can rent from Sanlam at R21. We need capital free to meet the 8% requirement by 1995."

Saambou meets the current 5% capital to assets requirement, a fact good enough for Mr Myburgh, but one which he knows alarms investors.

"It is close to the wind, but why should we need a lot when capital is most costly? We need to earn 40% on it before tax when we can borrow at 14%."

Saambou has tackled its liabilites by introducing two savings accounts which have attracted large deposits. The technology has been farmed out to software house SPL, which Mr Myburgh says is the most cost-effective solution.

The branch network is being trimmed in rural areas where there are more financial institutions than there are house sales.

Mr Myburgh, a former head of Santambank, has recruited a team of men he hopes will return Saambou to prosperity. He promises moves to full financial disclosure — "something the biggest bank in the country can't claim".

The intention is to improve non-interest income and reduce operating costs.

"Our costs are 2,8% of assets. I recently visited the Skipton Building Society in the north of England where costs are 0,8% of assets. It shows what can be achieved."

Income increases could come from improved broking commissions, Saambou's life company, service fees and perhaps some profit from property development.

Mr Myburgh says the skeltons are out of the coffins — and the cupboards. But he cannot guarantee against any further losses. "It depends on the economy. The man in the street is heading for a disaster."

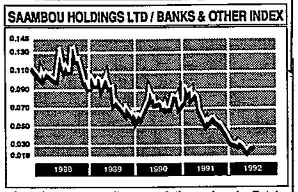
Mr Myburgh expects Saambou to improve from now and to thrive by 1995. He hopes dividends will be restored this year, possibly as scrip.

The intended improvements in financial performance from Saambou looked a bit too ambitious for the JSE. The shares were offered at 83c the day after the results were reported.

The copybook has been blotted and it takes time and proof to restore investor confidence.

I am half inclined to give it a chance, but until the market forgives, the leeway will be limited.

DIAGONAL STREET
by Julie Walker



Four-legged dogs and those with three

(320)

SI Times (Buss) 14/6/92

THE Axeman Cometh. That headline on an Investors Chronicle article about financial services in Britain could have been written about South Africa.

The article says: "It's not just banks. Britain has too many building society branches, too many unit trusts, too many life assurance companies. . . everybody wants to be the rationaliser, nobody wants to be rationalised."

If Britain's 60-million people, many of them affluent, are faced with an embarrassment of financial services, can the same be said for South Africa, given its current banking and insurance activities?

Fedlife's Morris Bernstein touched on the issue in his speech to the Insurance Institute of SA conference.

Investors Chronicle airs the view of insurance guru and ex-South African Sir Mark Weinberg that in 10 years' time in Britain, banks and building societies will dominate with 70% of the financial services market.

The balance will be filled by niche players, whose customers will be a minority loath to be dictated to by banks.

Dr Bernstein outlines his view of the respective roles of banks-building societies and of life offices in SA.

He gives an up-market version of the dog-in-the-manger routine: SA's insurers are four-legged dogs, banks have three. Instead of banks seeking an artifical fourth, they would prefer to see the insurance dog lose one.

The banks' grouse is that life assurers have had a great tax advantage. Historically, they were taxed on 30% of their investment income, a figure which roughly equated to profit.

"Originally, when company tax was 40%, life offices were taxed at 40% of the 30%. The resultant 12% figure led to a quantum leap into controversial territory, but it is based on an error in logic," says Dr Bernstein.

Tax on approved business (pensions and retirement annuities) is deferred until payment. The fiscus still gets its tax, but down the road.

Life office tax has increased in recent years. The life offices are now taxed at company rates on the full investment income in respect of taxable business.

Yet life offices are alone in still being taxed on two-thirds of dividend income and can offset only 55% of their expenses against tax, spread over five years.

The level playing fields matter is under review and there is likely to be a three-fund approach which is already extending to four.

Dr Bernstein says: "Most life officers seem to be in favour of the separation of their business into taxed policyholders' funds, untaxed funds, shareholders' funds and company-owned policy funds.

"It is supposed to be theoretically perfect, but I think more homework is necessary. It could be skewed in favour of the big life companies and will discriminate against companies doing a lot of pensions business.

"It's possible the government won't collect as much tax as it does currently."

Dr Bernstein says insurers now work so closely with banks that their coexistence will thrive. He puts the success of life assurance in the past 20 years down to marketing skills, whereas the banks maintain it is because of favourable tax treatment.

"In SA, one can say thank goodness for the life assurance industry, without whose capital injections two of the big five banks might no longer be around."

He outlines the ties — Mutual-Nedcor, Sanlam-Absa, Liberty-Standard, Southern-First National, Fedsure-Investec-Saambou and Norwich-NBS.

Bank brokers account for 60% of all broker business, which is in turn about 35% of total business.

SA's banks are consumer driven, whereas the insurers are distribution driven.

Dr Bernstein expects financial harmony to continue in SA. Banks will still earn profits from commissions and their equity holdings in life assurers, the brokerages will continue to expand and help to cultivate their customer bases.

He believes captive life offices of banks and building societies will flourish, but not stray from their niche.

If SA avoids the unhappy changes made to the British financial services laws, independent brokers will also thrive.

Banks will move into life business, but only into the commodity type.

MORRIS BERNSTEIN: Financial harmony

"A bank employee can be a successful life assurance salesman, but will do it directly and join our ranks and not through the basis of a salary plus bonus from a bank."

Dr Bernstein believes that the domain of banks should be short-term money up to five years, whereas life offices are 10 years and more.

If the sixth schedule is scrapped, life offices could become five years and longer money havens.

"Investments of under five years should be about capital security, but 10 years and longer is about protection against inflation. Equity and property investments made through the life offices have done that."

He says the oligopoly of SA's few, but strong, assurers, is a healthy one.

One of the most compelling reasons not to promote one-stop financial supermarkets in SA is the simple truth that one should not have all one's eggs in the same basket.

Tax Bill expected to boost housing

ADRIAN HADLAND 320

THE provision of housing to low-income groups will receive a substantial boost if the Taxation Laws Amendment Bill, introduced in the House of Assembly last week, is passed, experts have said.

Non-profit development agencies and community-based trusts would be entitled to exemption from VAT on investment capital and interest, if the Bill were to be approved.

An attorney involved in the development field said the VAT exemption was equivalent to a state subsidy and would provide significant incentives for development companies to redress the national housing shortage.

"The Bill marks a recognition by the fiscus that there is an ongoing need for housing in the lowest-income segment," he said. This was particularly important in a market segment where the private sector did not operate due to the high risk factor. The Bill would be particularly important for the growing number of community-based development agencies and trusts, he said. "The days of 'top-down' development institutions with solely white executives running the show are over."

The exemptions from VAT would allow agencies, which are exposed to high risks, to cut costs and accumulate reserves. B/Day 15/6/92

The passage of the Bill could make a substantial impact on the provision of low-cost housing in SA.

US concern over lack of tax treaty

B/Day 16/6/92.

(320)

SIMON BARBER

WASHINGTON — Congressman Charles Rangel, author of the now-repealed double taxation rule for US companies in SA which forced the departure of Mobil Corp and other major firms, is fighting to block negotiation of a new tax treaty between the US and SA.

The original treaty was unilaterally abrogated by the 1986 Comprehensive Anti-Apartheid Act.

The absence of a new one, say US corporate officials, remains a serious worry for firms considering investing in SA.

The US Treasury Department has been sounding out the tax-writing House ways and means committee on the possibility of negotiating a new treaty as part of the administration's continuing efforts to remove impediments to investment in SA.

Rangel, a senior member of the panel, wrote to Treasury secretary Nicholas Brady last week that while he believed Pretoria had made "very significant" progress towards the establishment of an interim government, further normalisation of US-SA relations should wait until such a government was in place.

A spokesman for Rangel, John Sheiner, described the congressman's position as a largely symbolic gesture. He said it would not have a significant impact on US investment decisions.

An executive from a major US corporation active in SA differed strongly, however. "It's damned important. A treaty gives an assurance to investors that they won't be ripped off taxwise," he said.

The main purpose of such treaties was to establish reciprocal methods to prevent double taxation and tax evasion.

At the moment, Ambassador Harry Schwarz noted yesterday, tax advantages offered by the SA government to attract US investors would be nullified because they would simply reduce the size of the credit the investors could take against the US tax bill.

It is unclear at this stage whether Rangel will succeed in delaying the start of negotiations, which in any event are usually a lengthy process.

The final treaty will be subject to confirmation by the Senate.

Property owners may face bitter pill in future SA's new forms of taxation

STAR 17/6/92

320 [redacted] 320 [redacted] [redacted]

The property industry has been left with little doubt about its future in the South Africa of tomorrow, certainly in regard to the effect of proposed taxes on wealth, land and capital gain.

A black-dominated government might also be expected enforce an unprecedented system of equity sharing of business and State ownership.

These were the key topics to emerge from the recent South African Property Owners Association (Sapoa) convention at Sun City.

While main speakers were adamant that it was vital to maintain a "hands-off-property" policy, new forms of taxation could well turn out to be a bitter pill for owners.

Dr Zach de Beer, leader of the Democratic Party, certainly gave a strong reminder to a future black government, when he told delegates: "To confiscate property from its owners and give it to other people is not ony morally wrong but economically disastrous."

The tax spectre, however, kept looming over the convention, particularly when Pierre du Toit, a partner of Arthur Anderson and Company, foresaw a variety of wealth taxes ahead.

Pierre du Toit ... variety of wealth taxes.

He said: "The income tax rates of 70 percent and over of the heyday of Afrikaner socialism will not return.

"There will be capital gains andtransfer tax, land tax and death duties, but these will be more perceputal than seriously revenue producing.

"Other sources like prescribed investments will be revisited but in moderation."

However, Mr du Toit also cautioned the tax planners of the future that the ultimate test for the success of a restructured tax system would be found in adherence to the rule of law.

Benny Alexander, secretary general of the Pan Africanist Congress (PAC), on the other hand, punched home a few truths about black corporate share ownership and envisaged businesses and possibly some existing State enterprises being asked to create a fund to promote and support such a system.

"This could be done by issuing new shares or by reducing shareholdings of existing shareholders," said Mr Alexander.

"The redistributed shares must have voting rights and workers will structure themselves in appropriate form to enable their block stock ownership and stock effective representation in management and decision-making structures."

He also saw businesses, being required, "in liaison with employees", to submit to the State or appropriate agency, human resources development and training programmes to ensure black advancement to senior positions.

Peter Gardiner, a director of Anglo American Property Services (Ampros), commenting on what he termed "the vulnerability of homeowners" amid the backdrop of the Bloubosrand squatter debacle, said:

"Land devaluation has threatened most major landowners near the cities through the threat of, or actual invasion of squatters, linked to total disrespect for private property rights."

He proposed the formation of a Land Court to prove "undue prejudice" and for landowners to receive adequate compensation.

Mr Gardiner also noted that for the first time, the impact of the reform process was being felt in the home environment and that homeowners must be prepared for a more democratic government "to look to vacant land near established infrastructures".

Peter Gardiner ... homeowners vulnerable.

Nick Harris, an executive director of Russell Marriott & Boyd Trust at the convention, predicted that office rents could come under pressure next year.

He said: "While we might think that rentals are keeping pace with inflation, nothing could be further from the truth.

"I expect rents to rise slightly in the popular locations which have low vacancies such as Rosebank, Parktown and Randburg but in other areas they will do well to remain steady and one may see a further drop of up to five percent.

"Should major property owners decide to cut their losses and try to attract tenants, even greater falls could be experienced."

Mr Harris also said it was time the industry appreciated that we could not keep on developing the veld and that we had to look to maximise the return on our existing resources and preserve urban and rural environments.

Ultimately, market forces could well turn off the seemingly endless supply of unlet office developments.

†The STATE PRESIDENT:

(1) and (2)

The report was signed by Mr Justice Goldstone on 29 April 1992 and then made available for the translation, printing and duplication thereof. These steps were necessary due to the fact that the responsible Minister was of the opinion that the report was not simply an *ad hoc* report but represented a phase of the Commission's wider investigation. I was informed that these preparatory steps were cleared by the responsible Minister with Mr Justice Goldstone. Final clearance occured on 13 May 1992. On 14 May 1992 the Minister of justice submitted the report to me in the normal course of events by means of a Minute. After consideration of the report I directed that it be tabled in Parliament and that certain Ministers concerned should react thereto with a view to the implications thereof. This, *inter alia*, led to a positive result in that the Minister of Local Government and National Housing could confirm on 2 June 1992 that an amount of R294,6 million was budgeted for the 1992/93 financial year for the conversion and upgrading of hostels. This was in accordance with one of the Commission's recommendations.

Mr L FUCHS: Mr Speaker, arising from the hon the State President's reply, is he prepared to concede that in withholding the report for a long time, and then releasing certain selected passages, he was wittingly or unwittingly placing the whole commission and its credibility in jeopardy?

The STATE PRESIDENT: Mr Speaker, I received it, as I have said, on 14 May and gave instructions that it be tabled in Parliament. It was tabled in less than 14 days. If the hon young member . . . [Interjections] . . . would go to the trouble of checking other legislation, he would find that there are prescriptions with regard to the period within which documentation is to be tabled. The usual period allowed is 14 days. In this case the enabling Act does not prescribe any period whatsoever.

I think that within the practice of parliamentary experience it is commonly done within 14 days, and this was tabled within 14 days. That is not an unreasonable delay, and there is nothing sinister in the delay which has occurred, inasmuch as it can be described as a delay. The argument which I am advancing is that there was no delay in any real sense of the word whatsoever. I give the assurance to this House that there was nothing sinister in it. There is nothing in there that we wanted to have hidden. There is still nothing in that report which we want to have hidden on which we would not like the public to know about or be fully informed about.

Mr L FUCHS: Mr Speaker, arising out of the reply of the hon the State President, who, with the utmost respect, still has not answered my question, does he believe that the Goldstone Commission has been placed in jeopardy and that the credibility of the Goldstone Commission has in any way been placed in jeopardy?

The STATE PRESIDENT: Mr Speaker, we did not intend in any way whatsoever to do so, and I do not think that any responsible South African should in any way undermine the credibility of this very important instrument which was created, at the initiative of the Government, to monitor the problem of violence. If its credibility has been placed in jeopardy, it was done by people who misused a simple set of facts in order to create a suspicion about something which never existed.

Ministers:

Retirement of teachers on accelerated pension

*1. Mr A GERBER asked the Minister of National Education:†

(1) Whether, with reference to the joint media statement of 17 February 1992 in which it was announced that certain teachers may retire from service on accelerated, adjusted pension and to which the Minister of Education and Culture in the Administration: House of Assembly referred in his reply to Question No 1 on 27 May 1992, he has taken or intends taking any measures in this regard; if so, when will he disclose particulars thereof;

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

B750E

The MINISTER OF NATIONAL EDUCATION

(1) Yes, amendments in respect of education legislation and regulations as well as pension regulations are currently being made. As soon as these amendments are effected, details will be made known.

(2) No, not at this stage.

Mr R M BURROWS: Mr Speaker, arising out of the hon the Minister's reply, can he at least give us an indication of the implementation date of these regulations?

The MINISTER: Mr Speaker, I envisage an implementation date of not later than 31 July.

Reduction of personal income tax

*2. Mr A GERBER asked the Minister of Finance:†

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(1) Whether he considers himself bound by his predecessor's undertaking to reduce personal income tax over a period of five years; if not, why not; if so, (a) how and (b) over what period does he envisage bringing about this reduction;

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

B751E

The MINISTER OF FINANCE:

(1) I regret that I will not be able to answer the hon member's question satisfactorily until early in 1993. As I stated during the interpellation debate on 20 May 1992, decisions about taxation rates for the next financial year will be taken during the preparation of the 1993/94 National Budget. The final decisions will be taken by the Cabinet. At that stage I hope to propose some alternatives to my colleagues, and I can assure you that at least one of them will be based on lower rates.

As we are all well aware, circumstances have changed since my predecessor, Mr Barend du Plessis, undertook four years ago to reduce taxation rates over a five year period. South Africa is experiencing its longest post-war economic recession and this is placing pressure on state revenue. At the same time, socio-economic demands on state expenditure are increasing. Signs that these dual pressures were limiting the Government's ability to continue with its programme of lowering taxation rates began to emerge last year. They were confirmed in the 1992/93 National Budget when my predecessor stated that tough economic conditions precluded a reduction in taxation rates during the current financial year.

(2) I do not intend making any statements on tax rates before the 1993/94 Budget.

†Adv C H PIENAAR: My Speaker, arising out of the reply of the hon the Minister, will he concede that unless there is an economic upswing, the position of the State's liabilities and the debts that the State has to service at the moment are of such a nature that the indication is that in order just to cope, the State will have to increase taxation?

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†The MINISTER: Mr Speaker, any good development in our economy will be able to take place only if we can make the economy grow vigorously again. I think it is clear.

†Dr P J GOUS: Mr Speaker, further arising out of the hon the Minister's reply, may I ask him if he is of the opinion that the South African taxpayer, as far as both direct and indirect taxation are concerned, is taxed at a low rate or not?

†The MINISTER: Mr Speaker, I think according to the general expert opinion we are not taxed at a low rate. [Interjections.]

†Dr W J BOTHA: Mr Speaker, . . . [Interjections.]

†Mr SPEAKER: Order! Just let us hear the hon member's question! [Interjections.]

†Dr W J BOTHA: Mr Speaker, further arising out of the reply of the hon the Minister, I want to ask him if he thinks that the benefits that the South African taxpayer receives compare with the benefits the taxpayer receives in countries that pay lower rates? [Interjections.]

†The MINISTER: Mr Speaker, I do not believe I am able to draw such comparisons with other countries. The position of each country is unique, and we treat this situation on merit. [Interjections.]

†Dr W J BOTHA: Mr Speaker, further arising out of the reply of the hon the Minister, may I ask him why, then, he has used the argument of the low rate of taxation in other countries in the interpellation?

†The MINISTER: Mr Speaker, I am not aware of having made use of low rates of taxation. I think I mentioned a number of rates of taxation

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in other countries that are just as high as ours. [Interjections.]

†Dr P J GOUS: Mr Speaker, further arising out of the reply of the hon Minister that we are, indeed, a highly taxed country, is it not wise, at this early stage, to give the economy an indication that he is not going to use this source of income as a basis to plan what his expenditure will be, and that he has already decided to live within limited sources of income? Can the present income be sufficient for that or not? [Interjections.] Does he not want to give the taxpayer in this country such an indication at this stage?

†The MINISTER: Mr Speaker, I did not confirm that we are a highly taxed country. I only confirmed that our taxation is not low. [Interjections.] At this stage it would be completely premature to give the taxpayer any indication at all. It is far too early in the budget year. [Interjections.]

Research on greenhouse effect

*3. Mr J CHIOLÉ asked the Minister of Environment Affairs:†

(1) Whether any research has been done in connection with the influence of the greenhouse effect on weather and/or climatic conditions in Southern Africa; if so, what are the findings in respect of the incidence of drought conditions in Southern Africa;

(2) whether South Africa will make any contributions or have any contributions made on the greenhouse effect at the Earth Conference to be held in Rio de Janeiro in June 1992; if not, why not; if so, what will the nature of these contributions be?

B752E

†The MINISTER OF ENVIRONMENT AFFAIRS:

(1) Yes;
South Africa has an active programme of research on global environmental change which addresses the greenhouse effect and the possible influence thereof on terrestrial and marine systems, water resources, agriculture and forestry. Several State departments, universities and other research bodies are involved in this research. Preliminary results suggest that some parts of South Africa could become drier, other parts wetter, under conditions of climate warming. However, there remains much uncertainty about global warming and its consequences.

(2) No.
South Africa was not officially represented at the Earth Conference in Rio de Janeiro and therefore could not make contributions on any subject at that conference. South Africa, however, made a contribution beforehand in the form of the report: "*Building the foundation for sustainable development in South Africa*"—pp 78–80 and p 109 of this report refer to the greenhouse effect.

†Mr J CHIOLÉ: My Speaker, arising out of the reply of the hon the Minister, in view of the research that has been done and the acknowledgement that certain areas will become drier and that certain areas may become wetter, are those findings sent to the various agricultural unions before the time or on an annual basis, in order to enable them to report back to the farmers in that area?

†The MINISTER: Mr Speaker, I have already told the hon member that this research is very preliminary. It is not conclusive and it would be misleading to relay this information to the different agricultural unions.

†Mr J CHIOLÉ: Mr Speaker, further arising out of the reply of the hon the Minister, I would like to know from him what amount South Africa spends on this research annually.

†The MINISTER: Mr Speaker, if the hon member will have the question put onto the Question Paper, I shall reply to it later.

Number of self-defence units: ANC

*4. Mr C E HERTZOG asked the Minister of Law and Order:†

(1) Whether the South African Police has any information on the number of self-defence units established in the Republic by the ANC to date; if so,

(2) whether he will disclose this information; if not, why not; if so, (a) how many such units are there in the Republic and (b) in respect of what date is this information furnished;

(3) whether the Government intends taking any steps in respect of these units; if not, why not; if so, (a) what steps and (b) when?

B756E

†The MINISTER OF LAW AND ORDER:

(1) Yes.

(2) (a) The South African Police is aware of the existence of eighty five (85) units in the Republic of South Africa.

(b) 5 June 1992

(3) (a) and (b)

No steps have been taken against the self-defence units, as no law makes provision for such action. However, steps are being taken against individual members of the units who commit criminal offences.

†Mr C E HERTZOG: Mr Speaker, arising out of the reply of the hon the Minister, does he not think that it is a dangerous situation that is developing?

†The MINISTER: Mr Speaker, there are several organizations that we regard as dangerous and that may become dangerous. This is just one. We also regard the Wenkommandos and the Ystergarde, of whom the hon member is, no doubt, aware, as dangerous. [Interjections.]

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

Task force to Zaïre

*5. Mr W A BOTHA asked the Minister of Defence:†

(1) Whether the government sent a task force to Zaïre during the past year to renovate certain naval bases in that country; if so, (a) when, (b) why, (c) what naval bases and (d) what was the cost involved;

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

B757E

The MINISTER OF DEFENCE:

(1) and (2) No.

Buying-up of smuggled weapons

*6. Mr W A BOTHA asked the Minister of Defence:†

(1) Whether the Government has voted any money for the buying-up of arms smuggled into South Africa; if not, what is the position in this regard; if so, (a) what amount was voted for this purpose and (b) in respect of what date or period is this information furnished;

(2) whether such arms are being bought up so that they may not reach *inter alia* the ANC; if not, why are they being bought up;

(3) whether the Government intends taking any steps in respect of the brokers and buyers of such arms; if not, why not; if so, what steps;

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

B758E

The MINISTER OF DEFENCE:

(1) Money has not been voted for the SA Defence Force for the buying-up of smuggled arms. There is, however, a fund which is used to reward persons for handing in arms.

(2) and (3) fall away.

(4) No.

SADF involvement in death of two persons: Noenieput

*7. Adv J J S PRINSLOO asked the Minister of Defence:†

(1) Whether he will furnish information on whether any members of the South African Defence Force were in any way involved in an incident during which two persons, whose names have been furnished to the Defence Force for the purpose of the Minister's reply, were killed at or near Noenieput in the Kalahari in November 1991; if not, why not; if so, (a) in what way and (b) what are the names of these two persons;

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

B768E

The MINISTER OF DEFENCE:

(1) The SA Defence Force was not involved in the incident.

(2) No.

Death of two persons at Noenieput: inquest

*8. Adv J J S PRINSLOO asked the Minister of Law and Order:†

(1) Whether an inquest was held in respect of the death at or near Noenieput in the Kalahari in November 1991 of two persons, whose names have been furnished to the South African Police for the purpose of the Minister's reply; if not, why not; if so, (a) what was the result of this inquest and (b) what are the names of the persons concerned;

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

B769E

The MINISTER OF LAW AND ORDER:

(1) No.

An inquest has not yet taken place. The docket has been forwarded to the Attorney General for his decision.

(a) Falls away.

(b) Jurgens Mattheus White and Johannes Jurgens Grobbelaar.

(2) No.

Drivers' licences in KwaNdebele: abuses

*9. Mr P G SOAL asked the Minister of Transport:

(1) Whether he has been informed of and/or has received any complaints on alleged abuses in the system of the issuing of drivers' licences in KwaNdebele; if so, what is the (a) nature and (b) extent of these abuses;

(2) whether he intends taking any action in this regard; if not, why not; if so, (a) what action and (b) when?

B773E

The MINISTER OF TRANSPORT:

(1) Yes. The Department of Transport is aware of complaints regarding alleged abuses in the system of the issuing of drivers' licences in self-governing territories.

(a) The complaints pertain to the issuing of drivers' licences to people on payment without those people undergoing the appropriate tests.

(b) The exact extent of abuses in this regard is unknown as self-governing territories, in terms of the Self-Governing Territories Constitution Act, 1971 (Act 21 of 1971), themselves exercise legislative and executive authority with regard to road traffic, including the licencing of drivers. The awareness of alleged abuses is solely based on complaints which are received and media reports in this regard.

(2) Yes.

(a) and (b)

In terms of Act 21 of 1971, the Department of Transport has no statutory authority to take action regarding the alleged abuses. All complaints received are currently referred to the South African Police for investigation. The resolution of this issue is, therefore, in the process of initiating discussions with all parties concerned to address this problem in a co-ordinated fashion. The strategy will be finalized shortly whereafter further announcements will be made.

Steps against taxpayers

*10. Mr D P DU PLESSIS asked the Minister of Finance:†

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(1) What steps are taken against taxpayers who fail to pay personal income tax;

(2) whether at any time during the past five years it was decided not to take action against politicians who failed to pay personal income tax; if so, (a) when and (b) why?

B781E

The MINISTER OF FINANCE:

(1) If a taxpayer fails to submit a return of income, legal proceedings are instituted against him and a court may, upon conviction, impose a fine not exceeding R2 000 or a prison sentence not exceeding 12 months. Furthermore, the Income Tax Act authorizes the Commissioner for Inland Revenue to impose an additional penalty equal to twice the tax chargeable. If, after furnishing a return of income, he fails to pay any tax due in respect of an assessment issued to him, civil judgement may be obtained against him.

(2) No. 320

Arms/ammunition caches: Umkhonto we Sizwe

*11. Adv J R DE VILLE asked the Minister of Law and Order:†

(1) (a) How many arms and ammunition caches of Umkhonto we Sizwe (MK) have been traced by the South African Police in the Republic since 2 February 1990 and (b) in respect of what date is this information furnished;

(2) how many of these caches were pointed out to the Police by MK itself?

B782E

The MINISTER OF LAW AND ORDER:

(1) (a) 12

(b) 11 June 1992

(2) In ten (10) of the abovementioned instances arms and ammunition caches were pointed out by MK members after their arrest.

Trial of persons: Operation Vula

*12. Adv J R DE VILLE asked the Minister of Justice:†

(1) Whether the trial of any persons charged as a result of Operation Vula has been completed; if not, why not; if so, how many such persons have been tried;

(2) whether he will furnish the names of those who have been tried; if not, why not; if so, what are their names?

B783E

The MINISTER OF JUSTICE:

(1) No. Indemnity has in terms of section 2(1) of the Indemnity Act, 1990 (Act No. 35 of 1990) been granted to nine of the persons who were involved in Operation Vula.

(2) Falls away.

Marriages between Whites and non-Whites

*13. Mr W L VAN DER MERWE asked the Minister of Home Affairs:†

How many marriages between Whites and non-Whites have taken place in the Republic since the repeal of the Prohibition of Mixed Marriages Act?

B784E

The MINISTER OF HOME AFFAIRS:

3 775

The figure is for the period 19 June 1985 till 31 December 1990. Since then, statistics on the group context of persons who married after 31 December 1990, are no longer being kept.

Alleged actions of members at Roodepoort counting hall

*14. Mr W L VAN DER MERWE asked the Minister of Home Affairs:†

Whether he will disclose his source for the statements made by him in an interpellation debate in this House on 22 April 1992 on the alleged actons of the hon members for Roodepoort and Losberg on 18 March 1992 at the counting hall in Roodepoort; if not; why not; if so, who is the source?

B785E

The MINISTER OF HOME AFFAIRS:

The Department has at its disposal statements of persons who were involved with the counting of votes at Roodepoort on 18 March 1992. The information which my predecessor disclosed during the interpellation debate concerned was taken from those statements. The statements are available in the Parliamentary office of the Department for the hon member's confidential perusal if he so requires.

Companies/close corporations declared insolvent

*15. Mr J CHIOLÉ asked the Minister of Trade and Industry:†

(1) How many companies and close corporations were declared insolvent in the Republic during the latest specified 5-year period for which information is available;

(2) whether his Department has made any estimates or has any statistics on the number of job opportunities lost as a result of the above-mentioned insolvencies; if not, why not; if so, how many job opportunities were lost over the said 5-year period?

B786E

'SA's middle class highest taxed in world'

(320)

Political Staff

SOUTH AFRICA's middle class is the most heavily taxed group in the world, the Democratic Party's tax expert Mr Brian Goodall said in Parliament yesterday.

He said this had been proved by the International Monetary Fund (IMF).

Speaking in the debate on the Income Tax Bill he said the government was dedicated to eliminating the middle class, which was paying 79% of total personal income tax.

Individuals were now expected to account for 42% of the total ordinary revenue collected whereas in 1980 it was 20%.

"A rise of 26% in the amount of tax collected from individuals last year is projected to be followed by a 22% rise this year," Mr Goodall said.

"If one looks at the figures for 1989/90, 79% of personal income collected came from those earning between R20 000 and R80 000 a year. They totalled fewer than 900 000 taxpayers."

Those earning R45 000-R80 000, fewer than 250 000 people, paid 39% of all personal income tax.

"The finance minister should not only be concerned with the lack of rich people, he should be equally concerned about the systematic impoverishment of the middle class by the economic and tax policies of the NP."

The IMF had estimated that on average white South Africans paid 32% of their income on tax.

In developing nations such as Singapore, the comparative figure was 13,45% and for Argentina it was 20,28%.

According to the IMF, the individual's net tax burden for South Africa as a whole was 10,64% compared to a world average of 9,08% and an average of 10,53% for the industrialised world.

"For white South Africans, the figure is 23,31%," Mr Goodall said.

He attacked the amendments in the Income Tax Bill as schizophrenic. — Sapa

CT 18/6/92

Keys will consider tax cut in 1993

ARG 18/6/92 (320)

SOUTH AFRICANS did not pay low taxes and an option to lower personal tax would be presented for consideration when next year's Budget was discussed, Minister of Finance Mr Derek Keys said.

Replying to a question by Mr Andrew Gerber (CP Brits), he said it was still too early to say whether lower income tax would be introduced in the 1993/94 Budget. — Sapa.

320

Drop VAT on medicine — DP

ARG 18/6/92

SPEAKING on the Taxation Laws Amendment Bill, Mr Geoff Engel (DP Bezuidenhout) said the government was showing insensitivity "during the worst recession in South Africa's history" by not zero-rating medicines and health care for VAT.

It should do so on the grounds of human compassion and decency, he said. — Sapa.

Mixed benefits for taxpayers

GERALD REILLY 320

PRETORIA — SA taxpayers are getting richer — at least in nominal terms — but they are paying more taxes, Inland Revenue's latest figures indicate.

Although the number of big earners rose sharply in the past few years, fiscal drag enhanced the amount of tax paid and, for some taxpayers, reduced net income despite bigger earnings.

In 1989 the number of taxpayers earning more than R250 000 totalled 3 671 or 0,16% of the 2,3-million taxpayers.

Last year the number of big earners soared to 6 006 or 0,45% of all taxpayers. B/Day

They paid R986,7m — up to 7,25% of the amount collected.

The figures also reflect higher pay levels for low-paid workers.

Last year there were 202 043 taxpayers (304 361 in 1989) in the category up to R5 000. 18/6/92

They paid R3,326m (R4,998m), or 0,02% of the total (0,04%). However, the taxpayers in the R50 000 to R60 000 bracket paid most in both years.

Last year there were 151 272 people in this bracket (93 176 in 1989).

They paid R2,013bn (R1,385bn) or 14,8% of the total (11,14%).

The second biggest group of taxpayers was in the R60 000 to R70 000 bracket.

In 1991 there were 95 506 taxpayers at this level (50 501) who paid R1 658bn or 12,9% of the total (7,72%).

Thursday, June 18 1992

Keys to look at lowering taxes

320

48

B/Day 18/6/92

CAPE TOWN — South Africans did not pay low taxes and an option to lower personal tax would be presented for consideration when next year's Budget was discussed, Finance Minister Derek Keys said yesterday.

Sapa reports that, replying to a question by Andrew Gerber (CP Brits), he said it was still too early to say whether lower income tax would be introduced in the 1993/94 Budget.

He also denied he had said South Africans were highly taxed.

BILLY PADDOCK reports DP tax expert Brian Goodall said yesterday government was continuing its assault on the individual taxpayer and was dedicated to eliminating the middle class, which was paying 79% of the total personal income tax.

Speaking in the debate on the Income Tax Bill, he said individuals were expected to account for 42% of the total ordinary revenue collected, whereas in 1980 individuals accounted for 20%. "A rise of 26% in the amount of tax collected from individuals last year is projected to be followed by a 22% rise this year — rises which are way ahead of even SA's high inflation rate."

Goodall said that a married man who earned R60 000 in 1985, would have paid about 20% of his income in tax.

If his income had merely kept pace with inflation, it would have gone up to R186 000. However, instead of paying 20% of his income in tax, he would be paying nearly 30%.

"If one looks at the figures for 1989/90, one notes that 79% of our personal income tax collected came from those earning between R20 000-R80 000 a year. They totalled less than 900 000 taxpayers," he said.

The income group R45 000-R80 000, less than 250 000 people, paid 39% of all personal income tax, he said.

"The Finance Minister should not only be concerned with the lack of rich people in SA, he should be equally concerned about the systematic impoverishment of the middle class by the economic and tax policies of the NP."

He said the relatively small band of people, paying so much in tax, get little for their money, as the IMF had pointed out. This was the crux of the individual tax issue.

The IMF had estimated that on average white South Africans paid 32% of their income in tax. This was not high compared to developed countries, where the average for industrialised nations was 33,05%. But if compared with the countries SA should really be compared with, the developing nations, the picture was very different. In Singapore the comparative figure was 13,45% and in Argentina 20,28%.

The individual's net tax burden had been worked out by the IMF, and for SA as a whole it was 10,64% compared with a world average of 9,08% and an average of 10,53% for the industrialised world.

"For white South Africans, the figure is 23,31%. This should be compared with 11,06% for Canada, 7,76% for France, 14,67% for the UK and 9,78% for the US. For Singapore, the figure was 3,44%, and for Argentina, 6,23%."

The IMF had proved that the middle class in SA was the most heavily taxed in the world.

Goodall attacked the amendments in the Income Tax Bill as schizophrenic.

A number of changes had been made with regard to the allocation of income between husband and wife married in community of property, and these were to be welcomed as they reduced the tax liability.

But if couples were married by ante-nuptial contract, they had the full force of the Act thrown at them.

Inland Revenue homes in on retirement annuities

B/Day 18/6/92 (320)

LINDA ENSOR

CAPE TOWN — Inland Revenue has taken steps to stamp out avoidance of SITE payments on retirement annuities by making them subject to PAYE, despite the objections of the Life Offices' Association (LOA).

In terms of an amendment to the Fourth Schedule to the Income Tax Act, contained in the the Income Tax Bill tabled in Parliament, annuities will be subject to PAYE from March 1 1993. Thereafter, tax returns providing information on all annuity income will have to be submitted to the revenue authorities.

Inland Revenue's Ian Meiklejohn said a significant reduction and even the total elimination of a SITE liability on retirement annuity income could be achieved by taking out several retirement annuities with different life assurers.

This would mean that the income from any one policy would fall below the minimium SITE threshold of about R12 000 for people under 65 years, and about R22 000 for those over 65 years in those cases where annuities or pensions were the sole source of income.

Meiklejohn said this method of reducing tax liability had been widely propounded and it was necessary to take steps to prevent it as the life industry could not come up with a way to control the practice.

But LOA policyholders taxation committee convener and Old Mutual legal services manager Abri Meiring said yesterday the abuse of the system was not widespread and did not justify the huge expense which life offices would have to bear in switching their systems from SITE back to PAYE. Also, Meiring said, the difference in tax treatment of pensions, which were subject to SITE, and annuities was not healthy.

one room and carrying out essential renovation work, which included replacement of toilet and bathroom fittings, was R18 009;

(2) Vote 4L1—Works Branch—Minor Works;

(3) (a) and (b)

the flat is being used as an overnight and changing facility, as well as a Durban office and meeting venue for the Deputy Director-General: Health Services and his senior staff. The purpose is inter alia to save on overnight hotel accommodation.

SAP: information on applicants for security work

301. Mr C E HERTZOG asked the Minister of Law and Order:†

(1) Whether the South African Police has any information on persons who apply for work at security firms; if so,

(2) whether it has been found during the latest specified period of 12 months for which figures are available that an increasing number of members of Umkhonto we Sizwe applied for work as security guards and were appointed in such posts; if so, what are the relevant details;

(3) whether the Government has taken or is going to take any steps in this regard; if not, why not; if so, (a) what steps and (b) when?

B755E

The MINISTER OF LAW AND ORDER:

(1) No.

(2) Falls away.

(3) (a) and (b)

No, private security firms are regulated by the Security Officers Act, No 92 of 1987.

Section 12 of the Act determines the requirements with which security officers must comply.

Number of murders in Natal Midlands/Natal

307. Mr L FUCHS asked the Minister of Law and Order:

(1) How many murders were reported in (a) the Natal Midlands and (b) Natal in 1988, 1989, 1990 and 1991, respectively;

(2) with reference to the murders reported, (a) how many cases have resulted in (i) an investigation, (ii) prosecution and (iii) conviction and (b) in respect of what date is this information furnished?

B767E

The MINISTER OF LAW AND ORDER:

		1988	*1989*	*1990*	*1991*
(1)	(a)	1 971	1 718	2 132	1 882
	(b)	4 650	4 481	5 642	4 986

(2) (a) (i) The number of cases reported is the same as the number of cases investigated.

	1988	*1989*	*1990*	*1991*
(ii)	803	654	670	671
	2 193	1 945	2 086	2 079

(iii) Although the particulars of convictions are kept by means of fingerprint records, statistics as such are not kept by the South African Police.

(b) 31 December 1991.

Sources of GST: certain magisterial districts

308. Mr A E DE WET asked the Minister of Finance:

320

What were the sources of general sales tax collected in the magisterial districts of (a) Bloemfontein, (b) Welkom, (c) Odendaalsrus, (d) Virginia, (e) Sasolburg, (f) Kroonstad, (g) Bethlehem, (h) Harrismith and (i) Bothaville in the 1989-90 and 1990-91 financial years, respectively?

B770E

The MINISTER OF FINANCE:

The information requested is not available at present. I have requested my Department to contact the hon member with a view to discussing which available information of this nature may be of assistance to him.

Total amount collected in GST

309. Mr A E DE WET asked the Minister of Finance:

320

What, in respect of the 1990-91 financial year, was the total amount of general sales tax collected in (a) the whole of South Africa and (b) each of the (i) provinces and (ii) self-governing territories?

B772E

The MINISTER OF FINANCE:

			1990/91-financial year R
(a)		Total	18 046 840 392
(b)	(i)	Cape Province	4 289 300 964
		Natal	1 805 391 418
		Transvaal	11 297 961 181
		Orange Free State	622 986 700
	(ii)	Lebowa	5 995 852
		Gazankulu	2 737 360
		KwaZulu	12 958 936
		QwaQwa	5 726 007
		Kangwane	2 652 727
		KwaNdebele	1 129 787

Tax revenue from mining industry

317. Dr F H PAUW asked the Minister of Finance:†

320

In respect of each of the latest specified five years for which information is available, (a) what was the tax revenue from the mining industry and (b) what percentage did this constitute of the total (i) revenue of this industry and (ii) State revenue?

B789E

The MINISTER OF FINANCE:

	Financial year	*Rm*
(a)	1986/87	3 450
	1987/88	2 838
	1988/89	2 552
	1989/90	2 274
	1990/91	2 201

320

(b) (i) Not available

	Financial year	*Percentage*
(ii)	1986/87	10,1 %
	1987/88	7,5 %
	1988/89	5,3 %
	1989/90	3,7 %
	1990/91	3,3 %

Clinics for sexually transmitted diseases: amount allocated

341. Mr M J ELLIS asked the Minister of National Health:

What total amount was allocated for the (a) running of clinics for sexually transmitted diseases and (b) establishment of new clinics for such diseases in the Republic for the 1991-92 financial year?

B833E

The MINISTER OF NATIONAL HEALTH:

(a) R183 010 million was spent on subsidizing local authorities for the rendering of primary health care services which included sexually transmitted diseases and

(b) R8 962 million was allocated for the establishment of new services.

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PERSVERKLARING

deur die

ADJUNKMINISTER VAN FINANSIES
DR. T. G. ALANT

VOORGESTELDE WYSIGINGS AAN DIE INKOMSTEBELASTINGWET

Aandag word gevestig op die onderstaande twee belangrike wysigings wat in die Inkomstebelastingwetsontwerp, 1992, wat vandag ter tafel gelê is, voorgestel word.

STUDIEBEURSE

As gevolg van wydverspreide misbruik in verband met studiebeurse, veral in gevalle waar lopende salaris of die reg op toekomstige salaris, in belastingvrye beurse omskep is, is die ruim vrystellings van studiebeurse wat voorheen in die Inkomstebelastingwet vervat is, verlede jaar geskrap. Vertoë is sedertdien ontvang onder meer van maatskappye wat in die verlede opregte beursskemas, veral met betrekking tot hul lae-besoldigde werknemers, bedryf het, vir die herinstelling van 'n mate van verligting.

Klousule 10 (1) (p) van die Wetsontwerp voeg 'n nuwe vrystelling ten opsigte van *bona fide*-studiebeurse in. Waar die studiebeurs egter aan 'n werknemer of familielid van 'n werknemer (byvoorbeeld die werknemer se kind) as gevolg van dienste gelewer toegestaan word, is die vrystelling aan sekere voorwaardes onderworpe.

Ten eerste, moet die studiebeurs nie toegestaan word in die plek van salaris waarop die werknemer andersins geregtig sou gewees het nie. Daarbenewens, waar die studiebeurs ten gunste van 'n familielid van

PRESS RELEASE

by the

DEPUTY MINISTER OF FINANCE
DR T. G. ALANT

PROPOSED AMENDMENTS TO THE INCOME TAX ACT

Attention is drawn to the following two important amendments proposed in terms of the Income Tax Bill, 1992, which was tabled in Parliament today.

BURSARIES

In consequence of widespread abuse in the field of bursaries, in particular cases where current salary or the right to future salary increases, was converted into a tax-free bursary, the generous exemptions of bursaries previously contained in the Income Tax Act were removed last year. Representations have since been received from, *inter alia,* companies which in the past had operated genuine bursary schemes, particularly in respect of their lower-paid employees, for the reintroduction of some relief. It has been decided to meet these requests to a limited extent.

Clause 10 (1) (p) of the Bill introduces a new exemption in respect of *bona fide* bursaries or scholarships. Where, however, the bursary or scholarship is granted to an employee, or to a relative of an employee (for example, the employee's child) in consequence of services rendered, the exemption is subject to certain conditions.

In the first place, the bursary must not have been granted in the place of salary to which the employee would otherwise have been entitled. In addition, where the bursary is granted in favour of a relative of

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Business concentration stifles economy

BDay 19/6/92 (320)

AZAR JAMMINE

IT IS not just the rise in the tax burden resulting from the growth of government spending which has harmed SA's economy, but the nature of the tax structure itself. In SA the burden of tax tends to fall entirely onto income, expenditure and profit, and not onto wealth or capital gains.

At 48%, SA has one of the highest corporate tax rates in the world. And the burden of personal income tax has increased dramatically over the past decade as inflation propelled salaries up SA's highly progressive tax curve.

As a percentage of government revenue, personal tax has risen from 15% in 1980/81 to more than 40% at present. With high levels of taxation on personal income and interest earned as well as on corporate profits, but with little tax on capital gains or wealth, it has made a lot of sense in an inflationary environment for people to direct funds into financial assets rather than into real productive activities.

The chase after equity-linked investments has contributed to a conspicuous increase in the power of financial institutions. The latter, in turn, have had little alternative in the presence of foreign exchange controls but to buy up shares in industrial and commercial companies, leading to ever more concentration of power in this business community.

Growth in concentration has been exacerbated by overseas disinvestment. Only the giants of SA business have been in a position to buy shares of disinvesting multinationals.

Concentration has arguably made it much more difficult to reduce inflation. In the face of low levels of demand, instead of reducing price increases to encourage people to buy more, corporate SA is often in a powerful enough position to raise prices still further to make up for lost sales volumes.

Moreover, the concentration of power in big business has helped induce countervailing concentration of power in the labour market. The resultant troubled labour relations and mass action called for by trade unions, coupled with wage demands which often bear little relation to productivity, have led to corporate SA opting for capital intensity at the expense of labour intensity in a country which ought to be doing its utmost to generate more jobs.

Concentration has also stifled the country's spirit of entrepreneurship, and consequently led to a reduction in the versatility of the economy in the face of low economic growth.

It has also harmed long-term efficiency by applying pressure on corporate managers to shorten their strategic time horizons so as to maximise short-term performance in order to placate shareholders and the financial investment fraternity.

It has also laid big business open to attack by left-leaning political groupings in their calls for nationalisation, on the basis that big business is not investing its funds in the most socially desirable direction. The most frequently cited example in this regard is the substantial investment made by financial institutions in real estate, office blocks and shopping centres rather than into mass housing schemes where the social needs are greatest.

Indeed, a potentially positive feature of the lifting of the ban on new investment in SA is that, were such investment to take place, it could assist in reducing the level of concentration, since foreign firms might start coming back into the SA economy to compete with local giants.

Optimism on this score should, however, be tempered by the increasing realisation on the part of foreign multinationals that it has become incredibly difficult and costly to try to break into the concentration of business power in SA.

Much has been said recently about the need for antitrust legislation to break up the concentration of power. The problem with such calls is that they address the symptom rather than the cause. The causes of concentration are the combination of high government spending and taxation, a warped tax structure, a high rate of inflation and the existence of foreign exchange controls.

Unless each of these problems is addressed, the pressures which lead to concentration will not be resolved and antitrust measures could turn out to be more disruptive than constructive.

☐ **This is an extract from Econometrix director Jammine's address to the London conference.**

FM 19/6/92

DEFERRED COMPENSATION [redacted]

Revenue trap

(320)

Deferred compensation, particularly where it is introduced as a benefit for proprietors of small businesses, is fraught with tax pitfalls. In Sanlam's publication *Ex Lege*, legal researcher Emile Wessels analyses why the Natal Special Court ruled in favour of Inland Revenue, and against the appellant company, in the case of a deferred compensation policy. These are almost routine in small firms.

[redacted] (320)

Refusal to allow a section 11(a) deduction in case ITC 1506 — for the payment of a gratuity to the majority shareholder — has grave tax consequences, Wessels says. A result could be that the same money is taxed three times:

☐ The policy would not have been held in the assurer's untaxed portfolio;

☐ The full proceeds would be included in the company's gross income, without a corresponding deduction; and

☐ The gratuity would be included in the employee's gross income, subject to possible exemptions.

Deferred compensation is usually offered as an inducement to key staff to remain with a company. Covered by a suitably drawn service contract, the policies create a tax-efficient retirement sweetener. The ground explored in ITC 1506 is the reason why such a policy is taken out: and, for example, whether the ultimate beneficiary would really have been lost to the company had the policy not existed. It comes down to the well-established principle that deductions made by a company for purposes of tax must be expenditure made in the production of income.

In this case, the beneficiary was the founder and 60% shareholder in a used car dealership. The remaining shares were held by his son. Four years before the proprietor's retirement, the company passed the neces-

cont →

FM 19/6/92 [redacted] (320)

sary resolution to implement a deferred compensation scheme and entered a standard deferred compensation service contract. When retirement took place, the company paid the gratuity and sought to deduct it from its income. This was disallowed.

Wessels says: "The court decided the real purpose of the expenditure was not to produce income but rather to better (the proprietor's) retirement benefits. The distinctions may sound subtle, as in many cases expenditure to better the retirement benefits of employees would be incurred in the production of income. Conceptually, at least, the distinction can be drawn. The court decided the taxpayer did not really hope to motivate the employee, or induce him to stay on."

So, says Wessels, a statement in a service contract that an employer wishes to retain an employee's services, may no longer be enough. "If the true purpose of the scheme is to produce income, by motivating employees, one must try to accumulate evidence that shows this to be the case. It might be useful," he adds, "to keep letters from employees threatening to resign because they can receive better service benefits elsewhere, or the minutes of a board meeting where a director has said he is thinking of retirement and then changed his mind after being offered deferred compensation."

Wessels concludes that deferred compensation agreements can be dangerous in one-man businesses and that financial advisers should warn their clients of the risks, then pass the decision to the client. ■

Higher taxes

[redacted] 320

IF black municipalities are combined with Vanderbijlpark, each white ratepayer will pay an additional R406 a month because "tax collection in black towns is traditionally ineffective", says the management committee chairman.

Sowetan 19/6/92

Gerrit Smith said, however, no rates and taxes increases were envisaged for the new year. - *Sapa*

Tax respite for business trusts

STAR 26/6/92

(320)

BENEFICIARIES of business trusts can heave a sight of relief . . . at least until next year. Basil Wunsh, of Johannesburg attorneys Edward Nathan and Friedland Inc, says it is unlikely that any attempt will be made to tax business trusts until 1993 at the earliest.

Wunsh, well known in the trust-law field, has been monitoring the situation since the Budget announcement that special provision would be made for the taxation of such trusts.

The Government expected additional tax revenue of R5 million a year from this source. But the Income Tax Bill, now tabled in Parliament, makes no special provision for business trusts.

Said Wunsh: "I have it on the authority of a senior Inland Revenue official that this item has been deferred. One can only speculate that the deferment is due to the difficulty in adequately defining a business trust.

"There has to be differentiation between it and testamentary and *inter vivos* trusts in general — some of which earn income from the letting of property.

"The intention is to tax business trusts in the same way as companies. There is no reason to suppose that the Government has shifted its intention."

TAX EXEMPTION: *The Receiver does an a*

Shot in arm for

THE Receiver of Revenue has done an about-turn on the vexed issue of tax exemption for bursaries and scholarships. In terms of the amendments to the Income Tax Act Bill, passed in Parliament on Thursday, the Receiver will once again allow bursaries and scholarships as a tax exemption.

When the Receiver announced his decision to abolish the tax exemption on bursaries and scholarships, he cited widespread abuse of the system.

The new provisions will apply to the 1992/1993 tax year and considerably boost much-needed education and training in SA.

The amendment is best explained in terms of the three possible scenarios whereby the taxpayer might receive a bursary or scholarship.

THUMBS-UP: Students will be relieved at the news that came out of Parliament this week.

AFTER a huge public outcry, bursaries and scholarships will now be exempted from tax, considerably boosting much-needed education and training in South Africa. LEIGH HASSALL reports.

STAR 20/6/92 (320)

Obliged

In the first scenario, where a person (other than an employee or his relatives) receives a bona fide bursary from a company or institution for the purpose of his studies, he will not be taxed on the receipt. For example, a bursary awarded to a full-time university student. It is of no relevance that the student might be obliged to work for the company on completion of studies or during vacations.

In the second scenario, an employee might be awarded a bursary from his employer to enable him to, say, complete his commerce degree. In this instance, the bursary will be exempt from tax only if it was granted as a bona fide bursary and where there is no associated reduction or forfeiture in his current or future remuneration. In other words, if the bursary was granted on a salary sacrifice basis, say as a portion of his monthly salary, the amount would be taxable in the hands of the employee.

The third scenario covers those bursaries granted by the employer to a relative — in most cases the children — of an employee.

In this case, the amendment considerably limits the scope of the exemption. The bursary will be tax exempt only if the employee's remuneration is less than R36 000 a year. In addition, the exemption will be limited to the first R1 200 of the bursary to each relative of the employee.

Once again, if the bursary was granted on a salary sacrifice basis, the exemption will fall away.

This provision effectively wipes out the practice where the employer would pay the school fee obligations of its employee and reduce his taxable salary accordingly.

The amendment also brought in a new section which will disallow the tax deduction to the employer granting the bursary if it was given on a salary sacrifice basis.

The Act does not state which educational or research institutions are allowable. However, it is generally taken to include universities, technikons, and primary and secondary schools.

Overall, the amendment considerably widens the old legislation which taxed the bursaries under the employer/employee scenario and limited the tax exemption to bursaries received by the general public.

In the business world it is common practice for an employer to extend a study loan to an employee with the proviso that the loan will be granted as a bursary only if the employee passes the related examinations. In this instance it is most likely that the loan will be treated as a tax-free bursary.

Abuse

Tax manager at Ernst & Young, Mzamo Nxumalo, welcomes the amendment but comments on its narrow scope.

"The limitation on the qualifying income level at R36 000 and the R1 200 limit on the bursary amount is presumably aimed at counter-acting the supposed abuse of the old provisions.

"However, the low limits are unreasonable when compared to the high cost of education. It would have been more appropriate if the salary level was R72 000 and the bursary amount R10 000 a year," says Nxumalo.

ON: *The Receiver does an about-turn on bursaries and scholarships*

rm for higher education

ployer granting the bursary if it was given on a salary sacrifice basis.

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Overall, the amendment considerably widens the old legislation which taxed the bursaries under the employer/employee scenario and limited the tax exemption to bur-

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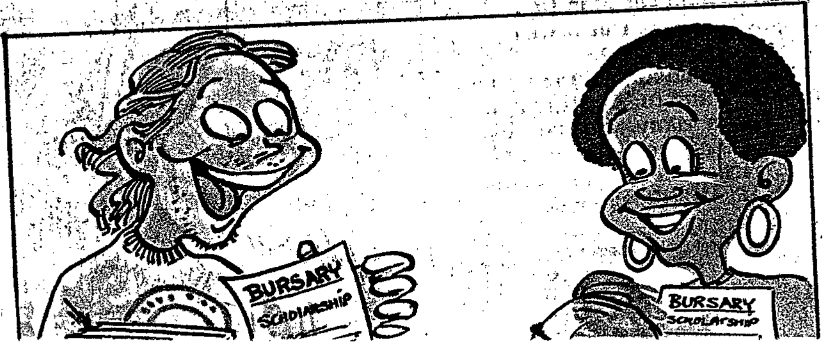

BEWARE TAX AFTER DEATH

S Times (Buss) 21/6/92.

(320)

MORE MONEY IN YOUR POCKET

ALAN McCULLOCH: Don't get caught in Revenue's net

By ALAN McCULLOCH, group benefits marketing manager, Liberty Life

MANY highly paid company executives do not realise that on their death their dependants will be faced by a sizeable tax bill caused by the fact that tax-free concessions on lump sums payable on death from pension, provident and retirement annuity funds have not been revised for many years.

Even lowly paid individuals have been caught in Revenue's net because of fiscal drag.

The tax-free element of any lump sum payment is two years' salary, with R120 000 the maximum tax-free amount.

Consider a senior executive earning a salary of R150 000 and who is a member of a pension fund providing a death lump sum of four years' salary — by no means uncommon these days.

Levied

His total cover is thus R600 000. Subtracting the tax-free amount, the executive is left with R480 000.

Tax is levied at the average rate payable in the year of death. Let's assume that the executive's average rate is 35%. This means that a whopping R168 000 has to be paid in tax, leaving only R432 000 for the dependants. Put another way, only 72% of the full benefits reaches the hands of those left behind.

The average rate of tax is determined according to the taxable income in the year of death. Dying at the beginning of the year will mean a very low average rate — in fact, the minimum rate of 15 percent (for married people) will apply.

So how can this situation be rectified? There are three ways used in pension and provident funds.

The easiest way is to take the death benefit cover out of the fund entirely and introduce a separate, unapproved group life scheme.

Downside

This scheme does not allow the employer to deduct his contributions, but he can claim the cost as a general business expense in terms of Section 11A of the Income Tax Act.

The downside is that, where the employer pays the contribution, the scheme members are liable for fringe benefit taxation.

However, in relation to the benefit the tax is a small price to pay, as the whole payment on death is tax free. In my example above, the full R600 000 is payable.

The second way is to have the pension or provident fund provide only the amount which is tax free. In the example, this is the R120 000.

This method cuts down on the fringe benefit tax, but it is more complicated to run. The balance of cover of R480 000 would be provided in the separate, unapproved scheme described earlier.

The third way is to increase the death benefit in the pension or provident fund by the tax to be paid.

There are several drawbacks here.

As described earlier, the tax rate payable depends on the time of death in the tax year, and so the extra cover would need to increase over the year to peak in February.

Further, fund administrators don't carry the details of a member's personal financial circumstances to determine the tax rate with any degree of accuracy. Also, some fund members in poor health will not qualify for the extra cover due to medical problems.

Realistic

The best solution, of course, would be for Revenue to increase the tax-free portion to a more realistic level. But this is something they are unlikely to do, given the current overspending of government.

So you should discuss the point with your employee benefits adviser and see what can be done to amend your fund to eliminate the unexpected tax.

THE WEEK AHEAD by Simon Willson

VAT a tantalising clue in inflation riddle

BDay 22/6/92.

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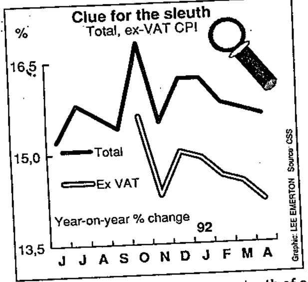
LIKE the plot of a Christie whodunnit, the next teasing clues in the increasingly intractable inflation riddle are due to unravel a little further later this week when the May consumer price index (CPI) is released. But the identity of the inflation-fuelling offender in this mystery is likely to be as obscure by Friday as it is today.

In April the inflation rate edged down to 15,6% from March's 15,7% — its third consecutive monthly dip from the 16,2% posted for January. But there was still a smoking gun in the April CPI data: the seventh successive month in which food inflation as measured by the Central Statistical Service (CSS) topped 25%.

The participants in the high inflation mystery were, to extend the Christie metaphor, assembled in the country house library last week to hear the verdict of the ace detective. But the sleuth, in the form of the Board on Tariffs and Trade (BTT) report on food inflation, did little more than say there were a number of identifiable fingerprints on the murder weapon. Each of those whose prints were identified had an alibi, so no arrests were made.

But the longer this particular crime remains unsolved, the more the clues left by its perpetrators proliferate. The chart shows one: a pert little trend developing in one of the many inflation rates now published by the CSS. The direction in the CPI excluding VAT has now been downward for four straight months, and has been sliding by more than just the one-tenth of a percentage point increments by which the total inflation rate has been dipping since February.



Graphic: LEE EMERTON Source: CSS

As such, it indicates that VAT is beginning to play an increasingly prominent role in inflation's stubborn clinging to levels above 15%. Without VAT, underlying inflation has slowed by one and a half percentage points from October (the first full month in which VAT was levied).

VAT did not feature as an inflationary offender in the preliminary BTT report released last week but, on the showing of the chart — and especially if ex-VAT inflation falls again in May — it must rate a mention in the BTT's final report.

As for the prospective rate of inflation in May, the outlook is none too encouraging. Postage costs, including stamps, money orders and box rentals, rose by an average 33% effective May 1 while the ripple effect of the excise duty hikes in the Budget could still be influencing the price indices. The Budget's 8c/*l* on petrol and 6c/*l* on diesel, for example, have just showed up in a 7% rise in monthly fuel costs in the April producer price index (PPI).

Also due this week are May's trade balance and money supply figures. The trade data should come first, earlier in the week, and the main point of concern is that exports recover their R700m fall in April and hit something like R6bn for the month. Given the recession-hit domestic economy, imports should be restrained enough to push the surplus back over the R1bn mark.

Growth in M3 — the targeted, broad money measure — jumped out of its 7%-10% guideline range in April, and the Reserve Bank last week let slip a certain lack of confidence that M3 would stay in the range this year. Deputy Governor Jaap Meijer told a London audience that M3's chances of hitting 7%-10% looked better in 1993 than this year. The depressed state of the domestic economy and the liquidity-boosting fall in credit extension may yet bring it into line.

Internationally, US durable goods orders for May are due on Wednesday and follow strong rises of 2,3% in March and 1,4% in April. The non-defence component of April's orders rose for a fourth consecutive month, and that has not happened since July 1987, so markets are generally confident that this indicator will continue positive even if its increases slow slightly.

US first-quarter GDP has its final revision on Thursday, but the significant change to this figure came at its first revision a month ago, when it was amended to 2,4% from a preliminary 2%. The final figure is unlikely to shift much from the first revision.

The UK trade figures for May are due out later this morning, and will be causing some apprehension in London. The UK's April trade deficit jumped to a 19-month high of £1,36bn and the April current account deficit widened to a 15-month peak of £1,06bn. The UK trade gap widened after a surge in imports to a new monthly record of £10,2bn, and some analysts said this cast doubt on the sustainability of any UK economic recovery.

Imminent British economic recovery is itself in enough doubt already after the release a month ago of preliminary UK first-quarter GDP, which was down by 0,6%. The first revision to UK GDP in the March quarter comes up on Wednesday, but is unlikely to show much change from -0,6%. Like SA, Britain is experiencing its longest postwar recession and, like SA, the fall in first-quarter output means some downward revisions to 1992 growth projections. Both the SA and UK economies face a close-run contest to register any growth at all this year as the start of their respective upswings are repeatedly deferred.

ZERO-COUPON STOCK (320)

Zero sum

FM 26/6/92

The second issue of zero-coupon stock in SA is due to go ahead when Eskom puts out tenders on Monday. No details are known other than that the stock will mature in 2002. This follows the Department of Finance's less-than-successful issue of RSA zero-coupon stock last week. Applications received totalled R625m but most were below the minimum prices set. Only R130m was allotted — R50m of the five-year stock at a minimum price of R50,8125 and R80m of the seven-year stock with a minimum price of R37,5125.

A number of reasons have been touted for the issue's failure. The minimum price bands at which the stock was tendered were seen as too high, giving an unattractive effective yield of 14,01% per annum on the five-year stock and 14,51% on the seven-year stock.

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FM 26/6/92 (320)

Simpson McKie gilts trader Marilyn Visser says a perceived lack of commitment to secondary trading in the instrument may also have deterred investors.

"Marketability is an extremely important criterion for a volatile instrument such as the zero-coupon bond. Holders who anticipate interest rates going against them must feel secure that they can dispose of the stock," she says. And investors were only given a few days to analyse and respond to the tender.

Meanwhile, the tax treatment of the stock is causing confusion. According to Hennie Smit of Inland Revenue, any increase in the value of the stock will not be taxable on an annual basis, as there is no annual accrual or receipt of interest. However, the holder will be liable for income tax at redemption: "The holder's intention is quite clearly to make a profit, so we regard that as income and not capital."

But Johan Brink, director at attorneys Bowman Gilfillan, says Revenue is unlikely to succeed in terms of current tax law. "By definition, zero-coupon stock is issued at a discount to par, with no interest payments or accruals during the life of the stock, but is redeemable at a premium. Any gain on redemption should be in lieu of capital risk, of a capital nature and not subject to income tax.

Revenue might seek to impose income tax by applying the deemed accrual provision in s7(1) of the Income Tax Act or the anti-avoidance provision in s103. But these sections are not aimed at zero-coupon stock and may require further amendments to be effective."

Holders who trade in the stock would however be taxed on any interim realisation or on redemption, says Brink.

If yields are taxed, this would reduce the stock's attraction even further. ■

FM 26/6/92 (320)

STOCK EVALUATION FM 26/6/92

Writing down stock

(320)

Guidelines for valuing trading stock emerged from recent discussions with a representative of the Commissioner for Inland Revenue's office, says KPMG Aitken & Peat tax partner Ed Hoffman.

Revenue is relying on a decision of the Cape Income Tax Special Court (*Economy* August 23) which shattered long-standing preconceptions about the degree of flexibility allowed to taxpayers in writing down stock value. The court held that amounts written off stock must be commercially justifiable when the accounts are written up.

Now Revenue is imposing more exacting stock valuation requirements, arguing that it can exercise its discretion only on the reasonableness of stock valuation policies on the basis of full disclosure.

Taxpayers who submit returns based on blanket formulas such as "the lower of cost (on a fifo basis) or net realisable value" not only run the risk of dissallowance of all or part of the amounts claimed but even the imposition of triple tax as the penalty for nondisclosure.

Taxpayers should make a detailed disclosure of policies for writing down obsolete, redundant or slow-moving stock. Then the worst that can happen is partial or total disallowance.

An important requirement is a "reasonable classification" of stock into main categories. The policies for obsolescence and redundancy must be given for each category, based on "reasonable current-day economic circumstances." For example, the taxpayer must justify percentage writedowns. Reasons could include market circumstances, changes in fashion or technological advances.

Having followed a particular policy over the past few years would not help the taxpayer. Nor would he benefit by arguing that he follows the policy of other taxpayers in the same industry. Revenue is concerned only with the reasonableness of the policies followed by a specific taxpayer at a specific time. ■

APPORTIONMENT AT LAST

(320)

FM 26/6/92

A long-standing thorn in the taxpayer's flesh is at last being removed. It is the requirement that a deduction for an expenditure (including a loss) cannot be allowed if the outlay was not "wholly or exclusively for the purposes of trade."

The requirement — set out in section 23(g) of the Income Tax Act — was introduced to prevent the deduction of private expenditure.

Price Waterhouse Meyernel managing tax consultant Gerhard du Plooy says an amendment to section 23(g), included in the Income Tax Amendment Bill, relaxes the requirement. If expenditure is for a dual purpose, the outlay may be divided into deductible and non-deductible portions. An example is overseas travel.

The existing requirement has had important implications for corporate groups. In the recent decision of the Appellate Division of the Supreme Court (the Solaglass Finance case), a deduction for a loss on intra-group lending operations was refused on the grounds that there were two purposes where a group finance company made loans to a fellow-subsidiary. One was to make a profit for itself, the second was to benefit the group as a whole. Hence, held the court, the money was not laid out wholly or exclusively for the purposes of trade.

The court in the Solaglass case also rejected earlier efforts by the courts to mitigate the harshness of section 23(g) by introducing distinctions between motive and purpose and between object and effect. The distinctions, according to the Solaglass decision, were too vague to be of help. The decision made it difficult ever to claim a deduction in the case of an intra-group transaction. It has probably been the outcry which followed the Solaglass decision that induced government to frame the amendment.

Du Plooy says, however, there will be cases where apportionment will be difficult. But there are many good precedents in tax law, where expenditure was incurred:

☐ In the production of income both from sources in the Republic (taxable) and from foreign sources (non-taxable);

☐ Partly for the purposes of earning income subject to tax and partly for exempt income; and

☐ Both to derive income and to acquire a fixed capital asset.

In making an apportionment, says Du Plooy, the court will consider what would be fair and reasonable in the circumstances. This rule will in future be applied to expenditure in dual-purpose transactions.

INCOME TAX FM 26/6/92

Lights, action (320) cut!

Many of the 38 000 taxpayers who entered into movie-making *en commandite* partnerships between 1985 and 1989 have still not been assessed. Commissioner for Inland Revenue, Hannes Hattingh, puts the number at about 5 000.

Until 1985, Revenue rulings were issued, in terms of which costs incurred by taxpayers in the production of films could be written off over three years. In addition, the Tax Act's export allowance meant that between 175% and 200% of the costs of marketing and distributing the film abroad could be claimed as deductions. Not surprisingly, the number of taxpayers who entered into film-making partnerships was substantial.

Apparently, some taxpayers abused the system (by overstating marketing costs or bringing foreign-made movies into SA where they received minimal editing); and Revenue clamped down by amending the tax law. Parliament enacted section 24F to prescribe, among other things, that 75% of production costs had to be incurred in SA and that total deductions would be limited to the amount of the investor's risk in the venture.

Though the amendment curtailed the tax benefits, it also signalled Revenue's statutory sanction of film schemes and provided certainty about the requirements for being allowed the tax deductions. Or so the new participants thought. Yet, one of the few taxpayers who'd been assessed found the commissioner had disregarded a specific ruling, which emanated from his office, disallowing the promised tax breaks. The taxpayer objected, unsuccessfully, and then took the matter to the Special Income Tax court. The hearing was to have been in March this year cont

FM 26/6/92 (320)

but it was postponed to October.

The case (known as the *Jake Speed* case, after the name of the movie) is a pre-section 24F film and is widely viewed as a test case. Attorney Fiona Walker, whose firm — Hofmeyr van der Merwe — is representing the taxpayer in the test case, expects the proceedings to be protracted. Though many other film schemes did not receive specific rulings (as *Jake Speed* did) from Revenue in advance, most were structured along almost identical lines. Failure of the test case would be equally bad news to other taxpayers.

Hattingh says that he does not necessarily view *Jake Speed* as a test case because each scheme has to be examined on its own facts. Referring to the special division in the Johannesburg Revenue office that is investigating film schemes, he said it has already examined 70 and assessments will be issued early in July. He stresses that the delays are because each case has to receive individual attention.

But none of this addressess the real questions:

☐ If taxpayers are not being assessed for years stretching back as far as 1985, how are they reasonably supposed to calculate their provisional tax payments?

☐ Will they be penalised for underpayments that are not their own fault? (The commissioner's official response was that if he is satisfied that the taxpayers claimed the disallowed deductions on reasonable grounds, "interest on provisional tax shall be waived." The discretion, of course, is his.);

☐ Shouldn't Revenue, which is quick to insist on timely performance from the taxpayer, be subject to the same rules?

☐ How are the tax authorities able to legislate allowances, then unilaterally withdraw them and remain unaccountable? (Hattingh says that he *is* accountable: taxpayers have the right of objection and appeal. While this may be perfectly true, it is also expensive.) and

☐ Should tax collectors not confine themselves to the job of collection and leave the protection of the tax base to others?

It would seem that impartiality and tax morality are no less illusory than anything the film industry has to offer. ■

No progress in Vat talks

320 [redacted]

NO progress was made on VAT and food prices this week in talks between Finance Minister Derek Keys and the Co-ordinating Committee on VAT (VCC).

C Press 28/6/92

The VCC accused the Minister of having not "really applied his mind to preparing for the meeting". At the meeting, the VCC restated that VAT should not be charged on all basic foods.

The VCC said Keys was only prepared to discuss the possibility of confirmimg the existing zero ratings and the possibility of extending the zero rating to one or two other foods, but only if this would lead to the issue being closed.

CT 29/6/92

VAT meeting: 'No progress'

JOHANNESBURG. — The Vat Co-ordinating Committee said at the weekend it had made no progress in talks with Finance Minister Mr Derek Keys over Value Added Tax and rising food prices. B20

The VCC, in a statement, called on the minister "to take more seriously the immediate needs of the majority of South Africans" and to accept that his policies needed to be more "multi-dimensional".

"The VCC delegation felt the minister had not really applied his mind in preparing for the meeting." [illegible]

Finance spokesmen could not be reached for comment. After the meeting a spokesman said it was unlikely the minister would issue a statement. — Sapa

VCC gets little joy from Keys

320

Sowetan 29/6/92

THE VAT Coordinating Committee at the weekend said it had made no progress on Friday in talks with Finance Minister Derek Keys over Value Added Tax and rising food prices.

The VCC, in a statement, called on the minister "to take more seriously the immediate needs of the majority of South Africans" and to accept that his policies needed to be more "multi-dimensional".

"The VCC delegation felt the minister had not really applied his mind in preparing for the meeting."

Finance Ministry spokesmen could not immediately be reached for comment.

On inquiry after the meeting on Friday, a ministry spokesman said it was unlikely that the Minister would be issuing a statement on the talks.

According to the VCC, Keys had been prepared to discuss the possibility of extending zero ratings "to one or two other foods", but only if this brought an end to the issue.

The committee said it had proposed that all basic foods, including red and white meat, vegetables, maize and maize products, bread, and milk, be exempted from VAT.

"The Minister also said that he was not prepared to interfere in any way with the free market for food, and that there was no money for any subsidies or for the removal of VAT on foods," the VCC claimed.

Keys had allegedly further said that South Africans were saving less and less and that economic growth required a cut in consumer spending.

"In discussions, the VCC representatives stated that the Minister appeared to be cutting where he could, rather than where he should: he was cutting spending which benefited the poor because he could not cut back on the huge waste of other Government spending."

The VCC also charged that the food industry was not a free market, but dominated by three conglomerates. - *Sapa.*

Only a third of taxpayers submit returns

GERALD REILLY

PRETORIA — Only a third of the 646 000 taxpayers who needed to submit returns had done so at the expiry yesterday of the extended deadline, Inland Revenue director Des Goosen said.

(320)

However, the big stick would not be wielded yet, he said.

BDAY 1/7/92.

Goosen said the number of companies issued with return forms totalled 364 000, but most had different deadlines to accommodate differing financial year dates.

Provisional taxpayers totalled 800 500. SITE payers, not obliged to submit returns, totalled about 3-million.

About 70 000 defaulters had failed to submit their 1991 returns. Efforts to trace them were being intensified.

About R42bn was collected in income tax, including company and mining taxation for the 1990/91 financial year. About R28,5bn of it was from individuals.

Cosatu urges workers on tax

Sowetan 2/7/92

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By IKE MOTSAPI

THE Congress of South African Trade Unions has urged workers to demand that employers deposit their monthly salary taxes into a fund to be established by the federation next month.

And Cosatu has declared August 3 this year as the day when a general strike of "unprecedented proportions will begin".

These decisions are some of the many resolutions taken during a one-day conference of Cosatu affiliated trade unions held at the University of the Witwatersrand on Tuesday.

About 200 delegates from Cosatu national and regional areas including members of the National Executive Committee, met to review "our approach to political and economic negotiations and to decide on a programme of action".

The African National Congress has chosen July 20 this year as the day for a one-day general strike as part of its mass action campaign.

Addressing a press conference in Johannesburg yesterday, Cosatu's general secretary, Mr Jay Naidoo said: "The conference decided to implement our congress decision on non-payment of Pay As You Earn.

"It was agreed that as from August workers should demand that the PAYE be paid into a Fund for a Democratic South Africa which will be reserved for use when a new government is in place."

Naidoo said the conference also demanded that, before parties return to the negotiating table, the Government must agree on an election for a sovereign Constituent Assembly by December on a united voters roll.

tors can show they have taken all reasonable steps."

INCOME TAX FM 3|7|92

End of a dodge

320

A blow has been struck at an ingenious method of avoiding tax. Until now, annuities paid by a retirement annuity fund have been

Contin-P

FM 3|7|92

SITE taxed. So taxpayers, without other sources of income, have not had to submit a return showing aggregate income.

By splitting their total annuity between different life offices, they have kept income from each annuity within the SITE ceiling of R50 000 and avoided paying at the higher rate which would apply to aggregate income.

The latest Income Tax Amendment Bill, if passed, will bring the definition of net remuneration into the PAYE system, says Fisher Hoffman Stride tax partner Anthony Chait. It should apply from March 1, effectively the 1994 tax year.

The loophole was created because the RA funds have not been able to conform with the statutory requirement that they add all the annuities to determine whether SITE applied or not — even where the different annuity contracts were taken out with the same life office.

The benefits from splitting annuity income in this way were often considerable. For example, a policyholder entitled to annuities totalling R200 000 a year could have bought four contracts of R50 000 each. A married man aged 60 with no children (and no other taxable income), at 1993 tax rates, would have paid R39 900 on the SITE basis (four times the SITE of R9 975 on each annuity of R50 000). This is an average rate of almost 20%.

Under PAYE, he will pay R74 075 on the aggregate annuities of R200 000 — a rate of about 37%. The elimination of the loophole will impose an additional tax of R34 175.

The move will not be popular with the life assurance industry. Abri Meiring, convener of the LOA policyholders' taxation committee and legal services manager for Old Mutual, was recently quoted as saying that abuse of the system was not widespread.

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Life offices will be subjected to considerable expense in adjusting their computer systems from SITE to PAYE. The amendment also introduces an undesirable difference in tax treatment between pensions and annuities. ■

Fintech saves for the taxing years

STAR 3/7/92

Diagonal Street

320

LEIGH HASSALL

Fintech shareholders may have lost out on substantially higher dividends in the past two years because of the group's tax accounting policy.

This emerges from an analysis of the past two annual reports in which auditors have qualified their audit opinion.

The latest report, which reached shareholders recently, reveals Fintech continues using a tax equalisation account. Had this not been the case, the auditors' say, earnings per share would have increased by 35,4 cents in 1992 and 25,7 cents in 1991.

The use of a tax equalisation account is contrary to generally accepted accounting practice. However, Fintech's financial director, Bruce Laing, says other major South African groups have used the tax equalisation accounting practice.

In the last two financial years, the group has knocked a tax expense of R6,1 million off its attributable earnings. This tax charge will never be paid by the group however, as it has considerable estimated tax assessed losses from which to set-off taxable income.

The 1992 annual report says the estimated tax losses were R70 million in 1991 and R48 million in 1992. Effectively, the group will not pay tax until its cumulative taxable profits equals the estimated tax losses.

Full disclosure has been made by Fintech of the effect of the tax equalisation provision in both annual reports.

The 1992 report states that the net impact after outside shareholders is to reduce income by R4,12 million in 1992 and R2,86 million in 1991. The earnings per share (which has been calculated on a fully diluted basis) would have been 207,3 cents in 1992 and 109,7 cents in 1991.

The group says in its accounting policy note that the tax equalisation account will minimise the potential future distortions in attributable earnings as a result of the progressive utilisation of the estimated tax losses.

However it may also be argued that the use of the tax equalisation account may be detrimental to shareholders causing them to receive a dividend based on the lower earnings per share.

The 1992 dividend cover was 4,3 times on the fully diluted earnings per share, had this ratio been applied to the enlarged earnings per share the dividend payout would have been 48,21 cents per share instead of the actual 40 cents paid out in 1992.

In 1991, applying the same approach, the dividend per share would have been 26,12 cents instead of the 20 cents paid out. This represents an increase of 21 percent and 31 percent respectively.

David Redshaw, executive chairman, agrees that shareholders have received lower dividends, but says: "Shareholders will receive higher dividends in the future when the tax-equalisation provision is ploughed back against actual taxable income".

"It will benefit shareholders in the long-term as it will provide a constant level of earnings," he adds.

Mr Redshaw estimates the tax equalisation account will continue to be employed in the next two years.

It appears that Fintech shareholders should hold on to their shares to reap the promise of higher future dividends.

DEPARTEMENT VAN LANDBOU

No. 1839 **3 Julie 1992**

PLANTVERBETERINGSWET, 1976
(WET No. 53 VAN 1976)

BENAMINGS VAN VARIËTEITE WAT IN DIE VARIËTEITSLYS AANGETEKEN IS

Dit word hiermee bekendgemaak dat die benamings van die variëteite wat in die Bylae hiervan aangedui is, ingevolge artikel 15 van die Plantverbeteringswet, 1976 (Wet No. 53 vam 1976), in die variëteitslys aangeteken is.

M. S. JOUBERT,

namens Registrateur van Plantverbetering.

BYLAE

AARBEIE

Fragaria ananassa Duch: Aarbei

*79–35
*80–71
*80–76
82–90
82–98
82–183
Parfaite
Rolinda
Rolissa
Selekta
Tiobelle
Tioga

DEPARTEMENT VAN NASIONALE OPVOEDING

No. 1807 **3 Julie 1992**

WET OP NASIONALE GEDENKWAARDIGHEDE, No. 28 VAN 1969

INSKRYWING VAN BEWARENSWAARDIGE ONROERENDE GOED

Kragtens artikel 5 (1) (cC) van die Wet op Nasionale Gedenkwaardighede, 1969 (Wet No. 28 van 1969), maak die Raad vir Nasionale Gedenkwaardighede hierby in die amptelike register 'n inskrywing van die onroerende goed in die bylae hiervan volledig beskryf en wat die Raad as bewarenswaardig ag vanweë die historiese, kulturele of estetiese belang daarvan.

BYLAE

Die oorspronklike tronkgebou, geleë op Kluitjieskraal Bosboustasie, plaas 224, Tulbagh.

G. S. HOFMEYR,

Direkteur: Raad vir Nasionale Gedenkwaardighede.

DEPARTEMENT VAN STAATSBESTEDING

No. 1853 **3 Julie 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Mei 1992.

Tesourie, Pretoria.

DEPARTMENT OF AGRICULTURE

No. 1839 **3 July 1992**

PLANT IMPROVEMENT ACT, 1976
(ACT No. 53 OF 1976)

DENOMINATIONS OF VARIETIES ENTERED IN THE VARIETY LIST

It is hereby notified that the denominations of the varieties set out in the Schedule hereto, have, in terms of section 15 of the Plant Improvement Act, 1976 (Act No. 53 of 1976), been entered in the variety list.

M. S. JOUBERT,

for Registrar of Plant Improvement.

SCHEDULE

STRAWBERRIES

Fragaria ananassa Duch: Strawberry

*79–35
*80–71
*80–76
82–90
82–98
82–183
Parfaite
Rolinda
Rolissa
Selekta
Tiobelle
Tioga

DEPARTMENT OF NATIONAL EDUCATION

No. 1807 **3 July 1992**

NATIONAL MONUMENTS ACT, No. 28 OF 1969

REGISTRATION OF CONSERVATION-WORTHY IMMOVABLE PROPERTY

In terms of section 5 (1) (cC) of the National Monuments Act, 1969 (Act No. 28 of 1969), the National Monuments Council hereby makes an entry in the official register of the immovable property fully described in the Schedule hereto and which the Council regards as worthy of conservation on account of its historical, cultural or aesthetic interest.

SCHEDULE

The original prison building, situated on Kluitjieskraal Forest Station, Farm 224, Tulbagh.

G. S. HOFMEYR,

Director: National Monuments Council.

DEPARTMENT OF STATE EXPENDITURE

(320)

No. 1853 **3 July 1992**

Statement of Revenue collected during the period 1 April 1992 to 31 May 1992.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Maand Mei Month of May		Totaal 1 April tot 31 Mei Total 1 April to 31 May	
		1992	1991	1992	1991
		R	R	R	R
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse inkomste:	Inland revenue.				
Belasting op inkomste	Tax on income	2 479 419 488	2 046 216 921	5 751 092 463	4 963 193 912
Lenningsheffing 1989–94	Loan Levy 1989–94	–	–	–	–
Verkoopsbelasting	Sales tax	13 310 707	1 503 322 020	23 330 411	3 110 707 338
Belasting op toegevoegde waarde	Value added tax	1 213 044 947	–	2 252 661 570	–

Inkomstehoof	Head of Revenue	Maand Mei Month of May		Totaal 1 April tot 31 Mei Total 1 April to 31 May	
		1992	1991	1992	1991
		R	R	R	R
Ander belastings:	Other taxes:				
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	24 892 441	31 515.622	61 725 727	62 456 034
Rentebelasting op buitelanders	Non-residents' tax on interest	(29 656)	3 477	(31 448)	(38 474)
Onuitgekeerde winste	Undistributed profits	40 286	10 347	28 862	33 971
Geskenkbelasting	Donations tax	665 209	328 674	1 599 354	567 758
Boedelbelasting	Estate duty	7 968 451	6 233 454	13 635 910	13 691 883
Handelseffekte	Trade securities	12 867 183	15 792 129	26 753 866	39 353 567
Seëlregte en gelde	Stamp duties and fees	45 259 021	56 468 293	132 203 747	117 249 966
Hereregte	Transfer duties	64 769 569	70 084 054	198 505 937	143 764 466
Diverse	Miscellaneous	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	13 885 109	—	33 859 035	95 092
Rente en dividende	Interest and dividends	1 385 030	637 581	1 786 090	8 036 980
Heffings	Levies	201 401	150 086	389 484	317 864
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	1 409 884	965 282	2 871 122	2 705 641
Departementele bedrywighede	Departmental activities	55 378 154	48 648 833	255 784 287	16 850 677
Kapitaalinkomste	Capital Incame	—	—	—	—
	R	3 934 467 224	3 780 376 773	8 756 196 417	8 478 986 675
Min: Betalings aan selfregerende nasionale state	*Less:* Payments to self-governing national states	114 044 000	90 285 000	228 088 000	180 570 000
Betalings aan TBVC-state	Payments to TBVC Countries	58 684 764	—	120 410 764	—
Totaal: Binnelandse inkomste	Total: Inland revenue R	3 761 738 460	3 690 091 773	8 407 697 653	8 298 416 675
Doeane- en aksynsregte:	Customs and excise duties:				
Doeanereg	Customs duty	205 744 878	234 731 059	461 909 896	458 670 789
Aksynsreg	Excise duty	319 046 496	193 725 938	637 993 955	423 355 320
Bobelasting	Surcharge	109 603 910	123 033 317	243 653 214	250 295 841
Diverse	Miscellaneous	(5 467 124)	10 416 803	(8 153 534)	48 612 752
Brandstofheffing	Fuel Levy	532 371 264	401 978 054	1 071 425 665	714 321 833
Gewone heffing	Ordinary Levy	3 759 172	5 383 882	10 108 882	9 379 912
	R	1 165 058 596	969 269 053	2 416 938 078	1 904 636 447
Min: Bedrag tot krediet van Sentrale Inkomstefonds	*Less:* Amount to the credit of Central Revenue Fund	—	—	—	—
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	—	50 000 000	1 202 246 500	863 225 000
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	1 165 058 596	919 269 053	1 214 691 578	1 041 411 447
	R	4 926 797 056	4 609 360 826	9 622 389 231	9 339 828 122
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	238 089	—	433 446
Fonds vir Sorghumbiernavorsingsfonds	Sorghum Beer Research Fund	—	—	—	—
Toewysings uit brandstofheffing:	Allocation from fuel levy:				
Oliebesoedelingsfonds	Oil Polution Fund	—	—	—	—
Suidwes-Afrika	South West Africa	—	—	—	—
TBVC-lande	TBVC Countries	—	—	—	—
	R	—	238 089	—	433 446
	R	4 926 797 056	4 609 598 915	9 622 389 231	9 340 261 568
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***				
Binnelandse inkomste	Inland revenue	3 863 410	1 535 958	46 832 141	3 427 035
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***				
Binnelandse inkomste	Inland revenue	18 343 759	1 530 332	22 841 587	7 517 553
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***				
Binnelandse inkomste	Inland revenue	158 263	295 196	363 103	360 615
Rekening vir Provinsiale Dienste: Kaap	***Account for Provincial Services: Cape***				
Provinsiale inkomste	Provincial revenue	—	—	—	—
Rekening vir Provinsiale Dienste: Natal	***Account for Provincial Services: Natal***				
Provinsiale inkomste	Provincial revenue	—	—	—	—
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free Sate***				
Provinsiale inkomste	Provincial revenue	—	—	—	—
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***				
Provinsiale inkomste	Provincial revenue	—	—	—	—
	R	22 365,432	3 361 486	70 036 831	11 305 203
Groottotaal	Grandtotal R	4 949 162 488	4 612 960 401	9 692 426 062	9 351 566 771
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 1653 in *Staatskoerant* van 12 Junie 1992:	Reconciliation with statement published by Government Notice 1653 in *Government Gazette* of 12 June 1992:				
In Transito, 31 Maart 1992	In Transit, 31 March 1992	—	—	(176 520 897)	—
In Transito/Te veel oorgedra, 30 April 1992	In Transit/Overremitted, 30 April 1992	(701 378 177)	—	—	—
Invorderings soos hierbo	Collections as above	4 949 162 488	—	9 692 426 062	—
	R	4 247 784 311	—	9 515 905 165	—
In Transito/Te veel oorgedra, 31 Mei 1992	In Transit/Overremited, 31 May 1992	702 368 726	—	702 368 726	—
In Transito Inkomsterekening: Administrasies	In Transit Revenue Account: Administrations	(47 671 398)	—	(47 671 398)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	4 902 481 639	—	10 170 602 493	—

The need for certainty in taxation

STAR 4/7/92 (320)

CHANGES in taxation are often unexpectedly announced, leaving industrialists with little lead time. DAVID CLEGG, a partner at Ernst & Young Associates, comments.

ONE of the "canons" of taxation and generally accepted in all civilised and democratic nations, is that taxes should be certain. "Certainty" of course, is a relative concept and it does not mean immutability but it should mean that a taxpayer, considering his possible courses of future action, should be able to plan in the reasonable certainty that the tax laws affecting a transaction will not change so dramatically as to seriously affect the commercial viability of his decision.

For many years South Africa was based, if that is the word, with an annual Budget which announced changes in tax rates and major changes in tax law proposed for the year concerned. The annual amending legislation was later released and inevitably contained a variety of technical amendments, (some previously unannounced) and details of major changes earlier announced.

Furthermore, significant changes, such as the introduction of the manufacturing building investment allowance (in 1959), stayed in force subject to occasional changes of the rate applicable for many years (in that case until 1986), and warning of their demise or replacement was announced with sufficient lead time not to affect the concrete plans of industrialists. Unfortunately, it is no longer the position.

In recent years, major changes have been announced unexpectedly with lack of publicity or with little or no lead time in others and have just as frequently been reversed. For example:

☐ The introduction of the 50/30/20 allowance under Section 12 B which endured for only one year before being replaced by the different 20 percent per annum allowance under Section 12 C.

☐ The introduction, out of the blue, of the new Section 37 E for beneficiation processes at a time when the removal of "tax expenditures/incentives" is still apprently firm policy.

☐ The on-again, off-again debacle with VAT invoicing requirements, and zero-rating on foodstuffs.

☐ The amendment of directors' PAYE rules and the confusion over the related "labour brokers" taxation.

☐ The accurate, but unhappily phrased, statement on non-resident's liability for tax on interest.

All of these reflect a Department of Finance out of touch with, or careless of, commercial realities.

We fully appreciate the concern that the Department must have from time to time when the commercial world makes use of the taxation laws to reduce its burden in a manner which resembles a feeding frenzy. There is a legitimate need to be plugged; but counter-balancing that need is the damage that sudden changes in tax law do to the principle of certainty, and to Revenue's legitimacy, in the eyes of business.

In addition, as South Africa enters the transitional phase to a new representative form of government, we need to uphold the best possible principles of lawmaking. A new South African government removing industrial incentives without warning, in order to promote employment at the expense of mechanisation, could hardly be blamed.

We, therefore, call on the Department of Finance and the new Minister of Finance and Commissioner for Island Revenue in particular, to resist the temptation to announce ad hoc changes to the law throughout the year, and when changes are announced on an annual basis, to ensure that their commercial and political consequences have been carefully thought through and will not shortly be reversed.

Retirement products offer flexibility

STAR 4/7/92

Syfrets and UAL have unveiled two retirement products that break new ground in terms of flexibility, taxation and the nature of the underlying investments.

They are the latest in a series of financial innovations by the two financial institutions since they combined their expertise in the field of investment products in November 1991.

The new products are the Equity-Linked Retirement Annuity and the Equity-Linked Life Annuity.

"These are the first annuities that are fully based on unit trusts and represent a serious alternative to existing retirement products available from life institutions," says Kevin Hinton, Syfrets unit trusts marketing manager.

The Equity-Linked Retirement Annuity allows the investor to contribute monthly, annually or in a lump sum to a range of unit trusts. These can be any one, or all, of UAL's unit trusts or the Syfrets Growth Fund.

Tax efficiency results from the use of an annuity, while flexibility results from the investor being able to switch between the different unit trusts to maximise return. Minimum monthly contributions are R100, and the annual and minimum lump sum investment is R1 000.

The Equity-Linked Life Annuity, which is underwritten by life assurer Crusader Life, is a growth annuity linked to the performance of UAL and Syfrets unit trusts. The annuitant (the person holding the annuity) is not only able to decide on the mix of the underlying unit trusts he wishes to invest in, but is also free to control the initial rate of annuity payments.

Furthermore, on the annuitant's death, the balance of the annuity is not lost but continues to be paid out to his dependant(s).

Tax changes to woo investors

STAR 4/7/92 [redacted] (320) [redacted] [redacted]

FINANCE STAFF

WHITE South Africans, particularly those with marketable skills, have already left the country in large numbers to escape the uncertainty created by recent political developments.

With political negotiations deadlocked and many whites highly critical of the ANC's proposed economic policies, emigration is an option which more people are likely to take.

Implications

The latest income tax amendments passed in Parliament relating to interest paid by non-residents have important implications for emigrants who do not carry on business in South Africa and for companies not managed and controlled in South Africa or the neighbouring states.

The amendments bring South Africa in line with tax policies in the European Community, exempting non-resident individuals and companies from paying tax on local investments.

Previously, any interest on Eskom stock in the capital market and similar investments was exempt from tax.

However, the amendment extends the exemption much further, says Kessel Feinstein tax partner Beric Croome.

One of the main purposes of the concession is to encourage foreigners to invest in South Africa.

The South African tax system was based on source, whereas many of South Africa's trading partners taxed on the basis of a person's residence only — the principle that will apply now in SA.

Croome says it is clear from the Bill that any company managed and controlled outside South Africa may derive interest from South Africa free of tax.

There is no withholding tax on interest, creating a major incentive to non-residents to invest or maintain funds in South Africa through a loan account as opposed to equity, where the dividends are subject to a 15 percent non-resident shareholders' tax in most cases, he says.

A non-resident individual who has never resided in South Africa is able to invest in interest-bearing investments (including bank deposits) in South Africa and receive the interest derived from them free of tax in terms of this new concession.

Where the individual is an emigrant, there is a further requirement that he is not ordinarily resident in South Africa.

If the individual has acquired a home in another country, lives with his family there and works there, it is more than likely that it will be accepted that he is not ordinarily resident in South Africa.

Before he can enjoy the concession it must also be shown that he does not carry on business in South Africa — this means carrying on his own business.

The restriction does not apply if his company carries on business.

If he holds interest-bearing investments and shares in companies, it is unlikely that it can be said that he carries on business in South Africa and he will therefore enjoy the concession.

Incentive

If, however, he owns properties, derives rentals from them and is much involved in all of the activities mentioned above, it is more than likely that the Receiver will regard his activities as carrying on business in South Africa.

The individual in such a case will not be able to enjoy the exemption on the interest received by him, says Croome.

The removal of tax on interest derived by the categories of people discussed above should act as an incentive to foreigners to invest in South Africa, he adds.

on your medical bills.

SOME BREAKS *for disabled, but severe limits otherwise*

Doctors: taxman of little help

STAR 4/7/92.

(320)

If you're in good health generally and under 65, then you are responsible for most of your expenses yourself. You can only deduct them once they exceed 5 percent of taxable income or R1 000, writes LEIGH HASSALL.

TAX laws covering medical expenses are restrictive. But the physically disabled have recently been granted considerable concessions.

In an amendment to the Income Tax Act, "handicapped" people will be able to deduct medical and related disability expenses if these exceed R500 a year.

A "handicapped" person is defined as a person who is blind or deaf, requires a wheelchair, caliper or crutch, or has an artificial limb.

The concession includes the disabled child, step-child or spouse of a taxpayer.

To the healthy taxpayer under the age of 65, however, the deductibility of his medical expenses (including medical aid contributions) is severely limited.

Limit

He can only deduct medical expenses once they exceed 5 percent of his taxable income or R1 000, whichever is the greater. For example, a person earning R70 000 a year and incurring medical expenses of R5 000 will only be allowed to deduct R1 500, which is the amount exceeding his 5 percent limit of R3 500.

With the advent of separate taxation, both the husband and the wife are eligible for the medical expenses deduction. The claim will be allowed in the return of the spouse who pays the bill.

It is advisable, in order to maximise the portion of medical expenses deductible, that the spouse with the lower taxable income should incur all the medical payments so that the 5 percent minimum income limit will be reached at a lower level.

Many companies offer a non-contributory medical aid fund to staff, where the employee has no legal obligation to contribute to the fund. The company may, as part of the employee's structured package, pay the total contribution.

It should be remembered that in this case the employee may not include such contributions in his return.

In some companies, employees are obliged, by the rules of the fund, to pay a portion of the monthly medical aid contribution, with the employer paying the rest. Where, in these circumstances, the company pays the employees' contribution on a salary sacrifice basis, the amount will be regarded as a taxable fringe benefit.

The Income Tax Act allows a broad spectrum of medical expenses to be claimed, including payments to registered homeopaths, naturopaths, osteopaths, herbalists and chiropractors, among others.

Nurse

The expense of a nurse, mid-wife or nursing assistant hired in respect of an illness or confinement may also be claimed.

Many taxpayers are only subject to SITE and do not submit an annual tax return. In this case, Justin Cowley, tax partner at Ernst & Young, suggests, where the taxpayer's actual medical expenses exceed the 5 percent income limit, he may lodge a return to recover the excess tax paid, using a short-form return (IT 11) available at the Revenue office.

A person over 65 is allowed to claim the total amount of his medical expenses. Where the only tax paid by the taxpayer is SITE, it will greatly benefit him to submit an IT 11 and claim back his medical expenses. A person whose only income is a pension of less than R50 000 a year is subject to SITE only.

Keys ponders VAT of 16%

(Buss Times)

By CIARAN RYAN

FINANCE Minister Derek Keys is considering raising VAT to 16%, says the VAT Co-ordinating Committee.

S/Times (Bus)

Committee chairman Bernie Fanaroff told Business Times: "The minister indicated that the present rate of VAT at 10% was insufficient to counter the effects of dissaving in the economy.

5/7/92

"He said he might have to raise VAT to 16%."

A spokesman for Mr Keys says: "The minister was referring to the increasing worldwide shift from direct to indirect taxation.

"As the economy moves to a more indirect form of tax, this could require an increase in VAT rates.

"The minister indicated that VAT rates in most European countries were of the order of 16%."

Board of Executors economist Rob Lee says the correct way to deal with government dissaving is to cut its spending, not raise taxes.

Dissaving refers to the excess of government spending over revenue. This year the Government deficit, or dissaving, is budgeted to be about 4,5% of gross domestic product.

Control

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Mr Fanaroff says the VAT Co-ordinating Committee met Mr Keys to discuss the plight of the poor in SA under VAT.

Mr Fanaroff says: "We are one of the few countries in the world to charge VAT on basics, such as food, medicine and electricity.

"The minister said there was insufficient money for zero-rating food. We asked him what about the money being wasted in corrupt government departments.

"He replied that these were not under his control. We cannot accept this argument."

Tax partner with attorneys Hoymeyr Van der Merwe Henry Vorster says "any increase in the VAT rate would normally be accompanied by a decrease in income-tax rates in accordance with the principle of broadening the tax burden".

"But one must always consider whether such an approach is appropriate for a country such as SA."

SUGGESTED TAX CONCESSIONS WOULD ENCOURAGE EXPANSION

(320)

THE hotel industry is waiting with bated breath for possible tax concessions hinted at in a White Paper on tourism published in May.

It could mean reintroduction of tax incentives to induce the development of new tourism accommodation and the upgrading of existing facilities.

If government follows through, it will represent a radical departure from post-Margo policy, the thrust of which is to move away from tax concessions in favour of lowering the corporate tax rate.

Kessel Feinstein Consulting CE Delano Caras said the hotel industry was one of the first to feel the "cold winds" of the Margo recommendations when, in mid-1988, grading-linked allowances for hotels were replaced by a simple 5% straight-line annual allowance on new or improved hotel buildings.

Reintroduction of special incentives for particular industry sectors will lower their effective tax rates but make the prospect of a lower general corporate tax rate less likely.

BIDAY 9/7/92

Forestall

"If meaningful tax incentives are indeed reintroduced, it will no doubt encourage the building of additional new tourist accommodation and might also forestall the conversion or demise of many existing hotels.

"The old incentive system was probably the single most important factor in the 'coming of age' of SA's hotel industry. Before then, SA hardly had any decent hotels. Now it at least has the basic infrastructure to accommodate the expected boom in tourism," says Caras.

Although some will argue that the absence of development incentives is a godsend in an industry currently trading at about 50% of its capacity, new hotels have a long lead time. If tourism does grow significantly, existing spare capacity will be absorbed more quickly than many appreciate.

"Having let the genie out of the bottle, government will have to act quickly. A number of hotel schemes on the drawing board have been frozen. Developers are wary of starting projects too early in case they lose out on any new incentives which might be in the offing.

"If government is serious about reintroducing incentives, it should give legislative form to them as soon as possible.

"If not, it should say so categorically."

Avis looks to Wizard for technological edge

BIDAY 9/7/92

THERE are times when magic is the only answer so Avis has turned to a Wizard.

The company went on line on the worldwide Avis Wizard network on July 1.

It believes this move will enhance productivity and asset management gains as well as giving it a technology lead.

Information

Wizard is an on-line, real-time information system which is regarded as state-of-the-art in travel industry computer technology. It is used to control and integrate the full range of car rental functions, from reservations to fleet management and financial accounting.

Avis MD Grenville Wilson says the link with Wizard is the culmination of a long-standing deal.

"We knew we needed advanced information systems to keep us at the leading edge of technology and innovation in an increasingly complex industry. We also realised that nothing developed on the local market could match the sophistication and reliability of Wizard. It is a 17-year-old system which has been constantly updated by a team of 150 full-time development specialists at Avis's world headquarters in New York," says Wilson.

The Wizard data centre includes two IBM 3090E computers capable of processing more than 90-million instructions a second. The system can handle up to 40 messages a second, 90 000 reservations and 1,2-million transactions a day.

It has five satellite communication lines and two fibre-optic undersea cables, a dial-up capability from anywhere in the world and more than 14 500 on-line terminals. It is also linked to all major airlines, travel agencies, tour operators, hotel chains and credit card systems.

Particulars

Its data base contains the particulars of Avis cardholders — more than 80 000 in SA alone.

"The link with Wizard will leapfrog us significantly ahead of our competitors and will open up a huge technology gap which will be virtually unbridgeable. In addition, it will boost our service levels to the highest international standards while allowing us to become the lowest-cost producer in the SA car rental industry," says Wilson.

GRENVILLE WILSON

Wilson feels the system will have a host of tangible benefits for Avis and its customers.

These include an extended reservations system with marketing options, improved fleet utilisation and control, greater billing accuracy, substantial increases in automation and productivity, effective interfaces between front and back offices, cost reduction through improved cash flow and control and a greater volume of inbound business through the interface with international airlines' reservation networks.

PENSIONS

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Tax stays put

A new tax formula for pension savings, mooted in this year's Budget, has been placed on the backburner.

The practical difficulties — not to mention the socio-political sensitivities — are, it seems, too great to be tackled now.

After ex-Finance Minister Barend du Plessis referred to the possibility of raising additional revenue from the pensions industry, State actuary Piet Robbertse called a thinktank of tax and pensions specialists, representatives of the Actuarial Society and the Mouton Committee. Organised labour was not invited. *(Economy,* April 24).

Between the Budget and the thinktank, the Life Offices Association (LOA) and some of its members had researched how retirement funds are taxed in other countries. Robbertse says their suggestions have been studied but no recommendations will be forwarded yet. He indicated that all parties with a legitimate interest in the subject would need to be consulted. For now, there seems to be no suitable forum to debate the pensions tax issue.

The thrust of Du Plessis' Budget reference was to link the raising of taxes on formal retirement savings to the separate issue of creating parity for the various classes of social pensioners. There were prompt complaints that it would be invidious to tax those who have provided for their retirement to subsidise those who have not.

There is agreement in the life offices that the fiscus receives little from the pension industry and some accept that a new tax structure could be introduced to improve government cash flow without drastically impairing the pool of savings at the end of the savings chain. But to change the system now, with pension/provident funds such a sensitive labour issue, could cause another big protest to add to government's woes. ■

FM 10/7/92 ([illegible]) (320)

SHARE GAINS (320) ([illegible])

Safe-haven complexities

There are pitfalls for investors who use the "five-year safe-haven rule" for share disposals. Disposals of shares held for more than five years cannot be taxed in terms of the recently amended section 9B of the Income Tax Act.

But the section requires that the taxpayer must elect safe-haven status when he submits his first return reflecting disposals of quoted shares in a post-amendment tax year.

Ernst & Young tax partner Ian MacKenzie says taxpayers who might previously have had to elect or abstain from election under the "10-year rule" will be obliged to make a fresh election under the five-year rule (which became effective on March 19).

MacKenzie

However, says MacKenzie, if a taxpayer sells a listed share held for more than five years and does not elect safe haven, he will never again be entitled to elect safe haven for that or any other quoted share. If he does elect safe haven, the decision will affect not only that share but also all other shares he holds or will in the future hold for more than five years.

If the taxpayer does not dispose of any "five-year plus" share in the current tax year, he will have to make the choice only in the year he first sells a share.

Kessel Feinstein tax partner Ernest Mazansky explains the requirement to elect has been inserted to prevent taxpayers who are already regarded as dealers (or who might become so regarded) from manipulating their safe-haven status.

But for the requirement, they could switch status from year to year to claim losses on share dealings in some years while protecting profits in others.

He feels Revenue had its eye mainly on mining houses in formulating this section — as they have frequently been taxed on their share transactions (and so have concurrently been entitled to claim losses).

A corporate tax adviser says it could well be argued the wording of the section imposes an election only on a particular quoted share, and not on a portfolio as a whole. Revenue, he says, takes the contrary view — that an election operates over a taxpayer's entire portfolio. He argues the section should be amended to spell out Revenue's intention that an election should take effect over an entire portfolio, to do away with the uncertainty.

Ernst & Young says the 10-year rule was really only of value to a share dealer who wished to hold some counters for long periods as capital.

The reduction in the period to five years makes the section relevant to many more taxpayers — those who run the risk of being taxed on their transactions because of their "levels of activity and portfolio management style." They should seriously consider electing safe-haven status.

Lastly, Mazansky and Ernst & Young agree that no presumption of any kind about the capital or revenue status of share gains can arise — over shares realised within a five-year period — through either a positive or negative election on safe haven. The normal rules for determining whether such a gain is taxable will continue to apply. In other words, a taxpayer will not prejudice his existing status as an investor through making a safe-haven election. ■

Review/**The rands and cents of schooling**

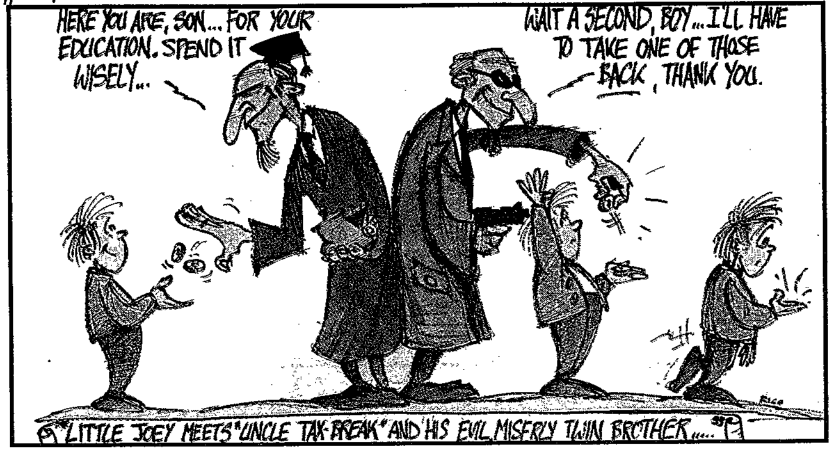
A green (well, amber) light for tax breaks

W/Mail 10/7-16/7/92

(320)

Tax breaks for bursaries have been broadened and aimed at those who really need it, reports

REG RUMNEY



TAX breaks for bursaries and scholarships have got the green light again — well almost. It's more like an amber light.

The government has backtracked on the decision it made last year to cancel *all* tax relief on bursaries and scholarships. The decision to end all such tax relief was made because of "widespread abuse".

The changes are contained in the Income Tax Amendment Bill, tabled last month.

The reversal is no big deal, particularly for employees with children.

The new system puts paid to tax avoidance schemes, where employees saved on tax purely by diverting money from their salaries to bursaries for their children.

Before the government clamped down on such schemes all the employer had to do was to set up an approved bursary scheme. The employee would make a "salary sacrifice", that is, give up part of his salary for the perk. That amount would be paid into the bursary scheme, which would then pay his child or children a bursary.

Now tax relief will only be available for employees paid R3 000 a month or less and it will be limited to the first R1 200 of the bursary.

Previously the tax-free amount was only available for secondary and tertiary education, and the tax-free amount available for secondary education was R750. There was no tax relief for primary education.

The explanatory amendment makes no mention of education levels, and KMPG Aiken & Peat partner Alister MacKenzie considers that the limit applies to all levels of education.

The tax relief now available will benefit mainly poorer employees and their children.

He notes that the government does seem to have targeted the tax relief to those who need it most and it might induce employers to direct funds to poorer employers for this purpose.

He adds that the previous tax legislation stipulated a "bona fide" bursary scheme. This suggests that salary sacrifices were not allowed. But in practice, few did not involve some sort of salary sacrifice.

Bursaries advanced to employees to further their education will escape tax.

The proviso is that, again, there is no salary sacrifice by the employee. In other words he or she cannot give up part of a salary to have it paid back as a bursary.

Ernst & Young partner Ian MacKenzie reckons that if the Receiver decides that there is a salary sacrifice there is a "double whammy": the employee would be taxed on the bursary received, and the company operating the bursary scheme would receive no tax deduction for the bursary.

"It can be quite hard to decide whether there is a salary sacrifice," he adds. Say an employee is paid R100 000 a year. His employer gives him a bursary for him to do an MBA. When, after a year he has completed his MBA, he returns to his job and his employer continues to pay him R100 000 a year. But shouldn't he, in the light of his newly won qualification, be paid more now, say R120 000?

Finally, when the bursary scheme is an open one, and family connection with a company employee is not a condition for getting the bursary, the bursaries will be tax exempt.

And if a bursary or scholarship is granted to someone outside the employ of the company, whether he is contracted to work for the company when he finishes his education or not, the bursary is exempt from tax.

Deputy Finance Minister Theo Alant said in a statement, announcing the change: "The limitation in regard to bursaries awarded to relatives of employees applies only where the bursary is granted in consequence of the employee's services.

"Where, for example, a company operates a bursary scheme which is open to the general public, and a bursary is granted in accordance with all the normal criteria applicable, to a person who happens to be related to an employee of the company, the restrictions will not apply."

The story may not end there. Alant made a not-so-veiled threat that even these exemptions could be withdrawn.

"It is to be hoped," stated Alant, "that employers will in future abide by the spirit of what this exemption is intended to achieve, and not seek to exploit the measure, as happened in the past, to the extent that it is once again necessary to withdraw the concession, to the detriment particularly of the lower-paid employees who sorely need educational assistance."

We're on target, says Revenue

Critics label VAT a failure

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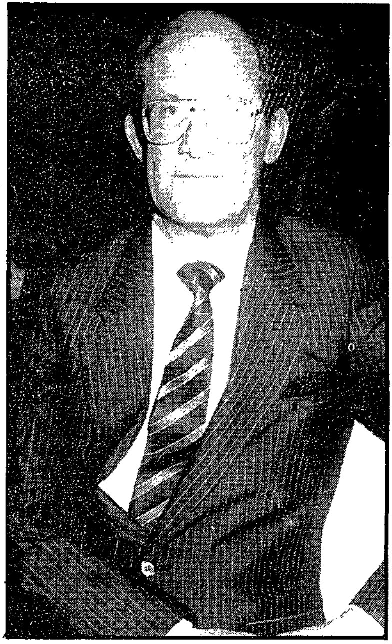
SI Times (BUSS) 12/7/92



TREVOR VAN HEERDEN: Collections on target and loopholes closed

By CIARAN RYAN

THE VAT Co-ordinating Committee says the tax has failed.

It calls for a review of the whole taxation system.

But the Department of Inland Revenue defends the switch from GST to VAT.

Chief director for tax policy and development Trevor van Heerden says: "VAT collections are on target and most of the loopholes which made GST evasion relatively simple have been closed."

Critics challenge many arguments used by the Government in favour of VAT.

Henry Vorster, a tax partner with law firm Hofmeyr Van der Merwe, says: "VAT was introduced nine months ago and we have seen none of the economic benefits it was supposed to bring."

Hardship

The committee says VAT visits undue hardship on the poor when SA is in deep recession.

Committee chairman Bernie Fanaroff says: "The personal tax burden has gone from 25% in 1977 to 40% in 1991. SA is one of a handful of countries that charges VAT on food and pharmaceuticals. The Minister of Finance says he cannot afford to zero-rate food, but government departments are losing millions to corruption."

VAT was promoted on these grounds:

- It is a more efficient system of collecting tax because it is levied at each stage in the production cycle rather than only at the point of sale.

The Government projected that VAT collections at a rate of 10% would be R2,3-billion, or 12% less than GST — had it remained at a rate of 13% — for the current fiscal year.

Department of Inland Revenue figures for the six months from November 1991 to April 1992 show VAT collections were R363-million short of GST receipts for the comparable time in 1990-91.

A total of R8,85-billion was collected in the six months to April 1992, well ahead of target.

The committee fears that Finance Minister Derek Keys will increase the VAT rate in the next budget, possibly to 16%.

Mr Fanaroff says: "The IMF only advocated an undifferentiated VAT system in SA provided the Government made adequate provision for the poor. There is no safety net for the poor in SA.

"We cannot accept that the Government places the administrative ease of VAT collection above the socio-economic crisis the country is in."

- It would close loopholes which made GST evasion relatively easy.

Mr Vorster says: "It is as easy to defraud the Receiver under VAT as it was under GST. VAT allows buyers of capital and intermediate goods to claim refunds. There is widespread room for abuse."

False

Mr Van Heerden says the department has investigated a few cases of VAT evasion and fraud is easy to detect.

"Under GST thousands of false certificates were floating around. It was difficult to do an audit without chasing around the country trying to find out if a GST-free purchase was legitimate. Now we can do a cross-check on the spot."

Mr Van Heerden says the number of VAT inspectors is being increased from 600 to 1 500. The increase in departmental salaries will be about R27-million a year. The average salary package is R30 000 an inspector.

"The cost is justified when you consider that each inspector brings in about R1-million a year in additional revenue."

- It was supposed to contribute to the fight against inflation because it lowered the tax rate.

Critics say inflation increased after VAT was introduced because retailers who had evaded GST lifted their profit margins to compensate for the new tax. When VAT was introduced some retailers raised prices 13% so as not to forgo margin.

Mr Van Heerden says inflation rose 1,1% in October 1991 after VAT was introduced. Thereafter inflation started to decline. It has been running at an annualised rate of about 12% since October 1991.

Credits

But Mr Fanaroff says food inflation is still running at 28%, harming the poor in particular. The basket of goods represented in the consumer price index is not representative of what poor families buy.

- Former Finance Minister Barend du Plessis said VAT would provide an economic boost as a result of an estimated R6-billion in input credits which would be refunded to businesses. Businesses had to pay GST on capital goods, whereas VAT on capital and intermediate goods is refunded. Many businesses, such as airline Flitestar, delayed the purchase of capital equipment until October 1991 to save on tax.

Both Mr Fanaroff and Mr Vorster say there is no evidence of the input credits boosting the economy. The Reserve Bank says the economy will contract by 2% this year.

Mr Van Heerden says: "The input credits will take some time to filter through the system because of the long lead time of capital projects."

Mr Fanaroff says: "The refunds paid to manufacturers under VAT should be passed to consumers in the form of lower prices, but this is not happening. Many companies are using this refund to boost profits."

- The Government pointed to several other countries which had successfully switched from a sales tax to VAT to support its case.

Mr Vorster says VAT has been successfully applied in some developed countries where unemployment is low and per capita income relatively high.

"We have 40% unemployment and about half the people live below the poverty line. You cannot say that because VAT worked in developed countries it will work in SA. These are entirely different."

Mr Van Heerden replies: "Most developed countries have switched from sales tax to VAT. It is a pure tax and relatively easy to administer. Once you start exempting certain items you complicate it."

Choice

The Government reduced the number of zero-rated items in the last Budget to eight food sorts, transport, rental, education and State health services.

- To strengthen the case for VAT, Mr Du Plessis leaned on the findings of the Margo Commission of inquiry into the tax structure.

Mr Vorster says the Margo Commission and the 1978 commission of inquiry into indirect taxation found VAT wanting in several respects.

"The Margo Commission recommended a comprehensive business tax, which was rejected. VAT was a second choice.

"Add to this the cost of administering the system. Companies and public servants are spending a great deal more time on tax matters because of VAT."

Mr Van Heerden disagrees: "Most companies prefer VAT to GST."

HENRY VORSTER: There's still lots of room to defraud the Receiver advertising with other channels.

Whether there would be a bond boycott Mofokeng said.

Development funds slashed

BDAY 15/7/92

DUMA GQUBULE

DEVELOPMENT Bank loans to support social and economic upliftment were reduced by nearly 25% last year because underdeveloped communities did not have the skills and structures to handle the funds allocated.

The lower level of funding comes at a time of increased pressure on the bank to provide funds for projects throughout the country.

In its 1991/92 annual report, the bank said loan disbursements fell to R760m (R988m), but interest income on development loans increased by 50% to nearly R200m.

The bank said the underdeveloped communities did not have the capacity, in terms of institutions and skills, to handle the funds. Project work had also been affected by "changes and constraints in the socio-political environment".

But ANC development official Shaheed Raji said the bank's problem was that it was continuing to support illegitimate homeland governments and local authorities, while many communities in the rest of the country were crying out for funds.

Bank vice-chairman Prof Wiseman Nkuhlu said the capacity constraints had been caused by the fact that the bank was bound by its articles to provide funds only through homelands and local governments.

The situation had worsened over the past two years as the legitimacy of the homeland governments had come under even more stress.

Nkuhlu said it was only this year that the bank had realised the need to change its focus and steps had been taken to include non-governmental and other community organisations in the provision of funds.

Staff shortage blamed for customs fraud

BDAY 15/7/92

CAPE TOWN — Low salaries offered by the Customs and Excise Department resulted in a shortage of skilled staff and were a contributing factor in the spate of import/export-related frauds currently under investigation.

This was claimed on Monday by Customs and Excise Commissioner Daan Colesky, who said his department did not have the human resources necessary to properly monitor all import and export dealings. "We have no problem recruiting, but we have a problem retaining staff once they have ~~been~~ trained."

At least 13 cases involving millions of rands and relating to the falsification of customs declarations are under investigation. Sixteen customs officials have been prosecuted for complicity.

The biggest export scam detected to date involved the dumping of containers full of scrap metal into the sea. The "goods" had been billed as motor spare parts and an amount of R600m was milked from the government by way of a 50% export incentive subsidy. — Sapa.

Tax conscience money

STEPHANE BOTHMA

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CONSCIENCE-stricken tax dodgers ~~have ano~~nymously sent the Receiver of Revenue a total of R16 115,18, a spokesman for his office said yesterday.

During the past three years alone, amounts ranging from as high as R3 000 to as little as R5,07, have been paid. Some of the payments were accompanied by notes stating the purpose, such as "underpayment of income tax years ago", "sales tax on vehicle", "unpaid tax — will send installments", or "repayment for petrol stolen from a government vehicle", but often no explanation accompanied the money, he said.

In March this year, three payments of R1 000 each were received. In April, two payments of R1 000 each and a third payment of R3 000 were received, followed in May by R2 500. All are believed to be from the same anonymous person.

Payments often included carefully calculated interest, he said. BDAY 15/7/92

"We believe most of the payments are for taxes outstanding for several years and paid to ease the citizens' conscience." To date, nobody caught for tax evasion had used such an anonymous payment as a defence.

INCOME TAX FM 17/7/92

Best intention

(320)

The Appellate Division of the Supreme Court recently ruled, that Pick 'n Pay Employee Share Purchase Trust did not have to pay tax on share gains. The 3-2 majority judgment is generally regarded by tax experts as a sound return to first principles of income tax law — from which the Income Tax Special Court, in particular, had tended to deviate in recent years.

The Pick 'n Pay group had set up a share trust to make shares in its quoted companies available to certain employees under an incentive scheme. Employees who qualified acquired shares from the trust at middle market price. If the trust did not have shares on hand it was obliged to buy them in the market at the prevailing price for sale to the employee.

The trust was also obliged to buy back shares from employees:

☐ If the employee were dismissed for fraud or other misconduct;

☐ If he left the group within five years of being admitted to the scheme; or

☐ If employees who had paid for their shares wished to realise their holdings.

Engage freely

The judgment held that a dealer doing business in shares can be expected to engage freely in the market; to buy and sell at the most advantageous times and prices. This is not what the trust did. It bought and sold when it was obliged to under the terms of its establishment.

Kessel Feinstein tax partner Ernest Mazansky strongly endorses the judgment. He says it has always been the law that — for the profit on the sale of assets to be taxable — the asset must have been sold as part of "a scheme of profit-making." To establish this the intention with which the asset was bought, held and sold must be examined.

There has been a recent and disturbing tendency in the Income Tax Special Court to de-emphasise the test of "a scheme of profit-making" and to scrutinise closely the permanency with which an asset is held. Permanency is certainly one of the criteria from which to draw an inference as to why shares were acquired, held and sold. But it is wrong in principle to elevate permanence to a principle. Perhaps this tendency developed because the court found it easier to draw a conclusion from permanence than from testing the taxpayer's intention.

Mazansky emphasises that it does not necessarily destroy the capital nature of the gain, on sale of assets, if a taxpayer acquired them with the express intention of resale within a relatively short time.

This was held in the well-known Berea West case.

In the Pick 'n Pay case, the sole purpose of acquiring, holding and selling the shares was to place them in the hands of eligible employees, not to trade. If no trade is being conducted, there cannot be floating capital, held the majority of the Appeal Court, so disposing of the argument in the minority judgment that the shares held by the trust fell into that category.

And, held the majority, that while the trustees might have contemplated that the trust's operations might make a profit, it was not the purpose of the group companies in

cont →

(320) ECONOMY & FINANCE

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Adjunkdirekteur: Administrasie Streekkantoor
Algoa Streeksdiensteraad
Heughstraat 42,
HUMANSDORP.

Direkteur-generaal
Provinsiale Administrasie van die Kaap die Goeie Hoop
Waalstraat
KAAPSTAD.

Skriftelike besware teen of vertoë in verband met die voorgestelde inlywing kan voor of op **14 Augustus 1992** by die Sekretaris van die Afbakeningsraad vir Plaaslike Owerheidsgebiede, Privaatsak X644, Pretoria, 0001, ingedien word.

Die Afbakeningsraad sal op die ondergemelde datum, plek en tyd vergader om enige verdere getuienis en vertoë aan te hoor van diegene wat besware en vertoë na aanleiding van hierdie kennisgewing indien:

Datum: 2 September 1992.

Plek: John Lambertsaal, Kabeljous-karavaanpark, De Gamaweg, Jeffreysbaai.

Tyd: 09:30.

Beskrywing van die grense van die regsgebied van die Plaaslike Gebied van Paradysstrand

Begin by die oostelikste baken van Paradysstranddorpsuitbreiding 1 (TP 9598); daarvandaan suidooswaarts met die grens van Paradysstrand Dorp (TP 7764) langs, sodat dit uit hierdie gebied uitgesluit word, tot by die punt waar laasgenoemde grens die hoogwatermerk van die Indiese Oseaan kruis; daarvandaan algemeen suidweswaarts met genoemde hoogwatermerk langs tot by punt v op die genoemde Algemene Plan TP 9598; daarvandaan noordweswaarts met die grens van genoemde Algemene Plan TP 9598 langs, sodat dit uit hierdie gebied uitgesluit word, tot by genoemde oostelikste baken daarvan, die beginpunt.

G. M. VAN GINKEL,

Sekretaris: Afbakeningsraad.

(Verwysing: 12/2/9/2/37)

Deputy Director: Administration Regional Office
Algoa Regional Services Council
42 Heugh Street
HUMANSDORP.

Director-General
Provincial Administration of the Cape of Good Hope
Wale Street
CAPE TOWN.

Written objections against or representations with regard to the proposed incorporation may be lodged with the Secretary of the Demarcation Board for Local Government Areas, Private Bag X644, Pretoria, 0001, on or before **14 August 1992.**

The Demarcation Board will meet at the undermentioned date, place and time to hear any further evidence and representations from those persons who lodge objections and representations in pursuance of this notice:

Date: 2 September 1992.

Place: John Lambert Hall, Kabeljous Caravan Park, De Gama Street, Jeffreys Bay.

Time: 09:30.

Description of the boundaries of the area of jurisdiction of the Local Area of Paradise Beach

Beginning at the easternmost beacon of Paradysstrand Township Extension 1 (TP 9598); thence south-eastwards along the boundary of Paradysstrand Township (TP 7764), so as to exclude it from this area, to the point where the last-mentioned boundary intersects the high-water mark of the Indian Ocean; thence generally south-westwards along the said high-water mark to point v on the said General Plan TP 9598; thence north-westwards along the boundary of the said General Plan TP 9598, so as to exclude it from this area, to the said easternmost beacon thereof, the point of beginning.

G. M. VAN GINKEL,

Secretary: Demarcation Board.

(Reference: 12/2/9/2/37)

DEPARTEMENT VAN STAATSBESTEDING

No. 2008 **17 Julie 1992**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1992 tot 30 Junie 1992.

Tesourie, Pretoria.

DEPARTMENT OF STATE EXPENDITURE

No. 2008 (320) **17 July 1992**

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1992 to 30 June 1992.

Treasury, Pretoria.

ONTVANGSTE—RECEIPTS

Inkomstehoof	Head of Revenue	Maand Junie Month of June		Totaal 1 April tot 30 Junie Total 1 April to 30 June	
		1992	1991	1992	1991
		R	R	R	R
Skatkissaldo, 31 Maart 1992	Exchequer Balance, 31 March 1992	—	—	1 317 346 453	—
Skatkissaldo, 31 Mei 1992	Exchequer Balance, 31 May 1992	5 087 071 509	—	—	—
Staatsinkomsterekening	*State Revenue Account*				
Binnelandse Inkomste	Inland Revenue	4 404 407 074	4 295 157 851	13 384 901 553	12 759 184 145
Doeane en Aksyns	Customs and Excise	1 289 544 097	599 392 414	2 467 865 684	1 639 386 884
	R	5 693 951 171	4 894 550 265	15 852 767 237	14 398 571 029

Inkomstehoof	Head of Revenue	Maand Junie Month of June		Totaal 1 April tot 30 Junie Total 1 April to 30 June	
		1992	1991	1992	1991
		R	R	R	R
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	238 088	11 786 427	433 446
	R	—	238 088	11 786 427	433 446
	R	5 693 951 171	4 894 788 353	15 864 553 664	14 399 004 475
Ander Ontvangste	***Other Receipts***				
Skatkisbiljette	Treasury Bills	5 798 994 500	—	21 259 689 500	—
Leningsheffing 1989–94	Loan levy 1989–94	(26 300)	—	(26 300)	—
Belegging—Artikel 10 (1) (a) van Wet 66 van 1975	Payments in terms of section 10 (1) (a) of Exchequer	—	—	879 103 588	—
Obligasies:	Bonds:				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	6 000	—	255 600	—
Onbepaalde Termyn Nasionale Verdedigingobligasies	Indefinite Period National Defence Bonds	3 032 560	—	5 392 910	—
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:				
14%, 1997	14%, 1997	740 000 000	—	2 011 000 000	—
		(38 581 000)	—	(114 110 000)	—
12,5%, 1995/96	12,5%, 1995/96	600 000 000	—	3 546 595 000	—
		(40 323 000)	—	(395 178 000)	—
11,5%, 1999/2000	11,5%, 1999/2000	510 000 000	—	2 011 000 000	—
		(98 319 000)	—	(398 611 000)	—
13%, 2009/10/11	13%, 2009/10/11	60 000 000	—	2 332 000 000	—
		(10 545 000)	—	(317 681 000)	—
12%, 1994	12%, 1994	—	—	1 638 000 000	—
		—	—	(108 451 000)	—
12%, 2004/5/6	12%, 2004/5/6	5 000 000	—	310 000 000	—
		(1 121 000)	—	(85 632 000)	—
13%, 2014/15/16	13%, 2014/15/16	580 000 000	—	1 569 680 000	—
		(96 084 000)	—	(252 892 000)	—
14%, 1993	14%, 1993	200 000 000	—	200 000 000	—
		(1 058 000)	—	(1 058 000)	—
14%, 1994	14%, 1994	200 000 000	—	200 000 000	—
		(2 001 000)	—	(2 001 000)	—
Vasgestelde Statutêre Toewysings, 1991–92	Fixed Statutory Allocations, 1991–92	—	—	30 000	—
	R	8 697 006 760	—	35 962 720 298	—
*Min Diskonto R.S.A. Effekte	*Less Discount R.S.A. Stocks	288 032 000	—	1 675 614 000	—
	R	8 408 974 760	—	34 287 106 298	—
	R	14 102 925 931	—	50 151 659 962	—
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***				
Binnelandse Inkomste	Inland Revenue	3 863 410	1 535 958	46 832 141	3 427 035
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	780 204 000	749 250 000	3 029 353 000	2 692 168 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	—	209 528 809
Terugstortings, 1985–86	Surrenders, 1985–86	—	—	140 296	—
	R	784 067 410	750 785 958	3 076 325 437	2 905 123 844
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***				
Binnelandse Inkomste	Inland Revenue	18 343 759	1 530 332	22 841 586	7 517 553
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	375 000 000	315 000 000	1 272 000 000	1 110 000 000
Terugstortings, 1986–87	Surrenders, 1986–87	—	—	—	9 132 250
	R	393 343 759	316 530 332	1 294 841 586	1 126 649 803
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***				
Binnelandse Inkomste	Inland Revenue	158 263	295 195	363 103	360 615
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	125 000 000	110 000 000	450 000 000	350 000 000
	R	125 158 263	110 295 195	450 363 103	350 360 615
Rekening vir Provinsiale Dienste: Kaap	***Account for Provincial Service: Cape***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	345 000 000	258 750 000	1 087 000 000	1 066 500 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	—	36 062 590
	R	345 000 000	258 750 000	1 087 000 000	1 102 562 590
Rekening vir Provinsiale Dienste: Natal	***Account for Provincial Services: Natal***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	176 000 000	174 000 000	512 000 000	531 388 000
	R	176 000 000	174 000 000	512 000 000	531 388 000

Inkomstehoof	Head of Revenue	Maand Junie Month of June		Totaal 1 April tot 30 Junie Total 1 April to 30 June	
		1992	1991	1992	1991
		R	R	R	R
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free State***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	114 000 000	70 000 000	346 000 000	287 000 000
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	40 702 547	—
	R	114 000 000	70 000 000	386 702 547	287 000 000
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***				
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	549 328 000	418 835 000	1 506 156 000	1 187 439 000
	R	549 328 000	418 835 000	1 506 156 000	1 187 439 000
	R	16 589 823 363	—	58 465 048 635	—
Totaal (insluitende Aanvangssaldo)	Total (Including Opening Balance) R	21 676 894 872	—	59 782 395 088	—

UITBETALINGS—ISSUES

Dienste	Services	Begroting Estimates	Maand Junie Month of June		Totaal 1 April tot 30 Junie Total 1 April to 30 June	
			1992	1991	1992	1991
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Begrotingsposte	***Votes***					
1. Staatspresident	State President	21 101 000	1 772 000	1 500 000	5 316 000	4 360 000
Statutêre Bedrag	Statutory Amount	218 000	18 000	19 000	55 000	53 000
2. Parlement	Parliament	31 429 000	3 291 000	6 280 000	10 243 000	14 670 000
Statutêre Bedrag	Statutory Amount	55 154 000	4 548 000	2 183 000	13 652 000	6 549 000
3. Buitelandse Sake	Foreign Affairs	5 794 389 000	486 000 000	493 000 000	1 378 000 000	1 222 000 000
Statutêre Bedrag	Statutory Amount	2 830 000	235 000	(214 570 000)	705 000	645 000
4. Staatkundige Ontwikkelingsdiens	Constitutional Development Service	41 211 000	3 434 250	3 188 083	10 302 750	5 564 249
5. Waterwese en Bosbou	Water Affairs and Forestry	389 016 000	33 000 000	30 000 000	97 000 000	90 000 000
6. Administrasie: Volksraad	Administration: House of Assembly	9 067 549 000	780 204 000	749 250 000	3 029 353 000	2 692 168 000
7. Openbare Ondernemings en Privatisering	Public Enterprises and Privatization	7 541 000	—	300 000	1 246 000	900 000
8. Justisie	Justice	728 358 000	52 000 000	43 000 000	162 000 000	139 000 000
Statutêre Bedrag	Statutory Amount	49 526 000	3 500 000	3 100 000	10 500 000	9 300 000
9. Finansies	Finance	1 038 801 000	242 300 000	89 312 666	446 907 000	482 184 503
Statutêre Bedrag	Statutory Amount	20 306 857 000	650 030 000	529 050 000	4 477 790 000	3 536 270 000
		(4 041 000 000)	(288 032 000)	(193 647 000)	(1 675 614 000)	(1 213 113 000)
10. Staatsbesteding	State Expenditure	603 843 000	51 000 000	—	161 000 000	—
11. Oudit	Audit	2 410 000	—	—	—	—
12. Administrasie: Raad van Verteenwoordigers	Administration: House of Representatives	4 709 600 000	375 000 000	315 000 000	1 272 000 000	1 110 000 000
13. Administrasie: Raad van Afgevaardigdes	Administration: House of Delegates	1 635 715 000	125 000 000	110 000 000	450 000 000	350 000 000
14. Korrektiewe Dienste	Correctional Services	1 484 041 000	123 590 000	102 900 000	396 449 000	328 700 000
15. Binnelandse Sake	Home Affairs	288 744 000	25 000 000	27 000 000	73 000 000	75 000 000
16. Onderwys en Opleiding	Education and Training	4 555 967 000	363 000 000	195 000 000	1 180 000 000	885 000 000
17. Mineraal- en Energiesake	Mineral and Energy Affairs	687 157 000	42 896 607	25 180 000	341 486 607	491 114 600
18. Landbou	Agriculture	452 579 000	58 000 000	122 000 000	132 000 000	162 000 000
19. Nasionale Gesondheid en Bevolkingsontwikkeling	National Health and Population Development	1 169 993 000	65 000 000	40 000 000	190 000 000	136 000 000
20. Polise	Police	5 645 143 000	498 000 000	355 000 000	1 574 000 000	1 356 000 000
21. Streek- en Grondsake	Regional and Land Affairs	20 285 727 000	1 868 632 250	—	5 837 077 750	164 000 000
Statutêre Bedrag	Statutory Amount	699 537 000	58 293 000	—	174 879 000	—
22. Nasionale Opvoeding	National Education	283 878 000	22 471 000	23 000 000	103 742 000	74 500 000
23. Omgewingsake	Environment Affairs	207 012 000	14 279 000	14 042 000	45 809 000	42 126 000
24. Kommissie vir Administrasie	Commission for Administration	53 536 000	3 732 500	—	12 465 000	55 000 000
25. Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	2 278 080 000	—	—	—	—
Statutêre Bedrag	Statutory Amount	5 000 000	—	—	—	—
26. Vervoer	Transport	1 998 288 000	170 000 000	110 000 000	504 000 000	355 000 000
27. Weermag	Defence	9 704 549 000	725 000 000	747 000 000	2 515 000 000	2 137 000 000
28. S.A. Kommunikasiediens	S.A. Communication Service	51 625 000	—	3 466 000	8 600 000	10 398 000
29. Plaaslike Regering en Nasionale Behuising	Local Government and National Housing	979 556 000	38 000 000	38 000 000	114 000 000	206 000 000
Statutêre Bedrag	Statutory Amount	—	—	921 585 000	—	3 052 939 000
30. Openbare Werke en Grondsake	Public Works and Land Affairs	1 909 750 000	177 000 000	160 000 000	497 000 000	565 000 000
31. Mannekrag	Manpower	294 837 000	27 000 000	18 000 000	86 000 000	59 000 000
32. Handel en Nywerheid	Trade and Industry	3 059 986 000	369 375 000	90 000 000	1 449 986 000	599 000 000
33. Sentrale Economiese Adviesdiens	Central Advisory Service	4 352 000	350 000	385 000	1 085 000	1 175 000
34. Ontwikkelingshulp	Development Aid	—	—	474 761 000	—	1 720 043 000
Statutêre Bedrag	Statutory Amount	—	—	54 628 000	—	163 884 000
	R	100 584 885 000	7 460 951 607	5 682 559 749	26 762 649 107	22 302 543 352
*Min Diskonto RSA Effekte	*Less Discount RSA Stocks	4 041 000 000	288 032 000	193 647 000	1 675 614 000	1 213 113 000
	R	96 543 885 000	7 172 919 607	5 488 912 749	25 087 035 107	21 089 430 352

Dienste	Services	Begroting Estimates	Maand Junie Month of June		Totaal 1 April tot 30 Junie Total 1 April to 30 June	
			1992	1991	1992	1991
		R	R	R	R	R
Staande Toewysings	***Standing Appropriations***					
Suid-Afrikaanse Ontwikkelingstrustfonds........	South African Development Trust Fund.......	–	–	338 088	–	1 033 446
Uitbetalings, SA Ontw. Trust 1990–91	Issues, SA Developm. Trust 1990–91	–	–	–	11 786 428	–
	R	–	–	338 088	11 786 428	1 033 446
	R	96 543 885 000	7 172 919 607	5 489 250 837	25 098 821 535	21 090 463 798
Ander Uitbetalings	***Other Issues***					
Skatkisbiljette..	Treasury Bills..	–	5 131 086 000	–	19 530 551 800	–
Leningsheffing	Loan Levy..	–	23 435	–	25 991	–
Betaalmiddele Bydrae, I.D.A.	Currency Subscription, I.D.A.	–	–	–	963 480	–
Betaalmiddele Bydrae, I.B.R.O	Currency Subscription, I.B.R.D.....................	–	–	–	–	–
Betaling ingevolge artikel 10 (1) (e) van Skatkiswet	Payments in terms of section 10 (1) (e) of Exchequer Act	–	–	–	165 278	–
Betaling ingevolge artikel 10 (1) D Wet 66 van 1975	Payments in terms of section 10 (1) D of Act 66 of 1975	–	–	–	18 232 974	–
Obligasies:	Bonds:					
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds..........	–	2 239 900	–	8 737 000	–
Onbepaalde Termyn Nasionale Verdedigings-obligasies	Indefinite Period National Defence Bonds..	–	949 050	–	2 288 350	–
Onbepaalde Termyn Senior Burger Spaarobligasies...	Indefinite Penod Senior Citizens Savings Bonds..	–	1 757 700	–	5 587 500	–
Uitbetalings, 1991–92	Issues, 1991–92	–	–	–	11 125 000	–
	R	–	5 136 056 085	–	19 577 677 373	–
Totaal Staatsinkomsterekening......................	Total State Revenue Account..................R	–	12 308 975 692	–	44 676 498 908	–
Inkomsterekening: Volksraad	*Revenue Account: House of Assembly* ....R	–	780 204 000	749 250 000	3 029 353 000	2 692 168 000
Inkomsterekening: Raad van Verteenwoordigers.................................	*Revenue Account: House of Representatives*..R	–	375 000 000	315 000 000	1 272 000 000	1 110 000 000
Inkomsterekening: Raad van Afgevaardigdes...	*Revenue Account: House of Delegates* ....R	–	125 000 000	110 000 000	450 000 000	350 000 000
Rekening vir Provinsiale Dienste: Kaap......	*Account for Provincial Services: Cape*. R	–	345 000 000	258 750 000	1 087 000 000	1 066 500 000
Rekening vir Provinsiale Dienste: Natal......	*Account for Provincial Services: Natal*. R	–	176 000 000	174 000 000	512 000 000	531 388 000
Rekening vir Provinsiale Dienste: Oranje-Vrystaat..	*Account for Provincial Services: Orange Free State* ....R	–	114 000 000	70 000 000	346 000 000	287 000 000
Rekening vir Provinsiale Dienste: Transvaal	*Account for Provincial Services: Transvaal*...R	–	549 328 000	418 835 000	1 506 156 000	1 187 439 000
	R	–	2 464 532 000	2 095 835 000	8 202 509 000	7 224 495 000
Totale..	Totals..R	–	14 773 507 692	–	52 879 007 908	–
Skatkissaldo, 30 Junie 1992...........................	Exchequer Balance, 30 June 1992...........R	–	6 903 387 180	–	6 903 387 180	–
Totale..	Totals..R	–	21 676 894 872	–	59 782 395 088	–

No. 1971

DEPARTEMENT VAN STREEK- EN GRONDSAKE
DEPARTMENT OF REGIONAL AND LAND AFFAIRS

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17 Julie/July 1992

STAAT VAN INVORDERINGS VAN PROVINSIALE INKOMSTE (INSLUITEND DIREKTE INVORDERINGS DEUR PROVINSIES) VAN 1 APRIL 1991 TOT 28 FEBRUARIE 1992
STATEMENT OF PROVINCIAL REVENUE COLLECTIONS (INCLUDING COLLECTIONS DIRECT BY PROVINCES) FROM 1 APRIL 1991 TO 28 FEBRUARY 1992

Hoofde van Inkomste Head of Revenue	Kaap die Goeie Hoop Cape of Good Hope		Natal		Transvaal		Oranje-Vrystaat Orange Free State		Totale Totals	
	91-02-01 tot/to 92-02-28	91-04-01 tot/to 92-02-28	91-02-01 tot/to 92-02-28	91-04-01 tot/to 92-02-28	91-02-01 tot/to 92-02-28	91-04-01 tot/to 92-02-28	91-02-01– tot/to 92-02-28	91-04-01 tot/to 92-02-28	**91-02-01 tot/to 92-02-28**	**91-04-01 tot/to 92-02-28**
Bronne van Inkomste oorgedra/Sources of Revenue transferred										
Lisensies/Licences	R	R	R	R	R	R	R	R	**R**	**R**
Hond, Vis en Wild/Dog, Fish and Game	14 367	325 197	135 463	1 199 590	31 514 940	33 115 090	14 742 839	15 488 429	**46 407 609**	**50 128 306**
Motorvoertuie/Motor Vehicles	9 030 512	139 193 956	11 911 703	132 237 428	31 466 089	337 305 320	14 580 061	31 471 939	**66 988 365**	**640 208 643**
Diverse/Miscellaneous										
Hospitaalontvangste/Hospital Receipts	14 133 100	166 853 574	7 359 621	84 111 256	17 817 892	206 409 180	5 174 871	59 474 606	**44 485 484**	**516 848 616**
Ander Ontvangste/Other Receipts	3 291 881	47 131 258	2 933 656	140 610 211	3 910 859	92 528 122	1 561 182	18 042 993	**11 697 578**	**298 312 584**
Boetes en Verbeurdverklarings/Fines and Forfeitures	53 170	1 650 111	1 084 384	9 919 669	2 482 206	31 705 541	472 565	5 447 163	**4 092 325**	**48 722 484**
Venduregte/Auction Dues	–	–	–	–	–	–	–	–	–	–
Belasting op Vermaaklikhede/Entertainment Tax	–	–	–	–	–	–	677	20 595	**677**	**20 595**
Belasting op Wedrenne en Weddenskappe/ Racing and Betting Taxation	3 321 171	35 893 027	10 219 612	54 979 502	–	108 702 518	1 176 660	13 594 985	**14 717 443**	**213 170 032**
Wielbelasting en Bydraes/Wheel Tax and Contributions	–	–	–	–	–	–	–	–	–	–
Swart Hospitaalbelasting en Bydraes/Black Hospital Tax and Contributions....................	–	–	–	–	–	–	–	–	–	–
Totale/Totals.......... ....R	29 844 201	**391 047 123**	33 644 439	**423 057 656**	87 191 986	**809 765 771**	37 708 855	**143 540 710**	188 389 481	**1 767 411 260**
Totale/Totals (1989/90) ....R	25 784 998	54 508 019	22 367 870	40 878 744	52 114 468	89 221 102	5 752 937	11 037 342	106 050 273	195 645 207

J. DE VILLIERS,

Direkteur-generaal: Departement van Streek- en Grondsake.
Director-General: Department of Regional and Land Affairs.

Pension problems plague taxpayers

(320)

STAR 18/6/92

18/7/92

JUSTIN COWLEY,
Tax Partner, Ernst & Young

THE Receivers of Revenue in Johannesburg and other local offices appear to have adopted a new avenue of attack on unsuspecting employees. They are disallowing certain contributions to approved pension funds made by employees, often without comment or explanation.

Contributions by employees to approved pension funds are deductible to the extent that they do not exceed the greater of R1 750, or 7,5 percent of remuneration included in retirement funding income.

For years these limitations posed no problems as the typical private-sector pension fund requires contributions of commonly no more than 7 percent of income, and frequently stipulates lower percentages.

However, after the introduction of the Seventh Schedule imposing strict rules applicable to benefits in kind, many employees now receive a considerable proportion of their income in the form of such benefits. These benefits are included in remuneration at their taxable value, which may be significantly different from their cost to the employer.

Part of the difficulty over pension contributions appears to arise from employers making contributions based on the cost of the benefit, while the Receiver will only grant a deduction taking account of the extent to which the benefit is included in the employees' remuneration as defined.

A classic example of this situation is the travel allowance, where only 25 percent of a travel allowance is, in fact, included in remuneration.

Consideration must also be given to the rules of the pension fund and the amount in terms of which the employees' contributions are based.

However, Revenue's assumption that most commonly an employer contributes only on an employee's basic amount is clearly unfounded. If this were so, it would be unlikely any employee would be contributing more than 7,5 percent of his basic remuneration as reflected on his IRP5.

Notwithstanding, Revenue's actions in enforcing the law would normally be understandable. But the current practice is to assess the remuneration declared on the IRP5 and exclude from it the total amount of all fringe benefits reflected on the IRP5 and allow a deduction to a taxpayer of only 7,5 percent of the net amount.

Subject to the terms of the pension fund rules and the arrangement with the employer, such treatment is often incorrect. I suspect it is frequently accepted by taxpayers who are unaware of the disallowance or feel the costs and/or effort involved in objecting to an assessment would not warrant the benefits of the additional deduction.

Where these circumstances do exist, I counsel taxpayers to make a record of the amounts not allowed as deductions,

Ex-official angry over 'poor' tax office probe

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ST Times, CC (metro)

19/7/92

By DIANA STREAK

THE handling of an inquiry into alleged corruption at Inland Revenue has left the man who instigated it so disturbed that he has decided to disclose confidential information which he supplied to the Director-General of the Department of Finance.

Mr Trevor Foster, a top former senior tax investigation officer based at the Receiver of Revenue in Cape Town, said he was doing this because of the "failure" of an investigation into alleged corruption over a long period.

He has twice challenged, and won, in the Cape Town Supreme Court an attempt by the department to assess him as unsuitable for promotion because, he says, he had referred information for investigation.

In terms of a court settlement last year, the department paid Mr Foster's legal costs and agreed to look into his claims effectively if he stopped his investigation.

When the inquiry was completed, Mr Foster asked for a copy of its report, but this was refused in terms of Section 4 of the Income Tax Act.

A one-man committee, Mr P J Botha, the president of the Regional Court, was set up to investigate the allegations of corruption by four officials, but could find no prima facie evidence. Mr Botha had no power of subpoena.

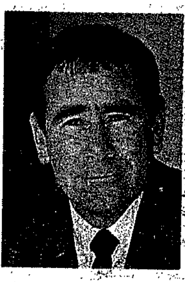
This week the Director General of Finance, Mr Gerhard Croeser, said: "In his report the commissioner pointed out areas where there was a potential for abuse and we have dealt with them. I am satisfied with the report and have nothing further to add."

Soon after the report was completed earlier this year, Mr Croeser released a statement giving limited details of the findings.

But Mr Foster says: "The results and details relating to the inquiry which were released by Mr Croeser in a press release with his comment — 'it is not to anyone's benefit to make allegations that are unfounded' — are inconsistent with the contents of the affidavits given to him."

Among Mr Foster's allegations was that a senior tax official had the use of two credit cards, issued in his name, for which the address was a well-known Cape Town tax consultant, who is a former receiver employee.

This information was obtained from a bank employee. The statements were sent to the tax consultant's address, which suggested, Mr Foster said, that he paid the official's accounts.



TREVOR FOSTER
'Inadequate probe'

He also alleged that certain tax officials received "loans" from sources in various firms of accountants.

Another claim was that officials delayed replies to certain wealthy taxpayers for several years, thereby allowing a postponement of their tax payments, in circumstances where interest recovery did not apply.

In one investigation a taxpayer was told his liability was about R1-million. The taxpayer offered to settle for R225 000. This offer was increased to R329 000, but senior outside legal counsel advised a tax official that a fair settlement would be R475 000. A draft demand was prepared by counsel but never made, despite reminders from the State Attorney and Mr Foster. The matter was settled some two years later by the official for just R217 000, without referral to counsel or staff.

"It seems that Mr Botha completed his investigations in 10 to 12 weeks by himself. From my experience he could not have accessed all the tax files and bank account records and spoken to all the necessary people in that period. I am aware of people and institutions who had relevant information who were not interviewed by Mr Botha.

"In my view it would have taken at least six months for a properly staffed judicial commission of inquiry," he said.

The committee chairman, Mr Botha, was reluctant to discuss his investigation, but conceded that he had not examined the bank records of any of the officials accused of taking bribes. He said he had interviewed them.

"I have handed it all to the Department of Finance. I am not allowed to issue any public statement. I was a one-man committee of inquiry, not a commission," he said.

Mr Foster believes the Section 4 secrecy clause is being misused to protect dishonest officials, and to put a lid on large-scale bribery by relatively few senior officials who hold top management posts.

"I am confident I have sufficient legal authority to support releasing the particulars of the allegations. I am doing it because other avenues and authorities have failed or are impractical and it not not within my means financially to do it any other way."

Tax rise fears as revenue dries up

ST Times (Buss) 19/7/92.

By CIARAN RYAN

HIGHER taxes are likely next year because shortfalls in State revenues could be R3-billion short of budget.

Louis Geldenhuys, an economist with stockbroker Senekal Mouton Kitshoff, estimates that State revenue will undershoot budget by R3-billion in the current fiscal year — 3,5% below target.

This will increase the deficit before borrowing by 20% from R16-billion to R19-billion. A 2% increase in VAT would recover the R3-billion shortfall.

But economists say there is limited scope for raising taxes. Board of Executors' Rob Lee says: "If the economy bounces back next year the problem largely resolves itself. The best solution is to cut back on current spending."

Mr Lee says lower revenue is the result of a weaker economy and over-optimistic estimates.

Reserve Bank Deputy Governor Jaap Meijer says the bank is concerned about the growing gap between expenditure and revenue.

"The drought will cost the economy an additional R2-billion. The trend is worrying."

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The Government is expected to cover any revenue shortfall by borrowing in the money market. Short-term borrowings will have to be replaced with long-term ones, paid for in the end by taxpayers.

Tony Twine of Econometrix says the revenue shortfall places immediate pressure on the money market: "Government borrowing will be inflationary because it adds to credit creation and it increases the State's debt burden. It costs about R17-billion to service the State's total debt."

ANC not set on capital gains tax

B/DAY 22/7/92. 320

SHARON WOOD

THE ANC was not committed to a capital gains tax but did believe that it would increase the legitimacy of the SA tax system, ANC tax advisor Denis Davis said yesterday.

Speaking at a Sacob tax conference in Johannesburg, he said the tax system was grossly illegitimate and inequitable.

"A capital gains tax doesn't bring in lots of money but it does legitimate a system which seemingly does not tax any form of capital tax accretion," he added.

A land tax also did not bring in lots of money and effectively nationalised land if the rate was higher than 2%. If the rate was below this it would bring in between R350m and R400m a year, which was "hardly worth it", he said.

Although a land tax was not revenue raising, in the short term it could resolve the problem of tenure patterns. However, a national land tax had not been considered by the ANC, he said.

Davis explained there was no detailed ANC tax policy but several principles in ANC thinking.

These included the need for a coherent economic policy and a system of public accountability.

"Little attention has been given to public accountability although government corruption started many years ago," Davis said.

The ANC believed an independent auditor-general should be appointed to ensure government expenditure was properly targeted and the cost efficiency of delivery mechanisms was monitored. Davis also stressed the need for a simple tax system.

Tax Advisory Committee chairman Michael Katz said a capital gains tax discouraged entrepreneurs from building up capital and the biggest victim of the tax could be emerging black entrepreneurs.

Other disadvantegs were that it did not yield much revenue, was complex to administer and the rich could avoid the tax.

A land tax should only be imposed if it raised revenue in a non-confiscatory manner, he said.

The issue of multiple VAT rates was raised by all speakers at the conference. Katz said: "Equity is important but one must also be careful whether the cost of compliance and administration are acceptable." Multiple rates increased the complexity of tax return forms and the risk of administration mistakes.

Davis said the only solution was to make the VAT system as progressive as possible by implementing multiple rates.

"This has been the tendency worldwide ... there is no other way out." VAT was a good tax, probably a lot more efficient than GST.

Sweeping tax reforms urged for a new SA

STAR 22/7/92

(320)

By Michael Chester

Sweeping measures to cut all special tax concessions and tax allowances to the bone were recommended in Johannesburg yesterday as a prelude to deep cuts in both corporate and personal income tax rates.

The measures were suggested by Michael Stein, partner in the tax firm of Divaris Stein, at a conference called by the SA Chamber of Business (Sacob) to examine tax policies in South Africa's transitional phase.

Mr Stein said it was crucial to close the gap between the nominal and effective rates paid by companies to allow an overall reduction in tax levels.

Reduced company levels were vital to attract the new fixed investment — especially from overseas — needed to generate faster growth and more job opportunities.

"Any companies that must rely on tax subsidies do not deserve to be in business," he said.

At the moment, he said, the full current 48 percent rate of corporate tax was usually being shouldered mainly by smaller companies without access to various complex concessions.

All too often, companies were being subsidised by spiralling tax on individuals.

Among the beneficiaries were "hoteliers building glittering towers in the homelands, sponsors of lavish sports events, unsuccessful exporters and investors in film productions that cannot earn their keep in popcorn, let alone stand a chance of ever winning an Oscar".

Mr Stein urged the earlier publication of details of any new tax proposals so that they could be thoroughly examined and debated before they went to parliament for approval — and possible later amendment when flaws were discovered.

It was haste and the lack of full consultations that had exposed errors in the VAT system, he said.

It was almost inevitable that VAT would have to be altered to relieve the burden on the very poor and to introduce a multiple scale of tax rates on luxury items.

He felt that both a capital gains tax and higher capital transfer taxes or estate duties looked inevitable.

But the rate of personal income tax was already as high as could be tolerated and it would be catastrophic if politicians tried to seek remedies to socio-economic reform in the tax system alone.

The need to close the gap between the nominal company tax rate and actual tax payments was heavily underscored by Professor Dennis Davis of the Centre of Applied Legal Studies at Wits University, who addressed the conference on behalf of the ANC.

Professor Davis denied that the ANC had made it policy to seek a blanket special tax on wealth. Newspaper reports making such suggestions were inaccurate.

In fact, the ANC had not yet completed its full set of tax proposals, though it was closely studying the possible adaptation of economic policies pursued by several of the industrial giants of the Pacific Rim, which highlighted the role of the state in overall planning.

ANC advisers saw merit in the possibility of lower corporate tax and individual income-tax rates to attract more domestic and foreign investment.

Also on the agenda was a multiple set of tax rates in the VAT system, land taxes to encourage the better utilisation of land resources, capital gains taxes and higher capital transfer taxes — viewed as inheritance taxes.

Sacob tax committee chairman Bob Wood said Sacob favoured lower corporate and individual tax rates to promote economic growth by more investment.

But he warned that a capital gains tax — bringing in little revenue and difficult to administer — would only serve to inhibit investment.

VALUE-ADDED TAX FM 24/7/92

Share blocks assisted

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FM 24/7/92 320

A recent amendment to the VAT Act — effective only from date of publication in the *Government Gazette* — deems the operations of a shareblock company to be an enterprise for VAT purposes if it seeks voluntary registration.

Kessel Feinstein tax partner Ernest Mazansky explains this will entitle the company to claim refunds of input credits. The benefit will be felt in net cost of improvements.

Before the amendment took effect, the wording of the VAT Act did not cover shareblock schemes because such property is owned by the company but the benefit of use and occupation vests in the shareholders. Rental accruing from occupation of part of a building represented by a particular shareblock accrues to the shareholder, not the company.

The rental-earning enterprise was, therefore, carried on by the shareholder rather than the company. So, if the company bore the cost of improvements to the building, there would be no input credit available.

IPG joint MD Bradley Tapnack says Revenue never charged VAT on the shareblock buyer's loan obligation as part of the total value of the transaction because the provision of the loan was seen as a financial service.

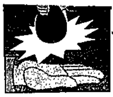
Now the value of the shareblock and any loan taken by the buyer will be subject to VAT. The same VAT can be charged whether a unit is bought under sectional title or shareblock.

Tapnack notes that the shareblock company will be able to claim an input tax credit when the scheme's developer raises VAT on his sale of shares and the loan account. But, he says, disadvantages are that the full value of a new unit bought through shareblock is subject to VAT and the developer, as a registered vendor, charges net VAT on the value added. ■

DU TOIT ON TAX

Tax harmonisation nightmare

FM 24/7/92 (320)



Pierre du Toit is senior tax partner at Arthur Andersen

With our political, social and economic worlds constantly changing, one of the greatest challenges faced by business is the task of creating wealth, without which we are doomed.

And one of the many areas of uncertainty businessmen have to contend with relates to the tax implications of the expected re-incorporation of the TBVC States.

When these States entered their abortive flirtation with statehood, they all assumed the SA Income Tax Act as it then stood. But over the years, differences developed and differentials in the tax rates widened.

The Ciskei set off on an imaginative but ultimately stifled (from a SA viewpoint) tax haven adventure. More subtly, but no less important, the systems began to drift apart.

Whether by default or design, the TBVC States failed to pass many of the amendments effected to our tax Act each year. As a result, allowances differ, incentives long since scrapped in SA still survive there and a host of anti-avoidance measures taken by the SA authorities were never adopted by the self-governing territories. About the only thing that remained constant was the world's denial of their sovereignty — which caused difficulties in applying SA's tax treaties as they affected TBVC operations.

The exact nature and degree of tax harmonisation which will follow political re-integration will be determined by the degree of federalism finally incorporated in the new constitution. However, the drift towards centralisation at Codesa 2 indicates that it remains highly unlikely that these territories will retain material separate taxing capacity. A multilateral agreement has already introduced uniformity in VAT.

A federal structure allowing separate income tax jurisdiction, if it ever comes about, is not likely to be based on the ethnic, grand apartheid ideal that gave birth to the TBVC States.

The technical problems of tax harmonisation will be legion. Investments made based on incentives that could fall away may suddenly have to survive without any help from government. Plans made based on a law which changes, upon harmonisation, may be adversely affected retrospectively. Court decisions in SA may suddenly have a bearing on TBVC operations thought to have been immune from them. Indeed, adverse decisions may even become appealable. Special deals could be challenged and rulings may be questioned.

From a constitutional viewpoint, tax harmonisation presents one of the most difficult areas of TBVC re-incorporation. To maintain fairness and reduce the retrospective effect, a long period to phase in and out the measures, rulings, decisions and administrative actions will be inevitable.

Nonetheless, from a business perspective, planning should be based on the assumption of TBVC re-incorporation, on the loss of fiscal sovereignty, on tax harmonisation and on a period of phasing out of benefits and burdens. These assumptions should guide business in questions such as the protection of tax losses which may become useful against profits generated in SA, of tax deferrals which may be reversed against like income and of maximising tax concessions in these territories to target benign concession phase-outs.

Businessmen may also want to consider delaying comparatively disadvantageous actions, accelerating or delaying the resolution of disputes, or the claiming or not claiming of relief under SA tax treaties.

As always, the ones who best cope with and even exploit today's uncertainties will become tomorrow's giants.

and uncertainties which followed the American discount rate cut to 3% (*FM* July 10) remain as strong as before. ■

WITHHOLDING TAXES (320)

Treaty troubles

FM 24/7/92

The latest Income Tax Amendment Act enables some foreign companies to claim a refund of nonresident shareholder's tax (NRST) deducted from dividends paid by SA companies. An important section of the Act deals effectively with a contradiction between the previous basis of charging NRST to foreign companies and various double tax treaties. These treaties bind SA for tax purposes to — among others — Germany, Switzerland and The Netherlands.

Previously, a company registered in SA had to charge NRST on dividends payable to a company holding its shares and incorporated outside SA. This requirement effectively based the obligation to pay NRST on the nationality of the company in question. However, the double tax treaties in operation prohibit discrimination on this ground.

Notwithstanding, the deduction of NRST in these circumstances remained unchallenged until a recent unreported Income Tax Special Court decision in the Transvaal. It upheld the argument of a nonresident parent company that the withholding of tax constituted discrimination under a treaty which applied the criterion of nationality. As a consequence, a foreign company subjected to the deduction of NRST, on this ground, may apply to SA Revenue for a refund of NRST imposed over the past three years — the period within which assessments may be reopened.

continue →

FM 24/7/92

(320)

The amendment now replaces nationality as the test for the deduction of NRST with residence — which is permitted by the double tax treaties. Residence is defined for NRST purposes as the "place of effective management of the company." Though the phrase is novel to SA tax law, it is widely used in double tax treaties. Therefore the new definition should be easily interpreted.

NRST has always been deducted from individuals on the basis of residence, so the question of discrimination under the treaties never arose. ■

TAXATION: *The Receiver will want to know if objects were collected for future profitmaking*

Collector's heirs could get a shock

COLLECTIONS tend to appreciate gratifyingly, but if left undeclared in the event of death, they could pose a tax problem to those they were intended to benefit — the collector's heirs. The Saturday Star's FINANCE STAFF reports.

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STAR 25/7/92.

THE collection of objects for their rarity, beauty or value, whether motivated by passionate interest or simply as a hedge against inflation, is an occupation familiar to almost anyone with disposable income.

Refined over the years, such collections tend to appreciate gratifyingly. However, left undeclared in the event of death, warns KPMG Aiken and Peat tax partner Hennie Coetzee, they could pose a dismaying tax problem to the very people they were intended to benefit — the collector's heirs.

He says: "There is nothing to stop anyone spending their disposable income on gold coins, wines, or whatever interests them. They will not be taxed for doing so.

"But in tax terms motivation is all-important. Under the current South African income tax system acquisition of wealth and the taxation of capital gain is a subjective matter and frequently reveals fascinating human behaviour.

"Establishing whether capital gain is involved or not becomes a human drama in which the motives of the tax payer are generally more closely examined.

"The Receiver looks at the intention of the collector. Why did he or she collect gold coins? What was their intention in collecting gemstones? Are the coins of historical interest and the diamonds of unique beauty, or were they acquired simply to a accumulate wealth?"

Ownership of collectors' items for investment purposes is unlikely since income is rarely derived from a collection, says Coetzee.

"On the other hand, if these items were collected with an eye to their expected future increase in value, profit-making may well have been the motivation — and in South Africa any surplus arising from a profit-making scheme is taxable."

Hobby

The subjective is always supported by objective factors, Coetzee says.

"Surrounding circumstances are what support the tax payer's story. Either they confirm the State's intention of the collector or they don't."

He says a major motivating factor for the private collector lay in the value of collecting both as a hobby and a hedge against inflation.

"We still have the advantage in this country that where capital grows naturally it will not be taxable.

"However a discerning collection ultimately becomes a good investment because capital gains, even if realised and subsequently taxed, generally work out at a lower tax rate than ordinary income tax," says Coetzee.

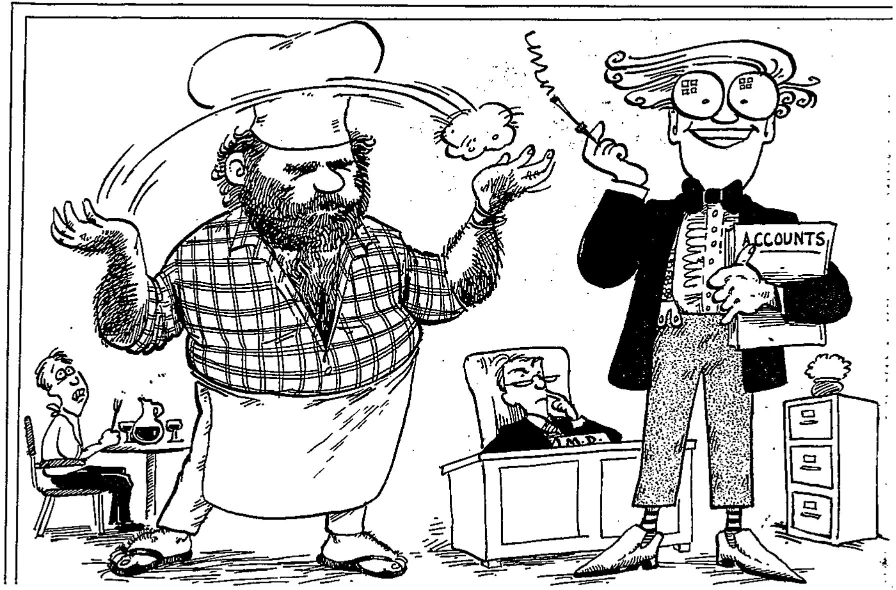
"A problem may arise with the transfer of wealth, which can be taxable. People don't like being taxed, so deceased estates and beneficiaries tend not to declare items like family jewellery, antique furniture and fine oriental rugs when these are inherited.

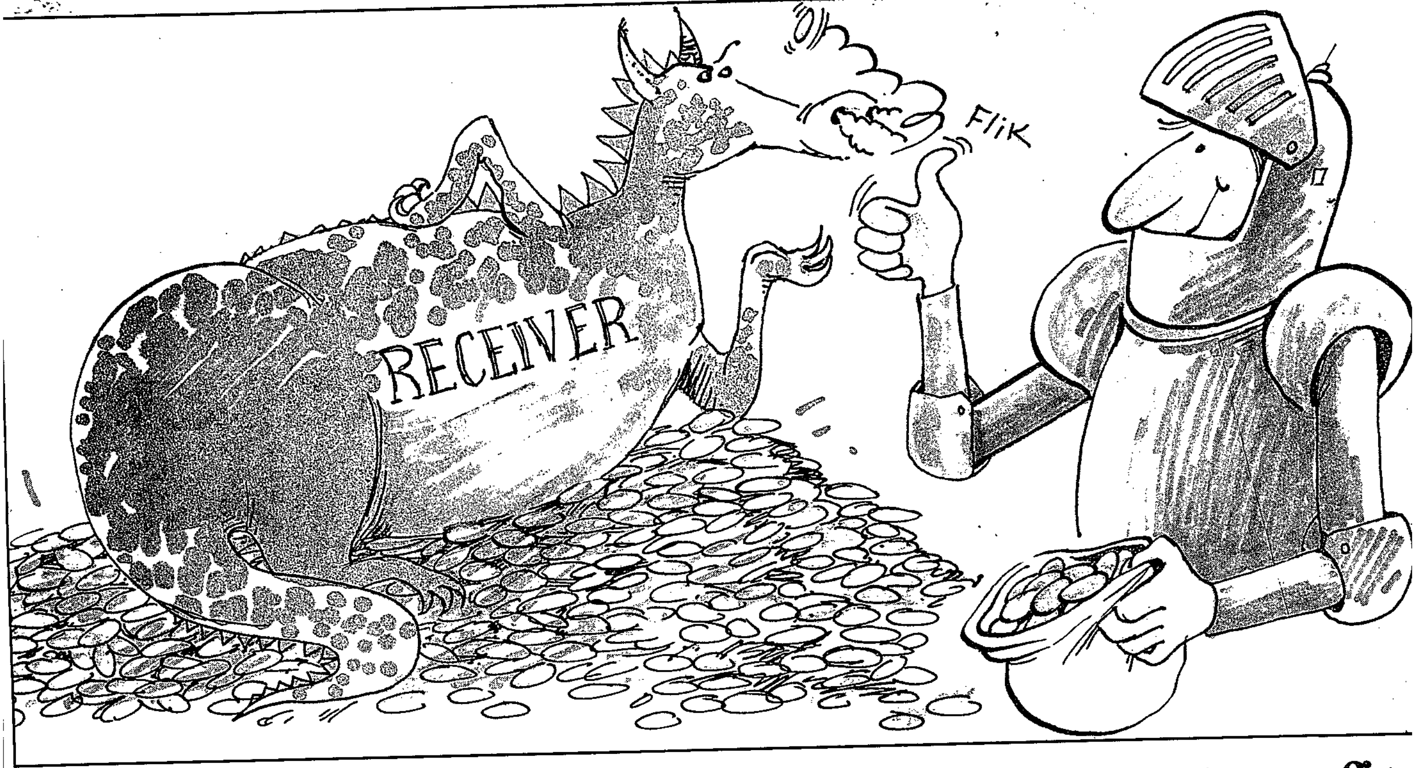
"Providing the beneficiaries are content simply to wear grandmother's diamonds and live as previous generations did with the furniture and pictures, all is well. It is only when they or subsequent heirs decide to realise their inheritance that the Receiver of Revenue wants to know how the sudden injection of funds was acquired.

"But getting into a situaton like this is quite unnecessary, we still have very low estate duty. At 15 percent payable only on estate in excess of R1-million this is hardly an effective tax."

What is necessary, Coctzee says, is for personal wealth to be seen to be taxed.

"Throughout history individual perceptions of wealth have been relative at best. That having been said, taxing the so-called wealthy is arguably more important today in the eyes of the small man than ever before."





Taxman will want slice of Krugerrand profits

THE only known case in which the sale of gold coins evaded the Receiver's clutches was one based on religion. LEIGH HASSALL reports.

STAR 25/7/92

(320)

TWO recent court cases have once again thrown the spotlight on the income tax status of Krugerrands. In both cases, the Special Court for Income Tax Appeals found that the profits made on the sale of Krugerrands were fully taxable.

This is likely to further undermine the attraction of Krugerrands as an investment.

Intention

The effect of the two rulings is that the taxpayer faces an almost impossible task in proving that profits from the sale of the gold coins are of a capital nature and thus not taxable.

A fundamental principle of tax law is that the profit arising from assets which are purchased with the intention to resell will be taxable. The reason for this is that one is considered to be carrying on a trade and the assets are classified as trading stock, with the resulting revenue being taxable income.

The benefit of holding Krugerrands is their proven capacity to increase in value over time. However, the taxpayer only realises this value when he sells the coins.

In other words, the taxpayer purchased the Krugerrands with the intention to resell. Unless the taxpayer can prove otherwise, the gold coins will be considered his trading stock and the resulting profit taxable in his hands.

A common analogy of the capital versus revenue scenario, and one which is revered by the tax pundits, is of the fruit-bearing tree. The sale of the fruit is considered taxable. However, the eventual sale of the tree will not be taxable as it is capital. For instance, the rentals from a second property will be taxable income but the eventual sale of the house will not.

Whereas other forms of investment assets earn regular income (the fruits), Krugerrands do not produce income on a regular basis.

Two recent cases heard in the Special Court for Income Tax Appeals confirm the laws regarding profits on Krugerrand sales.

In the first case, the taxpayer held Krugerrands for 12 years before selling them and injecting the proceeds into his ailing business. He had acquired the coins on the advice of his accountant for what he termed a "rainy day".

The court decided that savings in the form of coins would eventually be realised to make a profit. The taxpayer lost his case and paid the Receiver his share of the profits.

In the second case, a wealthy taxpayer sold his lucrative business and invested R2 million in gold coins.

His avowed intention was to hedge his capital and to provide a store of wealth for his children.

However, 18 months after buying he sold off his assets at regular intervals during a period of nine years.

The proceeds were injected into new business ventures, holiday homes for his daughters and university fees.

The court decided that although the original intention was to retain the coins indefinitely as a store of wealth, the taxpayer changed his intention, as evidenced by his systematic selling.

In the long history of taxpayers' battles to beat the Receiver, a leading tax consultant can remember only one case where the ta
payer proved that the i
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Distrust

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Changes affect tax benefits of plane ownership

ANDREW KRUMM 320

AN AUGUST 1 amendment to the Income Tax Act — which removes some tax benefits associated with aircraft sales — would affect the incentive to own aircraft and hurt tourism in SA, said industry sources. BDAY

Deloitte Pim Goldby associate director Craig Richardson said an amendment to the 1992 Income Tax Act would prevent the owner of an aircraft from setting off the sale of an old aircraft against the cost of a new one.

"The message is that aircraft owners planning to sell have four days to avail themselves of the tax benefits under the current Act," he said. 28/7/92

Avfin Industrial Finance director Volker von Widdern said "the motivation and justification for acquiring an aircraft now becomes that much more difficult".

The amendment would not only affect the size of the market, but hurt tourism through its impact on the air charter industry.

"The infrastructure for tourism must include an airfleet, and when you restrict the airfleet, you restrict tourism," von Widdern said.

Another aviation finance company spokesman said the amendment would have a "very dramatic" effect on an already depressed market.

"One of the biggest selling tools in this industry is the tax benefits associated with owning an aircraft.

"For an owner this often leads to a situation, where, in order to enjoy the tax benefits, he rolls over the recoupment values into a newer, larger aircraft.

The owner's inability to roll over the recoupment under the amendment would cut the market drastically in future," he said.

Even taking account of a 40% tax allowance for new aircraft, the net effect of the amendment was a significant increase in the former owner's taxable income, with an obviously negative impact on his cash flow," he said.

Travel agents wilt in heat of air war

BDAY 28/7/92

STEPHANE BOTHMA

CHEAPER air fares — although beneficial to travellers — were causing travel agents to struggle, an industry spokesman said at the weekend.

Agents had to sell many more of the cut-price tickets to generate the same level of income they derived from selling more costly tickets, often at the expense of service to customers, Rennies Travel marketing manager Kananelo Maketha said.

Maketha's statement came as a price war loomed in SA's domestic flight market between Flitestar and Comair — a war in which SAA has said it would not take part for the moment.

Maketha warned that those travel agencies which were not geared towards providing their service cost effectively would be hard pressed to maintain their standards.

Flitestar and Comair recently announced a cut of up to 45% on fares on the popular Johannesburg-Cape Town route and industry sources speculated that SAA would soon announce a cut of about 50% on its flight pricess.

However, the speculation was strongly denied by SAA spokesman Leon Els, who said that no such announcement would be made in the foreseeable future.

Flitestar MD Jan Blake earlier said domestic air fare structures in SA were already too low by world standards and that such a dramatic reduction in fares by SAA would eliminate all competition.

SAA already showed a considerable loss on its domestic service and airline chief executive Gert van der Veer earlier indicated that SAA intended cutting down on domestic seat capacity.

Flitestar last week introduced a promotional fare of R638 on an off-peak flight between Johannesburg and Cape Town with effect from August 3.

At the weekend Comair pointed out that its off-peak fares on the route were still the lowest in the country at R530 return.

"This is a no-strings-attached fare, with simple preconditions: it applies to passengers booking and paying in full ten days prior to departure, senior citizens, youth, military personnel and spouses," Comair commercial director Bert van der Linden said.

Peak-time unconditional fares on Comair were R678 on all flights — 20% less than the standard economy fare offered by the other two carriers on the Johannesburg-Cape Town route, he said.

Comair would fly the route for the first time on August 3.

A Rennies Travel spokesman said travel agents were paid a certain percentage commission on selling an air ticket and although ticket prices were being lowered, the commission percentage remained the same.

"We fear that travel agents would not start pushing volume at the expense of service to customers," she said.

Collectors expected to snap up Harvards

STEPHANE BOTHMA

BDAY 28/7/92

ARMSCOR has put up for tender 21 SAAF aircraft — including two Harvards which the company says are collectors' items.

On Sunday Armscor advertised 19 AM-3CM Bosbok aircraft, Bosbok spares and two Harvard T6s.

The Bosboks were built for the SAAF by the former Atlas Aircraft Corporation and used mainly for reconnaissance, an Armscor spokesman said yesterday. They were ideal for use in rural areas because of their short take-off and landing abilities.

The 40-year-old Harvards — used by the SAAF as training aircraft — were expected to be snapped up by foreign collectors. Tenders were expected from all over the world.

The tender deadline was set for September 14.

Skal congress major boost for Cape tourism

BDAY 28/7/92

LINDA ENSOR

CAPE TOWN — The Cape tourism industry is to receive a boost by the arrival of about 1 800 tourist operators from all over the world who will be attending the 1992 Skal World Congress in the city in October.

Apart from the immediate economic spin-offs from the flood of visitors from 80 different countries, the Cape economy is likely to receive a further $25m tourist injection next year as a result of the congress.

"The importance of making a favourable impression on the delegates cannot be overemphasised. They are able to exert tremendous influence on tourism to SA," Skal spokesman Mike de Groot said yesterday.

Association Internationale des Skal Clubs protocol director Len Gracheffo from Canada and congress director Ian McCubbin from the UK said previous experience showed that the year following the congress the host city gained tourism worth about $25m.

Skal members are all senior personnel in travel and tourism related industries. The organisation has a membership of more than 24 000 in about 600 clubs in more than 100 countries.

About 1 820 beds have been booked in 16 Cape hotels for the six-day congress and 45 luxury coaches are being brought from other centres in SA to cope with the demand.

Cape Town was chosen to host the 1992 congress over rival bidder Istanbul.

REPORTS: Business Day Reporters, Sapa.

"be patient," Nel said.

The commission's terms of reference were to inquire and report on:

☐ malpractices in respect of the formation of the group and running of its affairs.

Supply-side tax measures proposed

B/DAY 31/7/92

(320)

SHARON WOOD

IMPLEMENTING supply-side tax measures would harmonise SA's fiscal and monetary policies, says the Bank of Lisbon in its latest Economic Focus.

Cuts in individual and corporate income taxes would promote greater productivity, savings and investment, it says.

The present monetary policy aims to create a better environment for saving and investment by materially reducing inflation. It concentrates on the supply side of the economy.

However, the Reserve Bank is still facing difficulties in applying its strict monetary policy.

"The second fundamental difficulty concerns the need to harmonise monetary and fiscal policies," it says.

The Bank of Lisbon argues that existing special tax incentives favouring certain sectors should be removed and this should be accompanied by a reduction in the nominal rate of corporate taxation.

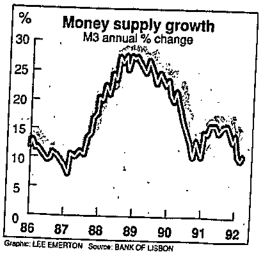
The imperative need for social investment must be addressed, it says, but should be carried out in a manner which does not impair the economy.

The report says that proposals to sharply increase social expenditures clashes with monetary policy and the need for lower taxes.

Privatisation has the potential to provide a supply-side boost to the economy and boost new foreign investment in the Republic.

In addition, the discount on the financial rand could narrow, making way for the elimination of the finrand system.

It says a major challenge facing SA is to convey an unequivocal message to the international community that, despite the magnitude of the socio-economic and political changes under way, it will still be possible to base economic policies on sound internationally accepted principles.



Graphic: LEE EMERTON Source: BANK OF LISBON

Taxman tightens his act

STAR 1/8/92

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TAXPAYERS who claim for a study at home must expect some scrutiny. By LEIGH HASSELL

Bad news for those working from home

BEWARE! That snoop outside your window might not be an intruder but the taxman checking to see whether you are using that "home study", as you claimed in your income tax form, solely for the purpose of earning income.

Several people have recently received a shock in the form of one of the Receiver's men on their doorstep, asking questions about that "home study".

Last year's Income Tax Amendment Act severely restricts the scope of this deduction by requiring that the "home study" be specifically equipped for the purposes of the taxpayer's trade (or employment) and that it be used regularly and exclusively for that purpose.

In addition to the stringent requirements of the Act, when the taxpayer renders his return he must also submit a detailed questionnaire to help the Receiver assess the appropriateness of the deduction.

Challenge

Notwithstanding all of this, the costs of a study should be claimed as a deduction when that room is used exclusively for business.

The Act does not define the term "exclusively", but if the room has a television in the corner or a sleeper couch against the wall, it is doubtful that it is exclusively used for the purpose of trade!

Beric Croome, tax partner at Kessel Feinstein, says: "The challenge of this provision of the Act is that the study be used for the purpose of the taxpayer's trade.

"There must be a direct link between incurring the expenses of the study and the production of income.

"Where to draw the line as to which occupations are eligible for the deduction and which are not is difficult."

The deduction has been claimed in the past by university lecturers, teachers, computer programmers and salesmen, journalists, attorneys, accountants, doctors and other professionals.

Company directors who need to communicate with their overseas offices after local working hours have also been allowed the deduction.

But the tightening of the legislature will now require that each case be assessed on its merits.

Teachers come under particular scrutiny in the questionnaire which the taxpayer is obliged to complete. Their future eligibility will presumably be determined on how much time is necessarily spent working from home.

Recent tax queries by the Receiver suggest that the taxpayer must provide a valid reason as to why he is forced to work at home and cannot work at his office.

Croome points out that there is a stronger case to allow the deduction to the self-employed professional than the employee who has a set place of work.

In fact, the Receiver will only allow the employee a deduction if he is obliged to maintain a study at his private residence in terms of his service contract.

Tally

The taxpayer who thinks he is entitled to the deduction must keep a tally of the non-capital costs incurred in the acquisition and upkeep of his domestic property.

Appropriate costs include the mortgage bond interest or rental of the property, rates and taxes, water and lights, insurance and cleaning costs.

Direct expenses incurred for the purpose of trade may be claimed in full, for example trade periodicals, computer stationery and fax machine costs. Repairs to the study itself may also be claimed.

Croome suggests that wear and tear be claimed on the cost of the assets in the study. The current rates, calculated on the straight-line basis are: office furniture (10 percent), computer equipment (20 to 25 percent) and trade books (33,3 percent).

The taxman has certainly tightened up his act and the taxpayer should follow suit. Perhaps the first step should be to remove the TV set and replace the paperback novels with dog-eared trade hardbacks.

Business Day SURVEY

Political and economic uncertainty has depressed the residential property market more than expected and the recent reduction in the home-loan rate is unlikely to have a major impact on immediate prospects. **LYNN CARLISE** *reports.*

Seldom-used deal for investors

BDAY 3/8/92.

TAX-FREE savings are still on offer to potential home owners, despite many such concessions being phased out on many other investments.

However, one of these on offer only by building societies is an attractive option which is not being taken full advantage of, primarily because developers are offering attractive financial packages.

EP Building Society operations GM Koos Seibrits says the offer, available only from building societies, encourages people who do not own their own home to save sufficient equity to purchase.

With a tax benefit on investments of up to R20 000, this option is aimed at people saving for a deposit on a house.

Investors could realise a return that is unmatched by any other low-risk, interest-bearing savings instrument — depending on one's marginal tax rate, says Seibrits. (320)

EPBS marketing services manager Cliff Hall explains that because this product offers the saver 12% tax-free, it thus compares favourably with one offering a 20% taxable return to an individual who is taxed at the top marginal rate of 43%.

In order to qualify, the saver must sign a declaration with the building society guaranteeing such savings will be used only as a deposit on a home.

A copy of the agreement is then sent to the Receiver.

Tax on life policy likely to change

B/DAY 5/8/92.

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ANDREW KRUMM

LIFE assurers and their clients will benefit from a more favourable tax dispensation from March next year — provided revenue authorities and the Life Offices Association settle "certain" difficulties, says Southern Life deputy GM Tony Davey.

Speaking at a tax seminar yesterday, Davey said life offices, the Financial Services Board and revenue authorities had recently agreed in principle to do away with the problem sixth schedule to the Income Tax Act, which regulated the tax treatment of life policies.

"We agreed that the Insurance Act — rather than the Income Tax Act — should be the appropriate vehicle to define a life office's product range," he said.

Davey said the "trustee principle" would be applied from March 1 1993, which meant that life offices would pay tax on behalf of their policyholders and at more favourable tax rates.

"At present the life offices tax rate is set at 43%, which is the maximum marginal personal rate. But it is unfair to apply this rate to policyholders in lower tax brackets, and vice versa in the case of corporate policyholders.

"However, the LOA and government reached agreement that policyholders, who are natural persons, would be taxed at an average rate — namely 32% — while corporate policyholders will be taxed at the corporate rate."

Davey said the trustee principle was in line with a Margo Commission recommendation that it was more efficient to collect tax at the source of payment rather than from clients.

But the implementation of the trustee principle would require life offices to maintain four separate funds. These were an untaxed policyholders fund, two taxed policyholders funds, and a taxed corporate fund.

With the demise of the sixth schedule and the revision of the Insurance Act, both the insurance industry and clients would benefit, he said. "The classification of life policies — as standard, deemed standard or non-standard — will fall away and policyholders will receive tax-free policy benefits.

"Existing polices will also benefit from a 'tax holiday' in that current non-standard policies will not be subject to tax on the gain element," he said.

Revenue slides as VAT falters

By ZILLA EFRAT

REVENUE collections for the first three months of the financial year are much worse than expected and could result in a budget deficit of more than R20-billion.

Nedbank chief economist Edward Osborn says the shortfall in VAT collections could pose a serious dilemma for the Government.

The deficit for three months is R9,2-billion, more than double the R4-billion expected in the budget on a proportionate basis.

The deficit before borrowing for the year, forecast to be R15,9-billion, could now be close to 6% of gross domestic product — twice the 3% recommended by the International Monetary Fund.

Central Statistical Service (CSS) figures show that revenue collections for the first three months were only 8,9% higher than in the same time last year. This is a fall in real terms of about 5%.

This year's budget was for an increase of 13,2% on the assumption that GDP growth would be 1%. But GDP could shrink by at least 1%, says Mr Osborn. (320)

Poor

The main cause of the shortfall is VAT, which brought in R3,6-billion. This is well below both the R4,5-billion in GST collected in the same time last year and budget projections of R5,3-billion for the three months.

Mr Osborn says the lower VAT collections reflect the poor state of the economy.

He says the Government budgeted to increase its spending 16,5% over last year's. S Times (Buss)

This "extremely serious fiscal position" means that the Government cannot increase spending further to kick-start the economy.

"Government will have to weigh up the need for revenue and the furore any increases in taxes like VAT might cause. It might have to live with lower revenue and finance the shortfall through borrowings." 9/8/92

Higher VAT or increased petrol levy on cards

B DAY 11/8/92. (320)

GERALD REILLY

GOVERNMENT may be compelled to raise the current 10% VAT rate and increase the petrol levy if tax income continues to decline, and all indications are that it will, says Stellenbosch University's Bureau for Economic Research (BER) head Ockie Stuart.

Government financial spokesmen have indicated this year's income from tax and other sources will fall short of the Budget's target.

VAT collections for the first three months of the financial year amounted to R3,545bn against a Budget expectation for the whole year of R21,019bn, a Finance Department spokesman said.

In the same three months last year GST collections at 13% totalled R4,557bn against an expectation of R19,444bn for the financial year.

Income tax collections for April-June totalled R8,992bn against an estimate of R50,5bn for the year.

In April-June last year collections amounted to R7,540bn. The Budget estimate was R44,817bn for the year.

The spokesman said as a large number of big companies paid at the end of June, this would only be reflected in July collections. Also the first provisional tax payments were due at end-August, which would help to boost revenue. In spite of this, however, it appeared tax targets would not be reached.

Towards a fair and pleasant fiscal land

STAR 11/8/92 (320)

In the column this week tax experts consider an equitable system for a new South Africa.

There are several issues — do we need new taxes? Can we administer new taxes? Should these taxes (if any) be regional or national taxes? What incentives do we need? What lessons can we learn from other countries?

Maybe I should deal with the last question first.

The more one looks at comparative tax systems in other industrialised nations, developing nations, African nations and Eastern nations, the more one appreciates that there are few common threads.

It is extremely difficult to do more than generalise and when one comes down to the task of precedent-hunting with the question, for example, of "What does a capital gains tax (CGT) look like?", the answer is that there are as many different formats as there are countries with a CGT.

In short, while we should not ignore foreign experience, our fiscal solutions must evolve according to the environment in which they must work.

But there are some observations that can be made drawing from international comparatives — they are:

- Very few countries have taxes outside the traditional and well-proven income tax, VAT/GST, capital gains tax and estate duty. Annual taxes on net wealth or on land are quite uncommon.
- Our effective corporate tax rate (after allowances) is not badly out of line with our trading partners, but is high in comparison with our developing-nation competitors.
- The upper 10 percent of our individual taxpayers pays an average tax burden in industrialised country terms, but receives a below-average scale of benefits in return.
- Capital gains taxes are common in industrialised and developing countries.

One of our greatest difficulties in a developing South Africa is the lack of administrative skills both in the private and public sectors to cope with a plethora of different and difficult taxes — make no mistake, simple tax systems do not work unless the rates are exceptionally low.

We therefore need to be careful to achieve our ends with as little new legislation as possible.

At the same time, we face the difficulty of bringing our emerging entrepreneurial class in from the cold — they have not paid taxes, they do not want to pay taxes and the system is, anyway, not user-friendly.

By David Clegg, tax consultant and partner at Ernst & Young

So where do these observations lead me?

Firstly, let me say that I believe a capital gains tax in some shape or form (and form is a debate on its own) is essential as a sort of moral lightning conductor.

I do not believe it is politically realistic to oppose one (although Namibia has!).

My crystal ball tells me that this tax should apply to the sale of business assets, quoted and unquoted shares and to fixed property that does not constitute a primary private residence.

The rate will be 50 percent of the person's average tax rate for the year (with a minimum rate of 10 percent) and the cost base of assets will be indexed for inflation.

I believe that VAT must bear an additional burden, together with the financial services levy, through the creation of a regionally collected tax piggy-backed on the VAT/levy system and replacing the existing regional council levies. A federal South Africa demands regional taxes.

Land tax is a viable alternative to land confiscation, but is a non-starter for practical and administrative reasons.

Corporate tax rates must drop, but industrial allowances should remain relatively untouched — they are not especially out of line.

Some form of simplified small business tax, possibly based on accounting profits, is needed to blend the emerging SA into the old.

If all the above comes to pass, all South Africans will contribute to the new South Africa in fair measure.

With political peace we will become a fair and pleasant fiscal land for foreign investment.

- **Tomorrow:** Michael Katz, chairman of the Tax Advisory

VAT revenue well below expectations

(3 20)

By Sven Lünsche STAR 11/8/92

Revenue from VAT is falling well short of expectations and has prompted fears the Government may have to borrow substantially more than budgeted.

Central Statistical Service figures show income from VAT and the outstanding remnants of GST fell 21,4 percent in the first three months of the 1992/3 fiscal year, compared with the same period last year.

VAT income was R3,58 billion (GST revenue of R4,56 billion in the April-to-June 1991 quarter).

Exchequer income for the first three months of the fiscal year rose only 8,9 percent to R15,96 billion (R14,66 billion last year).

This represented a shortfall of 30 percent on the amount budgeted and has prompted fears the Government may have to borrow about R3 billion more than budgeted.

The revenue collected amounts to only 18,8 percent of the budgeted figure.

Department of Finance officials point out that VAT is applied at a lower rate than was GST, but admit that tax income has been adversely affected by the poor performance of the economy.

The shortfall has led to speculation that the Government is considering a hike in VAT from its current level of 10 percent.

Other sources of government revenue are holding firm.

Income tax revenue in the quarter rose by 16,7 percent from R7,52 billion in 1991 to R18,19 billion this year.

Lower tax bills boost IDC Selections' profits

(320) (~~264~~) (~~260~~)

B1014 17/8/92

EDWARD WEST

PROFITS of the Industrial Development Corporation's (IDC's) general investment companies National Selections and Industrial Selections were boosted by lower tax bills in the year to June 1992.

Today's published results show the 53% IDC-controlled Industrial Selections' earnings improved to 14,36c (1991: 13,88c). A final dividend of 6,5c (6c) was declared, bringing the total dividends for the year to 12c. National Selections' earnings rose to 17c (16,47c) a share and the final dividend was upped to 8c (7,5c) bringing the annual total to 14,5c (14c).

Industrial Selections' pre-tax income increased marginally to R39,98m (R39,4m), but the tax bill, which fell substantially to R671 000 from R1,4m, boosted taxed income to R39,31m (R38m).

National Selections' pre-tax income also increased marginally to R39,73m (R39,39m). The tax bill fell to R600 000 from (R1,49m) leaving taxed income at R39,13m (R37,9m).

National and Industrial Selections' major investments included Sappi, Impala Platinum, C G Smith and Richards Bay Heavy Minerals, said IDC GM Louis Kingma.

VAT

FM 14/8/92

Flat on its back

(320)

Extending VAT to more foodstuff from April did little to offset the effects of the recession on government revenue over the first quarter of the fiscal year.

According to the most recently gazetted Statement of Revenue, VAT collections totalled R3,5bn between April 1 and June 30.

Together with sales tax revenue of R35m, this is 21% lower than the amount collected through GST in the first quarter of last year.

Though weak consumer spending ate into government VAT earnings, income tax revenue was 19,3% higher, at R9bn, compared with the first quarter of last year.

Total inland revenue for the quarter, after

continue →

FM 14/8/92

(320)

payments to the self-governing states and TBVC countries, stood at R13,1bn, 4,1% higher than last year, but well below the 14% budgeted rate of increase in inland revenue for the year.

Other tax revenue came from:

☐ Nonresident shareholders' tax, 12% lower at R78m;

☐ Donations tax, up 158% at R2,9m;

☐ Estate duty, up 60% at R26m;

☐ Trade securities, down 27% at R41m;

☐ Stamp duties and fees, up 13% at R192m;

☐ Transfer duties; up 28,4% at R278m;

☐ Mining leases and ownership revenue, up to R61m compared with a negative R130 000 over the same period in 1991/1992;

☐ Interest and dividends, down from R9m to R3m;

☐ Recoveries of loans and advances raised, up 23% at R5m; and

☐ Departmental activities, up to R316m compared with R61m.

The increases in the fuel levy last August and in April boosted Customs & Excise figures over the period. Earnings from the fuel levy were at R1,6bn, an increase of 51%. The excise duty figure was up 35% at R998m. But the customs duty, up 5% at R702m, and the surcharge, up 1% to R361m, showed only small increases. The ordinary levy, -12,5% at R14m, and miscellaneous, -37% at R34m, were lower.

After Customs Union payments, revenue from Customs & Excise over the quarter totalled R2,5bn — an increase of 58%.

Total revenue for the period was R15,6bn, an increase of 11%. ■

In my view . . .

This week tax experts consider an equitable system for a new South Africa.

Tax is but one means to a policy objective

(320)

STAR 14/8/92

By Michael Katz, senior partner at Edward Nathan & Friedland, and chairman of the Tax Advisory Committee

It is necessary in the first instance to differentiate between tax design and tax reform.

The former concept contemplates designing a tax structure for a society that doesn't have an existing tax structure, whereas the latter concept recognises that there is an existing tax structure which has defects.

These defects may be of a technical nature or a policy nature in that the existing tax structure fails to meet the needs of the society at the time.

In effecting tax reform which involves moving from the existing system with its identified defects to the new system there must be sensible transition, particularly having regard to the fact that the business community bases its decisions on existing rules and frequent changes in the rules of the game undermine certainty.

Nevertheless society's needs must be achieved.

Secondly, it must be borne in mind that while the tax system is an important instrument in achieving certain policy objectives, it is not the only instrument available for this purpose.

It must be used in conjunction with other available means of achieving policy objectives.

Thirdly, and following closely on the preceding point, it must be remembered that the tax system forms part of the entire budgetary process.

The budgetary process has two sides, namely the revenue side which essentially consists of the proceeds of tax collections and the expenditure side which involves the spending of tax and other funds, including borrowings.

In times gone by the conventional wisdom was that the redistribution process in a society was best achieved on the revenue side of the budget and, more particularly, by means of a steep progressive system of income tax.

Today it is almost universally accepted that redistribution is better achieved on the expenditure side of the budget and more particularly by devoting increasing portions of expenditure on social welfare causes such as housing, education and health care.

Nutshell

In a nutshell, the emphasis is being placed more on how taxes are spent than on how they are raised.

Fourthly, the needs of South Africa's two sectors, namely the First World sector and the Third World sector must be reconciled and balanced.

The tax system together with other available instruments must recognise that the business sector, particularly the manufacturing units, creates value and produces the wealth which will serve as the base for sustaining the needs of the entire country.

Without a thriving business sector there will not be tax revenues to finance the needs of the Third World sector and to provide employment so vital for the country.

On the other hand, unless the needs of the Third World sector are satisfied, there will be instability which will undermine the stability required for new investment decisions and an efficient business sector.

Careful balancing is required in achieving this process of reconciling competing needs.

It cannot be overstressed, however, that the "engine" must be enabled to produce; we must nurture the tree and redistribute the fruit.

Fifthly, in identifying the current needs of society it will of necessity be important to embark upon a process of prioritisation. In this regard we must recognise that:

- There is a need to achieve equity. There must be a movement towards eliminating gaps in income.
- We must promote discretionary saving. This is difficult in a society which has high inflation and is subjected to political risk.

Nonetheless, the tax system must recognise this policy objective. Perhaps an ingenious new instrument is required where only the real interest element (excluding the initiation portion) is subjected to tax.

- We must promote new investment in plant and equipment.

Inflation

This is one of the greatest contemporary needs of the economy and the tax system must play its role here, bearing in mind, in particular, that we have high inflation.

In considering how the tax system can promote new investment in productive plant, obviously a lowering of rate of corporate tax will be important so as to enhance post-tax returns on new investments.

So too must consideration be given to extending the provisions of section 37E to be of more general application as well as a consideration of increasing the rates of depreciation or rather of reducing the period of write-off.

Obviously, considerations of affordability by the fiscus will feature in this regard.

- The promotion of small business and job creation is a vital necessity.

The tax system must recognise the factor and must ensure, for example, that small business isn't left uncompetitive with big business.

One of the reasons why fringe benefits have been attacked is that they are capital-intensive and thus place small business at a serious disadvantage in competing with big business in recruiting skilled workers.

- We must be competitive internationally and be able to attract foreign capital.

In a world increasingly characterised by mobility of capital, foreign investors will move their capital to jurisdictions where they can achieve the highest returns.

In this scenario, countries will reduce their tax rates in an endeavour to attract capital and much competition will exist internationally in the reduction of tax rates.

- The promotion of exports, and particularly locally beneficiated products, must also enjoy serious attention.

But in this regard, the type of assistance, while complying with Gatt requirements, must be such as not to give rise to unproductive expenditure as was the case with the now repealed section 11bis.

Areas

Limitations of space preclude a detailed analysis of specific areas requiring investigation. The possibility of a capital gains tax has been raised by numerous analysts; it is impossible in this article meaningfully to set out the pros and cons of a capital gains tax.

Some changes are clearly desirable in the existing estate duty and donations tax provisions.

It will be necessary to examine again the relationship between direct and indirect tax in our tax structure and, with regard to VAT, some changes will need to be considered.

Most notable in this regard will be the question of whether we should have multiple rates.

In this regard, considerations of equity may outweigh issues relating to the cost-effectiveness of compliance and administration.

Certain structural changes are required such as obtaining greater symmetry between the inclusions in gross income and the deductions.

Furthermore, all timing elements arising from the definitions of "accrued" and "incurred" are in dire need of redefinition.

There is at present a great ability to manipulate the tax base in the context of deferring accruals and accelerating "incurreds"; this is the single biggest loss to the fiscus.

We will also have to give greater consideration to moving in certain contexts more towards a residential base of tax instead of a source basis.

This will accord with international practice and it will be increasingly more important to harmonise with international trends.

Aspects of our dispensation relating to the taxation of pension, provident and retirements funds will also need thorough investigation.

Finally, the procedures and resources for administering the tax system and collecting taxes merit attention.

BUSINESS BAROMETER

VAT hike looms

320

LOWER than expected government revenue from Value Added Tax, despite extending VAT to more foodstuffs, has increased speculation of either an increase in the VAT rate or an increase in the fuel levy to make up the shortfall.

VAT collections totalled R3,5-billion between April 1 and June 30 this year.

This is 21 percent lower than the amount collected through GST in the first quarter of last year.

W/Mail 14/8-20/8/92

Tens of thousands to feel the verdict

STAR 15/8/92

(320)

THE commonness of the setting up and use of film partnership deals could be investors' saving grace. LEIGH HASSALL reports.

MORE than 44 000 taxpayers are anxiously awaiting the outcome of an Income Tax Special Court case to be held in October.

The verdict will substantially affect the purses of taxpayers who invested in about 180 syndicated film partnerships in the mid-1980s.

Special partnership agreements were set up to finance the production and marketing of films.

Through his contribution to the partnership the taxpayer could claim a share of the film's production and marketing expenses and the exporter's tax allowance if the distribution rights of the film were sold abroad.

Injection of capital

Participation in films offered the taxpayer a handsome after-tax return — on average an expenses-to-investment ratio of three to one.

Many with cash to spare grabbed the opportunity.

They were encouraged by certain written rulings given by the then-top men of the Revenue office, which in effect condoned the film arrangements.

The local film industry boomed with the injection of capital, and stars such as Sharon Stone and David Hasselhoff graced the land.

Film crews flourished, starlets abounded and a new Hollywood was said to be in the offing.

A Minister of Films was appointed and specific income tax legislation introduced.

As could have been expected, the flourishing industry and good returns attracted certain unscrupulous producers and distributors.

Exaggerated marketing allowances and production expenses that could not be substantiated were claimed.

Revenue clamped down, not only on "fraudulent" films but in what appeared to be an arbitrary fashion.

In some assessments, deductions were allowed, in others they were disallowed (in certain cases on the same film) and in yet others lengthy queries were issued.

Some taxpayers are in the unfortunate position of not having been assessed for up to seven years.

Investors and tax consultants alike say: Certainly, penalise fraudulent films, but do not paint all films with the same tar brush.

The investors say the film arrangements were not contrary to the existing legislation — they did not create abnormal rights or obligations and were structured according to international industry norms.

They further argue that the once flourishing local film industry, which provided much-needed employment, is dead.

After the clampdown, the Receiver did offer to subsidise new films, but this stopped as funds ran out.

The battle between Revenue and investors over tax-based schemes is not new. Previous battlegrounds include plantation and aircraft partnerships.

In the latest issue of "Accountancy SA", tax consultant and former advocate Errol Danziger says the current score is one-all to Revenue and taxpayers.

In 1990 the Transvaal Income Tax Special Court upheld Revenue's application of section 103 (the anti-avoidance provision) to a plantation scheme.

The court concluded that the underlying reason for the plantation partnership was investment, not farming, and that the scheme had been designed to exploit loopholes in the Income Tax Act.

Not abnormal

Danziger says that in the aircraft partnership judgment, a Cape Special Court held that the company's motive in entering the partnership was to save on tax.

However, that did not make the structure abnormal as this form of partnership was commonly used in the acquisition of aircraft.

Once the format was common or usual for the transaction, then the abnormality requirement of section 103 was missing, and the section could not be successfully applied by Revenue, the court said.

This last could be the saving grace for both the film partnerships and the film industry.

Not much left to redistribute

FOR those who imagine the whites can be bled further, think again, says no less an authority than the presumably unbiased IMF, reports DEREK TOMMEY

STAR 15/8/92

High tax rate has already done job

320

LEFT-WING politicians talk about the need to redistribute wealth from whites to blacks in the "new" South Africa. However, they need not wait for a new government.

An analysis of figures issued earlier this year by the International Monetary Fund, and appearing in the latest issue of SA Tax Review, shows that wealth redistribution by way of taxation is already taking place on a substantial scale.

The figures show that throughout the 1980s whites as a group paid 32 percent of their income in tax. This compares with 24 percent for Asians, 17,7 percent for coloured people and 13 percent for blacks.

The figures also show that whites received back benefits equal to 13,3 percent of their income, which compares with 22,5 percent for Asians, 18,8 percent for coloured people and 16,5 percent for blacks.

Credit

The result is that the net tax burden — the difference between tax payments and benefits — on whites was equal to 23,3 percent of their income. Asians also had a net tax burden — equal to 1,77 percent of their income. On the other hand, coloured people had a tax credit equal to 11,1 percent of their income and black people a tax credit equal to 3,4 percent of their income.

Looking at these figures the IMF comments, in an understatement, that overall, the South African tax burden and its marginal tax rates cannot be judged to be low by international standards.

It then gathers up its courage and adds that the tax burden on the white community appears to be relatively high, even by industrial countries' standards.

A table of the comparative tax burdens in various countries shows that that borne by white South Africans is at least twice as great as that in other industrial countries.

Compared with the 23,3 percent net tax burden borne by whites, Canadians stand at 11,1 percent, Britons 10,7 percent and Americans 9,8 percent.

These figures show that whites are highly taxed, but they also show something else — that anyone, whatever his race and who has to pay anything more than the minimal rate of income tax, is not getting value for his money.

In this situation, the IMF comments, any further raising in tax rates would be likely to raise disincentives to levels that are very high by international standards.

It is a welcome development for a racially neutral organisation such as the IMF to be concerned by the disincentive effect of South Africa's high tax rates, because until now claims by whites that they were being overtaxed have tended to be treated by the liberal element in society, in particular, as being completely unfounded — and even if they were overtaxed, whites should be happy to help the less privileged.

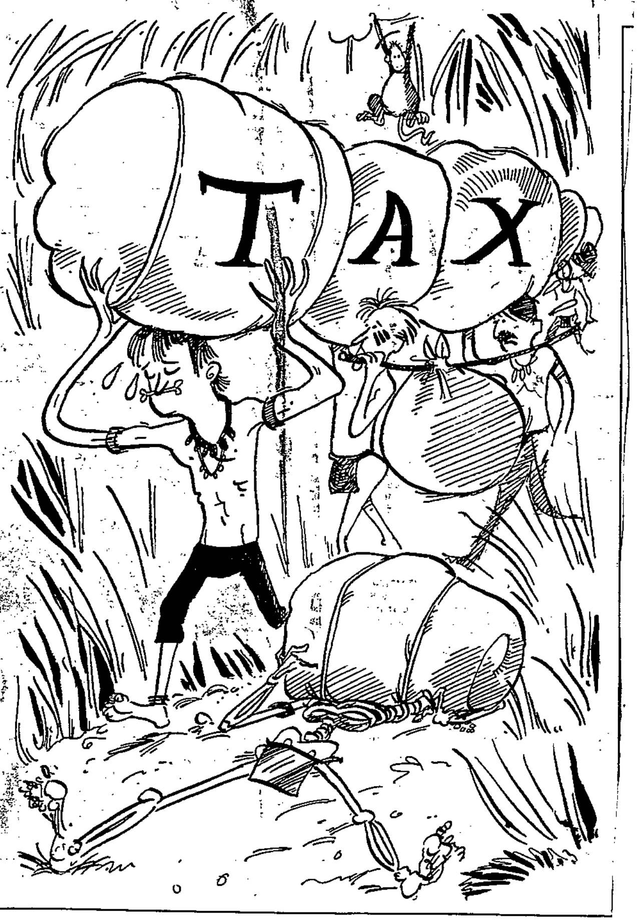
This all sounds extremely moral. But it tends to ignore the fact that the last census showed that South Africa had lost about 300 000 whites in the previous five years.

As these people must have gone overseas, these figures suggest that a lot of them were not prepared to make their future in South Africa — possibly because of the political uncertainty and also very possibly because of the high tax rates.

Concessions

The IMF suggests that the solution to South Africa's problem could be to improve the efficiency and equity of the tax system, in particular by reducing tax expenditures — that is, tax concessions — especially where they lead to greater investment in plant and machinery instead of in labour. It also suggests broadening the tax base and changing the mix between direct and indirect taxes.

Let us hope that it is matters like this that Minister of Finance Derek Keys is working on — and that there could be some slight relief for hard-pressed taxpayers in next year's Budget.



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Not much left to redistribute

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STAR 15/8/92

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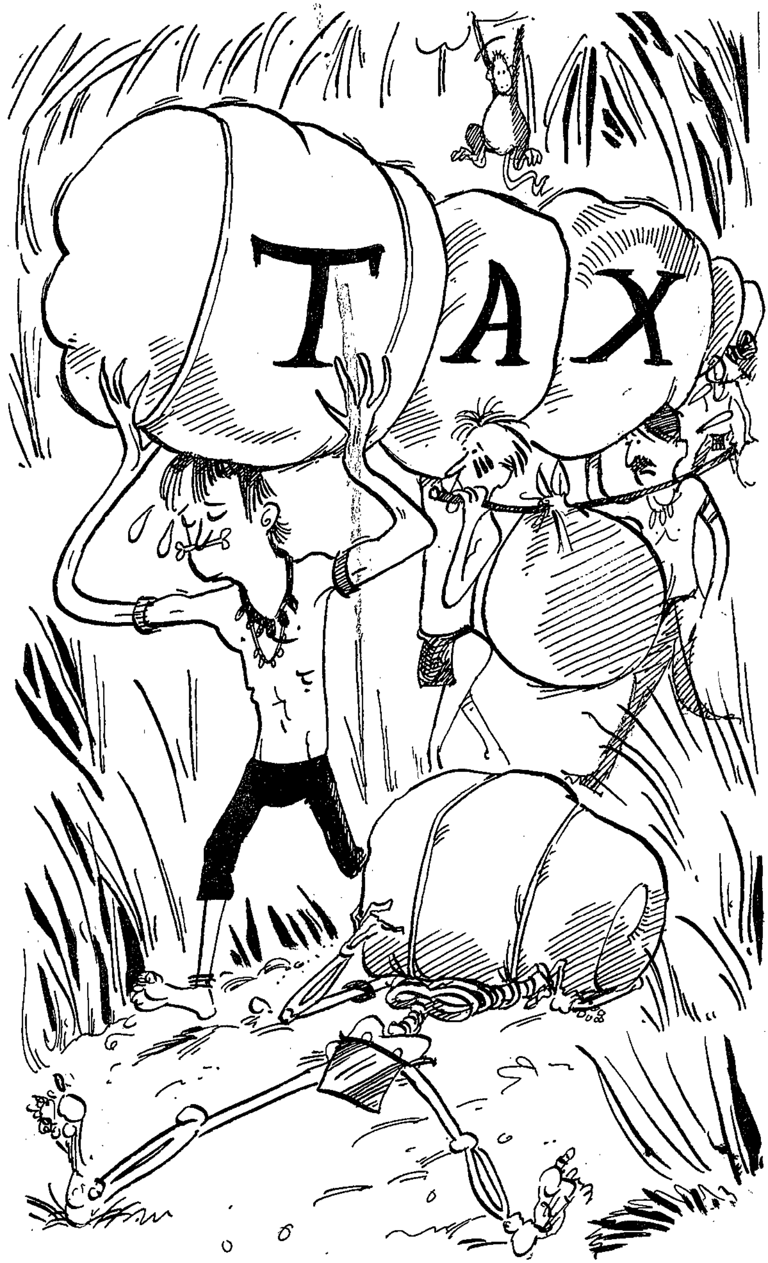
TAX

VAT threat

S/Times/Buss 320

VAT could be increased to 15% in the next fiscal year, says tax partner Ken Walton of auditing firm Ernst & Young. 16/8/92

He hopes any increase will be accompanied by a zero rating on most foods and medical services. That would allow the Government to deflect criticism.

Mr Walton says the Government has no choice but to increase VAT because collections have lagged behind budgeted revenue by about 30% so far this year.

Tax revenue up by 4,9%

PRETORIA — The revenue collected for the exchequer for the first four months of this financial year increased by 4,9% compared to the equivalent period in the previous financial year, according to figures released by the Central Statistical Services.

Revenue collected in the period April to July amounted to R22,576bn representing 26,6% of the amount voted for the financial year. CT 17/8/92

Exchequer issues for the first four months of the financial year increased by 15,3% over the same period last year. (320)

Total issues amounted to R31,025bn causing a deficit of R8,449bn.

"The deficit of the Exchequer, before borrowing and debt repayment and excluding other statutory appropriations, during the first four months, amounted to 52,8% of the deficit voted for the fiscal year." —

Equikor in tax dispute

B/DAY 17/8/92

320

ANDREW KRUMM

A DISPUTE has arisen between Cape-based property company Equikor and the revenue authorities over tax losses brought forward from previous years.

Equikor's annual report for the year to December 1991 said the group had made no companies tax provision for the year.

It said the estimated value of tax losses to be set off against future income was R2,7m for the company and R57m for subsidiaries.

The preliminary report in March said numerous property developments were in the planning phase. Directors said the group had returned "very respectable results", and was well positioned to take advantage of opportunities should the economy improve.

Collection of revenue still behind the budget estimate

B/DAY 17/8/92

(320)

PRETORIA — Revenue collected for the Exchequer for the first four months of this financial year increased by 4,9% compared with the equivalent period in the previous financial year, figures released at the weekend by the Central Statistical Service (CSS) show.

But the R22,576bn collected in the period April to July represented 26,6% of the amount voted for the financial year — down from 28,8% collected last year and well below the 33% needed to keep pace with budget estimates, ANDREW KRUMMM and Sapa report.

Exchequer issues for the first four months of the financial year increased by 15,3% over the same period last year.

Total issues amounted to R31,025bn, causing a deficit of R8,449bn.

"The deficit of the Exchequer, before borrowing and debt repayment and excluding other statutory appropriations, during the first four months of the present financial year, amounted to 52,8% of the deficit voted for the full fiscal year.

"For the same period of the previous financial year, the deficit was also 52,8%," the CSS said.

GERALD REILLY reports that a senior Finance Department source said at the weekend the increase in revenue collections were no reason "to jump for joy".

He said the figures for July had resulted from the fact that large companies normally paid tax in June, and this was reflected in July collections. The financial year would still end with revenue substantially below the Finance Minister's expectations.

This was because VAT collections had sagged below expectations because of consumers' declining disposable incomes, the sharp decline in retail trade, and the continuing escalation of prices.

Economists said consumers were cutting back even on so-called essentials wherever possible in an effort to stay within domestic budgets.

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calling a psychologist to testify in mitigation.

Harding stood clutching the hand of her daughter Amanda as she was told that she would be released on her recognisances on condition she reported to the Somerset West police daily and was not to obtain a passport.

Petrus Marais of the Office for Serious Economic Offences appeared for the State.

Police 'failed to intervene when ANC man was killed'

RAY HARTLEY

POLICE had not intervened when former ANC guerrilla Lot Phalwane was shot dead in Alexandra on Monday, ANC PWV spokesman Ronnie Mamoepa said yesterday.

"During the shooting a police Casspir was seen driving past the house but, despite the gunshots, it did not stop," Mamoepa said in a statement. B/DAY

Police spokesman Lt Wikus Weber yesterday denied the police were involved in any way in the killing.

"A murder docket will be opened and the case will be fully investigated," he said. 19/8/92.

The ANC PWV region and the Alexandra branch of the organisation plan to investigate the killing which Mamoepa said was "not criminally motivated".

In a separate statement Mamoepa said the ANC welcomed a ceasefire between rival taxi organisations in the Ivory Park area. The ceasefire was brokered by the North East Rand dispute resolution committee on Monday after a weekend taxi war claimed at least eight lives.

The committee's vice-chairman Pieter Geldenhuys said yesterday a formal agreement was to be signed between the Ivory Park, Alexandra and Tembisa taxi associations by Sunday, Sapa reports.

Police said yesterday the house of a community councillor was petrol-bombed in KwaThema, and a woman was stabbed to death in Alexandra.

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burg where a 74% drop in company profits for the six months to end-June was announced.

Picture: ROBERT BOTHA

Cosatu plans 'tax rebellion'

B/DAY 19/8/92 (320)

WILSON ZWANE

COSATU is making plans for a "tax rebellion" campaign in which pressure will be put on employers to withhold from government PAYE payments by employees who do not have the vote.

The trade union federation is to put the idea to its alliance partners, the ANC and the SACP, at a meeting on Sunday.

Cosatu spokesman Neil Coleman said yesterday the tax monies collected should be redirected to a special trust fund for safekeeping until a "democratic" government had been installed.

The money could then be used to provide basic services to impoverished communities, Coleman said.

The proposed campaign formed part of the ANC/SACP/Cosatu alliance's mass action, which began on June 16 and which was aimed at the speedy establishment of a new government and an "end to the mismanagement of taxpayers' money".

Coleman said the modalities of the trust fund had yet to be discussed with all interested parties, but basic socio-economic services, such as education and housing, were likely to be priorities.

"We don't intend making this a Cosatu campaign ... we would like to involve many forces, including churches, consumer and human rights organisations, business and political parties," he said.

Coleman said the seeds for the tax rebellion were sown among Cosatu members by last year's disclosures of government's funding of Inkatha.

The constitutional structures of the Cosatu-ANC-SACP alliance would meet in Johannesburg on Sunday to discuss the proposed campaign and other mass action-related activities.

He said if the alliance endorsed the campaign, the union federation would approach employers to "discuss workers' demands for their taxes to be redirected".

Saccola chairman Bokkie Botha said yesterday the employer body would have to discuss the issue with Cosatu and look into the legal ramifications.

Commonwealth to appoint own observers

LONDON — The Commonwealth said yesterday it was organising about a dozen observers to help monitor the violence in SA. B/DAY 19/8/92.

Commonwealth Secretary-General Chief Emeka Anyaoku was asking governments of the 50-nation organisation to suggest candidates for the observer group, which would arrive in SA at the end of September, the Commonwealth Secretariat said in a statement.

Anyaoku and UN Secretary-General Boutros Boutros-Ghali had agreed the groups would work closely with each other and the national peace accord, it said.

Meanwhile, SA Foreign Affairs Minister Pik Botha said in Pretoria yesterday the government found the UN resolution passed on Monday was "acceptable in its main components". — Sapa-Reuter.

Govt to be challenged on VAT

(320)

STAR 20/8/92

By Paula Fray

Big business — on behalf of a wide range of organisations — will meet the Government within the next two weeks to press for the lowering, if not the zero-rating, of VAT on basic foodstuffs.

This comes almost a year since the introduction of the tax and follows a Food Logistics Forum meeting in Midrand last week at which more than 100 representatives of the food industry met to tackle high food prices.

The forum includes representatives from all sectors of the food chain, including farmers, control boards, agricultural co-operatives, manufacturers, retailers, wholesalers and consumer representatives.

Pick 'n Pay executive director Raymond Ackerman said yesterday that he and Premier Group chairman Peter Wrighton would soon meet Finance and Trade and Industry Minister Derek Keys to put forward the proposals on VAT.

Mr Ackerman said the forum recognised that the Government had to raise money. However, the forum had proved "conclusively" that the introduction of VAT had led to a 6 percent increase in food prices.

The forum proposed that the Government zero-rate basic foodstuffs and make up the lost revenue by keeping VAT on basic goods at 10 percent, while raising the tax level on luxury goods to either 20 or 25 percent.

"If he cannot zero-rate basic foods, we would call for them to be taxed at 5 percent, basic goods at 10 percent and luxury items at 25 percent," Mr Ackerman said.

Vat Co-ordinating Committee spokesman Dr Bernie Fanaroff said the organisation was "happy that business has accepted that our proposals were justified and correct, and that they have now thrown their weight behind them".

New law 'seems likely to spur emigration'

Tax relief for non-residents

320

ALIDA DASNOIS
Business Staff

THE slump in the economy is causing South Africans to look for greener pastures abroad.

And the trend is likely to accelerate with the introduction of new legislation exempting non-residents from tax on interest received from investments in South Africa, says tax consultant Mr Godfrey Shev of Kessel Feinstein.

"There's been renewed interest in leaving the country in the past two or three months," says Mr Shev.

In order to benefit from recently announced tax exemptions, he says, a South African wishing to leave the country does not have to emigrate formally.

"Proving that the taxpayer is no longer resident in South Africa is what's important. This means proving to the Receiver of Revenue that he or she is settled overseas."

Until recently, non-residents could benefit from tax-free interest on a list of investments in government and treasury stock only. But new legislation applicable from June 3 this year will make interest from all sources tax-free to non-residents, said Mr Shev.

"The interest received must have accrued after June 3 1992 and, in the case of emigrants, during the entire year of assessment the taxpayer must not have carried on business in the Republic (which for tax purposes includes the Common Monetary Area)."

"Taxpayers who owned their own businesses or who earned rental income in the year of emigration will only be able to benefit from the new provisions in the following tax year. In the first year after leaving South Africa, they should consider investing in government stock, but from the following year interest from any source will be free of all South African taxes," he said.

Emigrants who were salary earners, on the other hand, could benefit immediately after emigration from the new legislation on interest from their investments.

"These provisions are likely to make leaving the country a more attractive option," said Mr Shev.

Forum to lobby for variable VAT rates

320 B|DAY 20|8|92.

LINDA ENSOR

CAPE TOWN — The Food Logistics Forum is to lobby for a differentiated scale of rates for VAT on different goods, Pick 'n Pay chairman Raymond Ackerman said yesterday.

A forum delegation is to present its proposals to Finance Minister Derek Keys in about 10 days.

Ackerman said the forum — which met last week — wanted all food to be zero rated, or alternatively wanted basic foodstuffs to be zero rated and other food rated at 5%.

Basic items such as clothing should be rated at 10% and luxury goods at 20%. He said this would reduce food price inflation to 10%.

Calculations on the effect of these proposals on total VAT revenue were being undertaken. However, Ackerman conceded that in the past government had opposed the idea of differentiated rates as this would make it easier to avoid paying VAT.

He also disclosed that Central Statistical Service (CSS) head Treurnicht du Toit had agreed to publish two rates of food inflation in future — one for the chain stores and one for smaller retailers.

He said independent consultant Louis Heyl had calculated that the food inflation rate at the chain stores, which sold about 55% of all food in SA, was 15,6% plus 6% for VAT which gave a rate of 21,6%.

This compared with the CSS rate of 28,5% for food inflation which Ackerman said meant that the smaller outlets were charging excessive mark-ups of as high as 100%.

He said a differentiation of food inflation rates would open the way for joint ventures between the chain stores and the smaller retailers with the aim of bringing down food prices. Ackerman said the larger chains could take a minority stake in the smaller outlets.

● Comment: Page 8

TAX AND THE FILM INDUSTRY (320)

The unkindest cut

FM 21/8/92

Perfectly legal allowances for film companies are the target of Revenue's wrath

The principal pillar of taxation is certainty. Without certainty, no new projects can be planned or undertaken and no businessman is able to devise the strategies needed for business to survive and even thrive.

Yet in SA the element of certainty has been steadily undermined and now has largely been terminated. At least, that is the jaundiced view of businessmen. The outrage stems from tax policies the Commissioner is now adopting in disregard for favourable tax rulings granted in the past to taxpayers involved in the film industry. About 38 000 people are understood to be claiming a total of R2bn in allowances.

An appeal against a film assessment will be heard in the Transvaal Special Income Tax Court in early October. The outcome is likely to have profound consequences.

Structures designed to promote the development of film industries are not confined to SA. They were introduced initially in Canada and, subsequently, in the UK and Australia. All provide tax allowances. In SA, Section 24F of the Income Tax Act was introduced by the authorities to do this. It provided a film allowance for production and post-production costs that could be claimed over two years — until a new subsidy scheme was introduced in May 1989.

Film investors have noticed that government has tried to disavow its obligations in this area too. An appeal to reverse a Transvaal Supreme Court judgment that government is liable for the subsidies it offered by way of a circular is being heard by the Appeal Court in Bloemfontein.

In a natural reaction to the tax incentives available, thousands of individual and some company taxpayers took advantage of the benefits offered by government. The structures applied generally were those of *en commandite* partnerships, in which there are disclosed and nondisclosed partners. These partnerships were designed to provide investors with tax benefits that yielded a handsome return on their initial investments.

One result was that few investors cared about the quality of the film projects being undertaken. The tax advantages alone were seen to be sufficient, though the potential of commercial success added to the attractiveness of the propositions.

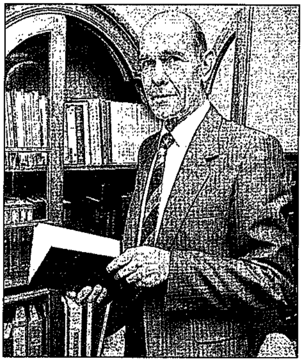
The allowances granted under S11*bis* of the Income Tax Act, for example, could result in benefits of up to 200% of the marketing expenses incurred.

With that kind of incentive and in the light of prior written rulings and oral assurances on which taxpayers relied, it is hardly surprising that so many individuals rushed to participate.

Subsequently, these activities were perceived by then Finance Minister Barend du Plessis to be immoral and, having spoken, the Minister's views were considered cast in concrete. Changes, made with retroactive effect, were designed to restrict the amount of allowances made available and to regulate areas in which the Commissioner thought he detected abuse.

The last assessments issued by the Receivers of Revenue, in respect of film partnerships, at least until recently, were for the 1986 tax year. The reason for the delay appears, at least in part, to be that an assessment made in respect of one film partnership is the subject of a Special Court appeal.

A prominent businessman, who declines to be named, says the Commissioner gave an undertaking to a subcommittee of 14 managing partners of SA's major accounting firms that no assessments would be made until the outcome of the October Tax Court appeal became known.



Commissioner Hattingh ... *facing an 'impossible' situation*

Despite this, it now appears the Commissioner has instructed his Receivers to issue assessments disallowing all claims made in respect of film partnerships. In addition, it is alleged the Commissioner has ruled that the provisions of S89 *quat interest* are to be applied. In effect, this enables Inland Revenue to levy interest on the difference between the shortfall paid by a provisional taxpayer and the amount that should have been paid. The action is being viewed by some of the people affected as a penalty induced by the Commissioner's decision to disallow film partnership claims.

The October appeal against the Receiver's assessment is in relation to the production of the film *Jake Speed* which, along with *Alan Quatermain* and *King Solomon's Mines,* were subjected to rulings by the Commissioner when the film partnerships were structured. Subsequently, these rulings were withdrawn and the claims for the film allowances rejected.

Of course, the particular matter of film allowances and their so-called abuse raises wider issues. To a man, those taxpayers interviewed by the *FM* reflected on their perceptions of the changing attitudes of the Income Tax Department over the past decade in these terms: "Government, and especially Du Plessis, sees the business community as being composed largely of criminals intent upon committing the immorality of reducing their individual and collective tax burdens."

Yet the right of individuals to ensure they pay as little tax as possible is already enshrined in law. In a landmark ruling, Lord Tomlin said of the Duke of Westminster's action against the UK Income Tax Commissioner that "every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it would otherwise be."

Tomlin adds that if a taxpayer is successful in achieving this, then however unappreciative the Commissioner may be, "he cannot be compelled to pay an increased tax."

It is becoming clear that SA's tax authorities are in danger of confusing what they see as "immoral" actions by taxpayers with those which are proved to be illegal. Assumptions have been made that because one example is judged to be an avoidance of tax, all other projects in the same category must automatically be similarly tainted. And, in an effort to recover potential losses, rulings issued earlier are arbitrarily withdrawn.

There are other examples of this heavy-handed approach. Leveraged leases making use of the tax base of some taxpayers and which had the effect of reducing the capital cost of projects, became the subject of the Commissioner's anger and resulted in the introduction of a new section to the Income Tax Act (S23A) in 1984. The effect of this action was to ringfence leveraged leases and create a privileged class of taxpayer. Sappi's famous Ngodwana project is an example of a scheme that fell foul of the retroactive effect of this legislation.

Other areas of economic activity that are now the subject of intense scrutiny by the Income Tax Department are aircraft schemes, plantation projects (the subject of an earlier ruling by the Income Tax Court) and captive insurance companies.

Businessmen and attorneys accept that, in each area, there have probably been abuses of incentives. But they argue that each case

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continue

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their ability to do so is often what makes them cleverer and more successful than politicians. Some analysts, such as Chaplin, feel De Beers was genuinely caught out by the extended world recession and revelations of the extent of the Angolan problem.

But investors have plainly been taken aback by the time that De Beers took to appreciate what was happening in the market — and to communicate it. This sits curiously with the company's intelligence systems which are intended to ensure management is not caught unawares by market swings. A couple of years ago, incidentally, Ogilvie Thompson said the group's market intelligence had been markedly improved since the last diamond recession (*FM* Anglo American Corp Survey, March 1990).

It's notable that the interim results announcement states that retail sales of diamond jewellery have not risen from last year's levels. "Moreover," it adds, "part of this retail demand has been met from destocking by the jewellery industry in the consumer markets, thereby reducing demand for rough diamonds." Even allowing for the sudden escalation of the Angolan problem, this suggests management had been basing its forecasts less on what was actually happening in the diamond market than on predictions for the world economy.

The question at issue is not whether De Beers intentionally misled the market. They are all honourable men. It is whether De Beers has lost its touch. For it undoubtedly gave out unduly positive messages for too long.

When reality was perceived last week, some investors who had bought De Beers over recent months — after the presentations, etc — started dumping the stock, thus contributing to the precipitous drop in the price, which was traumatic. Danger now is that when the diamond market turns more favourable, investors may be less receptive to assurances along those lines from De Beers, and the share price could languish at lower levels for longer than it might otherwise have done when De Beers was perceived to have been more prescient.

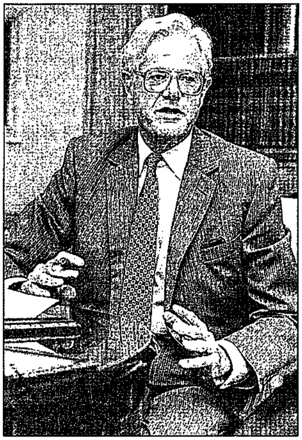
But maybe it was not all De Beers' fault. One reason for the shock in financial markets is that the warning of a dividend cut has come so quickly after the diamond market peaked in 1988. The diamond market enjoyed an extraordinary boom in the Eighties, riding as it was on the longest post-war period of economic expansion, and fuelled partly by the Japanese "bubble economy."

Moreover, a harder look at the past 14 or so years does suggest that De Beers' stabilisation efforts have been less effective than before. There have been some rather sharp fluctuations in the group's fortunes. In the inflationary environment of the late Seventies, De Beers' profits were being driven by an international hard assets mania; management warned repeatedly the situation was unhealthy and applied special price surcharges to dampen the exuberance.

In 1981, when the CSO was trying to reduce supplies to a choked trade pipeline, sales of rough diamonds were cut by half. De Beers cut its second-half dividend in 1980, then reduced the total payout by a third in 1981 and by a quarter in 1982.

Recovery was at first hesitant, but from the mid-Eighties growth was exceptional. CSO sales in US$ grew by 40% in 1986, by 20% in 1987 and by 36% in 1988, before dropping by 2% in 1989. De Beers' balance sheet swung rapidly from being heavily borrowed and with diamond stocks peaking at $1,95bn, to being highly liquid.

During this period world sales of retail jewellery continued to grow steadily, helped by the annual promotion and marketing expenditure of more than $100m, and now as high as $160m. Sales of polished diamond jewellery last year were said to be holding up, but some analysts think retail demand slackened more than was generally believed.



De Beers' Ogilvie Thompson ... *not his best friend this year*

With hindsight, the logic of a dividend cut should not have been dismissed, given a sufficiently bearish view on the world economy. An analyst who had forecast this as a possibility, Michael Coulson, of London broker Durlacher & Co, had noted that in the last recession the dividend cover on attributable earnings had varied between 2,8 in 1979 and a low of 1,5 in 1982.

In 1991 the cover was 1,8, and a maintained dividend, based on Coulson's forecast of a 15% earnings drop, would mean a cover of only 1,5 times. He added that, "the dividend will depend on perceptions of the diamond market's prospects in 1993 and the group's cash needs at that time, and it may even be that De Beers would be prepared to borrow to maintain the rate." But he added that a 25% dividend cut would result in a saving of just over $100m, a "very significant sum" in a difficult time.

Just how difficult a time it will be, and whether a 25% dividend cut will be the extent of it, will depend partly on confidence — at consumer level and in the trade. The decision to invoke the quota system, whereby De Beers will reduce its offtake of diamonds from producers by 25% from September is an adverse signal to the industry, but should help to improve the market fundamentals.

Part of the problem is that demand withered just as considerable new supplies were coming on to the market. CDM, a producer of high-quality gems, increased its output by 446 415 carats last year. Last week former De Beers chairman Harry Oppenheimer opened the Venetia mine, which at full output will produce more than 5m carats/year of mainly medium-quality gems. In Botswana, the biggest producer, Jwaneng, increased its output by 362 647 carats last year (though this is partly replacement capacity).

These are long-term projects, embarked upon some years ago; Venetia is being brought on stream in a US election year. Output from these mines can be stockpiled, if necessary with further quotas. But there may be a bigger problem in Angola.

Illicit diamond digging and trading escalated soon after the ceasefire ended the Angolan civil war in May 1991, and De Beers estimates there are now more than 30 000 diggers in the Cuango region alone. Last month a CDM spokesman said up to 3m carats could reach the black market from Angola. James Picton, a local analyst who forecast a possible dividend cut, notes that these are generally high-quality gems, and estimates it could cost De Beers more than $500m to mop up the illicit supplies to the market.

De Beers has expressed confidence that the illicit trading will be stopped after the Angolan elections. But that does not sound an easy task.

The great pity about the events of the past week is that De Beers, after becoming more open about its business, may now be persuaded to return to the covert manipulation of its cartel through winks, nods and nudges. And, indeed, that may well be as essential to the maintenance of market stability — if that is a virtue — as its buffer stock dealing. For cartels inevitably enter periods when market tensions are intrusive.

If stability and predictability are what the market wants, it has reason to castigate De Beers for its uncharacteristic slip and to hope that JOT, having been jolted to a sober landing, will give up notions of "improved" corporate communications.

But perhaps there are some investors who have been persuaded that last week has created a permanent crack in a cartel that has till now defied all predictions of inevitable spontaneous implosion. That could present what the philosophers call a paradigm shift. If so, some investors might reason they are better off operating in a market characterised by fluctuation. And if they should prove to be clever enough to outguess the cartel — by no means a certainty — they could be the seeds of its destruction. *Andrew McNulty*

FM 21/8/92 (320)

Continued from page 28

must be examined, treated and judged separately and on its own merits.

"It is grossly unreasonable," says one tax attorney, "to lump them all together and apply a universal censure."

A wide divergence of opinion and approach has developed between the country's business community and Revenue. The Commissioner and his previous Minister viewed commerce with a distrust verging on paranoia. Businessmen didn't write the Income Tax Act; they merely put it to work.

A prominent attorney says parliament is being bullied into approving legislation that is prospective in language but retrospective in nature. The effect, he says, is that the traditional relationship of wary but mutual trust between the business community and Revenue has been destroyed. "Now it's open warfare," he says.

The Income Tax Department's role is seen as having changed, from that of an impartial collector of taxes and an objective arbiter of the regulations, to an arm of a rapacious State's ever-growing need for increasing amounts of money. When the State overspends — as it does consistently — the Commissioner is placed under increasing duress to raise the levels of collections.

"Hattingh (the Commissioner) has been caught," says one observer, "between his traditional duty to administer the system fairly and impartially and the State's need for more revenue. He is an honest man locked into an impossible situation."

In addressing the perceived rift between taxpayers and the Department, the *FM* asked Commissioner Hannes Hattingh to respond to nine questions. On the subject of whether he considers himself bound by earlier rulings, Hattingh says the "rulings should be seen as opinions. They are subject to the facts ruling at the time the assessments are made."

Asked why assessments have taken so long to complete, Hattingh says: "The film partnerships are complicated structures and we have only now decided how to handle them. The assessments will all be made in Johannesburg and will be issued only after each case has been investigated."

Hattingh confirms that an appeal is to be heard in the Income Tax Court in October but declines to give the identity of the Department's legal representative and maintains silence on the question of whether he had issued the rulings in respect of the film partnership that undertook the *Jake Speed* project.

Hattingh denies that he has issued instructions to his Receivers to reject all applications relating to film partnerships and he tells the *FM* he has not instructed that Section 89 *quat interest* should be applied.

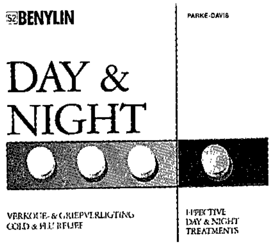
Asked how he now views *en commandite* partnerships, Hattingh says he could not comment but adds that he does not think the recent plantations case judgment affects the film industry. "They're different animals."

Pressed to respond to the universal criticisms made by the business community about his department, Hattingh's response is: "The facts with which you have been provided and on which your article is based are far removed from the actual facts." He adds that he has been given insufficient time in which to reply "meaningfully."

The responses from the Commissioner avoid the crucial issues. These are that certainty must be reintroduced to the tax regime, no further retroactive legislation must be instituted and taxpayers should be treated, above all, with integrity and even-handedness.

The tax burden, carried largely by a small section of the community and the increasing demands of a State under pressure to address the requirements of a deprived majority are matters which need delicacy, deftness and diplomacy. In these circumstances, the deliberate estrangement of the most economically active sector of the country's population is a strange folly.

The intervention of Finance Minister Derek Keys and the establishment by his Revenue department of a new and reasonable *modus vivendi* with business and commerce should no longer be delayed. ■



Bloch and Inland Revenue at odds

LINDA ENSOR (320)

BDay 21/8/92

CAPE TOWN — Inland Revenue has reversed all deductions from taxable income of royalty payments made by subsidiary Bloch Supermarkets to the JSE-listed, Ciskei-registered Bloch Ltd for the past five years.

The nature of Bloch Ltd's registration has been found to be a form of tax avoidance in terms of Section 103 of the Income Tax Act taken with sections on sources of income.

An announcement today warned shareholders to exercise caution in dealing in their shares pending a meeting of shareholders to decide on action on Inland Revenue's decision.

Simultaneously, Bloch's earnings of 5,2c a share (4,6c) on after-tax income of R976 269 (R854 848) for the year to end-June were released. A final dividend of 3,9c (0,9c from reserves) brought the total to 6,1c (4,5c).

Bloch chairman Bernard Rabinowitz said yesterday that in terms of the ruling the royalty payments could not be treated as an expense of Bloch Supermarkets, which paid Bloch Ltd royalties for the use of its trademarks. This ruling was made against advice given by leading tax counsel.

He said because of the low-margin nature of the business, Bloch Supermarkets could not afford to pay a 1% royalty as well as the higher income tax. However, it also did not wish to get involved in lengthy litigation with Inland Revenue which could take four years to finalise.

Litigation with high legal costs would jeopardise the viability of Bloch Supermarkets, especially in the current — and anticipated — harsh trading environment.

Rabinowitz said a meeting of shareholders would be held to decide whether Bloch Ltd should insist that Bloch Supermarkets pay both royalties and income tax, or whether it should agree to a settlement acceptable to Inland Revenue.

An agreement has apparently been reached with Inland Revenue that if Bloch Ltd registers in SA, the royalty payments by Bloch Supermarkets would be tax deductable in its hands. The royalty receipts would be taxable in Bloch Ltd's hands subject to the deduction of R1,5m — half the original purchase price of the Bloch trademarks — spread equally over five years.

New tax structure needs to be formulated

STAR 21/8/92

320

The Ministry of Finance and the Reserve Bank have formulated a plan of structural adjustment for the economy which is due to be announced soon.

The plan is said to include as its core the gradual removal of trade barriers and a reduction in government consumption expenditure, with increased emphasis on social fixed investment by the State.

We would welcome a plan of this sort as the ingredients which are being mentioned strike at the heart of the South African economy's long-term structural weaknesses.

While the measures being mooted should greatly assist growth in the long term, we would like to see structural adjustment go further.

One of the problems faced by the economy is that ever more savings are being diverted into equity-linked investments rather than real productive economic activity, leading, among others, to a greater concentration of power in the hands of a few large shareholders.

The source of this problem is the persistence of high inflation coupled with a tax structure which favours capital gains at the expense of income and profits which are heavily penalised.

This stifles initiative and entrepreneurship, makes it more difficult to reduce inflation, dissuades new foreign investors and leads to capital intensive techniques.

A structural adjustment programme should therefore include constructive proposals for a new tax structure, a commitment to the removal of foreign exchange controls and a firm anti-inflationary monetary and fiscal policy.

In addition to these requirements it goes without saying that the economy needs also to raise the level of education and to develop skills appropriate to a growing economy in such a way that the level of wages becomes more competitive in relation to productivity.

For this, the support of organised labour is also clearly imperative. It is also the only way in which export growth can be promoted on a more sustainable bases.

To argue, as some people are doing right now, that the rand needs to be devalued in order to render our exports more competitive is a short-sighted policy, which was discredited seven years ago when it resulted in the inflation rate topping 20 percent.

Quick-fix solutions are short-term solutions. They do no address the long-term structural deficiencies.

Mr Keys and Dr Stals seem to recognise this and their suggestions are in the right direction as a basis for discussion at the proposed Economic Forum.

By going further and including proposals for a new tax structure and for the removal of foreign exchange control it might be possible for the forum to reach agreement on a new structure for the economy which not only pleases all parties but also represents a vast improvement on the present structure.

Sacob asks Keys to lower company taxes

(1820) (320) STAR 21/8/92

By Derek Tommey

The South African Chamber of Business (Sacob) would like to see lower company taxes in next year's Budget and personal income tax rates adjusted for inflation.

These were among Sacob's Budget proposals in a memorandum handed to the Minister of Finance, Mr Derek Keys, by an eight-man delegation led by the president, Mr Hennie Viljoen, yesterday.

Sacob also believes that VAT should not be increased above its present levels at this time.

"Political opposition would be enormous and there would be a risk of being forced to compromise on the integrity of the system by introducing different rates for foodstuffs and other "essentials".

Objective

In the memorandum Sacob suggests that the overriding objective of the Budget should be to stabilise the domestic economy and to promote international competitiveness.

It says that the practice of recent years of financing current expenditure through loans should end. The discipline of separating current and capital expenditure in the Budget should be resumed.

Sacob president Hennie Viljoen.

The Budget should aid in tackling the high level of crime and violence and job creating programmes should be considered.

Sacob believes the privatisation programme could be revived if the proceeds were used to finance employment-creation programmes linked to large infrastructural projects — particularly in areas such as housing.

Various factors presented strong discouragement to economic growth, says Sacob. One was corporate tax which was much higher in this country than overseas.

In 1991 the nominal corporate tax rate in France was 35 percent, 34 percent in Germany, 38 percent in Britain, 35 percent in Italy and Canada and 48 percent in South Africa.

Effective corporate tax rates in Germany, Britain and the United States are of the order of 14 percent. In South Africa they are frequently well above 30 percent and are moving up because of a deliberate policy of removing tax concessions.

Corporate tax

Because of this Sacob believes there is room to reduce the corporate tax rate.

In the field of income tax the average rate for a family of four in Britain has fallen from 26 percent in 1979 to 23,7 prcent in 1992. In South Africa rates have risen considerably.

At the same time inflation has been transferring real income from savers to spenders and from companies with relatively low stocks to companies with high stocks. Among both individuals and companies inflation is thus undermining efficiency as well as private sector savings.

Sacob belives that the flood of "social" spending needs to be reconsidered. A review should be carried out of all such expenditure to ensure that value is obtained, that the expenditure achieves its stated objects, and that wasteful or fruitless expenditure is avoided.

Sacob adds that the need to reduce and streamline the bureaucracy and to diminish its share of resources remains pressing. This need has been reinforced by revelations of corruption and unethical behaviour.

Capital gains

It opposes a capital gains tax. There are many reasons why such a tax is contrary to the aim of enhancing growth and the welfare of the population as a whole. A capital gains tax represents double-taxation and can be a tax on capital and not capital gains, and it discriminates against samll business.

Sacob says next year's Budget must be regarded as a first, maybe small, but nevertheless very important step in the longer term total economic restructuring strategy for South Africa.

Secondly the budget must be used as an instrument to rebuild business and consumer confidence.

Businessmen press for multirated VAT

180

GERALD REILLY 320

PRETORIA — Government was moving in the direction of a multirated, value-added tax and this might be introduced before the year-end, Econometrix chief economist Azar Jammine said yesterday.

He said the introduction of a new system would depend on how desperate government was for additional funds and on political pressures. Multirated consumer tax was working well virtually throughout Europe, including in the UK where basic foods escaped the tax. BDAY 21/8/92

A task group of leading businessmen, led by Pick 'n Pay chairman Raymond Ackerman and Premier chairman Peter Wrighton, will plead for the introduction of a multirated VAT at a meeting with Trade and Industry Minister Derek Keys before month-end.

Ackerman said yesterday that in the current SA political and economic climate, it was vital that the food spiral be slowed — and one way was to modify VAT.

Jammine said the recession and a 10% VAT rate — the GST rate was 13% — had resulted in a steep fall in state revenue.

A Finance Department source said a multirated tax would be an administrative nightmare.

Tax thwarts unbundling

S|Times (BUSS) 23|8|92 (320)

By CHERILYN IRETON

A R220-MILLION hurdle stands in the way of attempts to unlock wealth through unbundling large companies.

Business warned this week that large-scale unbundling of conglomerates would remain on hold until the Government abolished Marketable Securities Tax (MST).

Finance Minister Derek Keys has asked Inland Revenue to consider specific requests for relief from MST and stamp duty by groups which are considering unbundling.

Sankorp chief executive Marinus Daling says candidates in the group for unbundling include Gencor, Murray & Roberts Investments and Malhold.

Mr Daling says: "We would unbundle some companies tomorrow but for MST."

He believes there are signals that the Government will facilitate the unbundling process.

JSE president Roy Andersen says in a letter to Mr Keys that the transaction tax is killing the market.

SA has the highest rate of MST in the world. The exception is Belgium where the authorities have implemented steps to reduce the rate at which the tax is charged.

Mr Andersen says: "SA has the third-worst liquidity of any stock exchange. We see a definite correlation between this and MST."

Sacob told Mr Keys this week that a reduction in MST could help to restore business confidence.

Mr Keys confirms the requests for the removal of MST. He will consider the issue while preparing the 1993-94 Budget. But it is unlikely there will be any changes before then.

Distinct

The Government is reluctant to change the 1% tax until it can find another source for the R221-million that MST will yield in the current financial year.

The tax is calculated at 1% of the total purchase price of marketable securities.

A reduction in the rate to 0,5% would result in a loss of revenue of R105-million in MST and R45-million in stamp duty. At the current rate MST will contribute an estimated R220-million in revenue, about 0,3% of tax collected by Inland Revenue.

Companies would rather sit with complex pyramids than pay the tax to restructure.

Malbak chairman Grant Thomas says it would make sense to merge Malhold, whose only assets are its shares in Malbak, with the operating group.

However, it would be expensive and difficult to justify if MST had to be paid. For Malbak to buy all Malhold's shares at the current market price, MST payments would total almost R12-million.

The JSE is also concerned that no MST is levied at other exchanges opening in the rand monetary area.

Mr Andersen says there are two good arguments why SA's conglomerates should consider breaking up.

"What Gencor is looking to do is to unlock wealth by removing the discount to assets at which holding companies trade.

"There is also the political consideration where the conglomerate would feel less vulnerable in a new SA if it were split up.

"On the other hand, SA is going to need conglomerates if it is to compete with First World countries or trade blocs."

The Gencor board is looking at all these arguments before it decides whether to go ahead with the primary unbundling. Chairman Brian Gilbertson says there is no fixed date for a decision on whether to break up the group, but "MST is one of the material factors that would prevent changes".

Trend

Gencor is examining whether by hiving off Malbak, Sappi and Engen as stand-alone companies it could unlock additional wealth for shareholders and improve the focus of operations.

The international trend is to demerging operations. This more than political vulnerablity is what the board will consider.

One strong reason for maintaining the group structure is that Gencor is a recognised international player, with access to sizeable resources. This clout could disappear if it were split up, says Mr Gilbertson.

Delegation's plea for different VAT ratings

(320)

Staff Reporter

ARG 28/8/92

A STRONG plea for a multi-rated value-added tax (VAT) system — including zero-rating for basic foods — to be applied before the end of 1992 is being made to the government in Pretoria today.

The plea comes from a Food Forum delegation, led by Pick 'n Pay chief Mr Raymond Ackerman, who are meeting Finance and Trade and Industries Minister Mr Derek Keyes. They will present a 10-point plan to combat soaring food prices.

The delegates will push for multi-rated VAT before the end of the year. They want basic foods exempt for VAT, 5 to 10 percent VAT on other essential items such as clothing, and 15 percent or more on luxury items.

Mr Ackerman said they expected "to be well-heard" by Mr Keyes.

"But multi-rated consumption tax is working well in virtually every European country and the United Kindgom where basic foods are zero-rated," Mr Ackerman said before the meeting.

"All these countries — like South Africa — set out to maintain a single-rate, but once it became apparent that poor people could not afford to pay tax on food at the same rate as the rich did for their luxury goods, they abandoned this rigid policy."

The delegation expected to address the issue of how Mr Keyes could balance his VAT budget with the proposed differentiated rates.

RETENTION PERIOD FOR INCOME TAX

320

FM 28/8/92

Tax practitioners have long complained about the time it takes to get a hearing in the Income Tax Special Court. Now they have an added reason to resent these delays which, it seems, have prompted new legislation extending the period for which books of account and similar records used in the preparation of tax returns must be retained. Previously, any accounting record used in the preparation of tax returns had to be kept for five years from the date of the last entry.

Arthur Andersen tax partner Stephen Minne says Section 75(1)(f) of the latest Income Tax Amendment Act decrees the period of five years now runs from the date of receipt, by Revenue, of that tax return which incorporates information drawn from the last entry in the record.

The problem with the previous requirement — from Revenue's viewpoint — was that when a tax case finally came to court, the retention period had often expired. Taxpayers were able to tell the court that records no longer existed, because they had been kept only for the statutory period. Considering tax returns can be filed as long as two years after the date of the last entry in question, Revenue has now given itself a generous extension.

Accounting records that must be retained include all ledgers, cash books, journals, cheque books, bank statements, deposit slips, paid cheques, invoices and stock lists. The same requirement applies to all other books of account relating to any trade carried on by the taxpayer and recording details from which his tax returns were prepared.

Individuals whose gross income consists solely of salary, wages or similar compensation do not have to retain records but, as before, anyone who fails to retain the relevant records is guilty of an offence and liable to a fine of up to R2 000, up to 12 months in jail, or both. ■

were misappropriating the

estigation, by the Business commended in June that no against the society, which

robe will take "another few officer Captain Gordon Du- l Branch, said yesterday. onal non-profit educational

(18) CT 29/8/92

afternoon when she was attacked, by the dog which dragged her around the property.

She was injured on both arms and the head.

Mrs Muir is in a stable condition at Johannesburg Hospital.

Police are investigating. — Sapa

international conference to settle the Yugoslav conflict ended in London, Bosnian Muslim and Serbian media reported yesterday.

Bosnia's presidency building in Sarajevo came under heavy mortar attack yesterday, forcing presidency member Mr Stjepan Kljuic to flee

day and early yesterday in Sarajevo's Vogosca suburb.

● A 96-hour deadline for the notifying of positions of heavy weapons in Bosnia was one of the key outcomes of the London conference, British government officials said yesterday.

The Bosnian Serbs under-

Goradze and Jajce, and for the grouping under the "continous supervision" of permanent UN observers to be completed within seven days.

But at a later briefing, officials said that the 96 hours had not started nor was a start date decided. — Sapa-AFP-Reuter

Muslim leaders and is meant to "conscientise" people about Bosnia's plight, it was announced at a press conference.

One of the speakers will be Imam Achmad Cassiem, a former Robben Island prisoner and senior Qibla member.

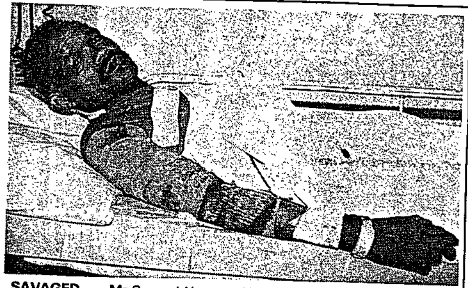
Probe into attack by dogs

Staff Reporter

A SENIOR public prosecutor is to decide whether the owner of eight dogs, some of which mauled a Woodstock man, will be prosecuted for failing to keep his dogs on leashes, a police spokesman said.

Mr Samuel Henry, 42, of Gympie Street was walking home about 3.30am yesterday when he was attacked.

The owner of the dogs, Mr Abdurahman Adams, 48, also of Gympie Street, said the dogs were normally kept behind a locked gate, but four of them had managed to escape through a window in the house.



SAVAGED ... Mr Samuel Henry at Woodstock Hospital shortly after he was mauled by a pack of dogs in Gympie street, Woodstock, early yesterday morning.

Picture: ALAN TAYLOR

VAT zero rate: Keys concerned

(320) CT 29/8/92

Staff Reporter

MINISTER of Finance, Trade and Industry Mr Derek Keys told a VAT Action Group delegation yesterday that he was concerned the zero rating of basic foods might not bring about a reduction in food prices in many areas.

According to the VAT Action Group of the Food Forum, the minister said this during a two-hour meeting in Pretoria.

The VAT Action Group delegation was led by supermarket chain mogul Mr Raymond Ackerman.

The implementation of VAT, the delegation told Mr Keys, increased food prices of items previously exempted from GST, and resulted in a six percent inflation of food prices.

Mr Ackerman said in a statement the delegation favoured a "multi-rated consumption tax (which) is working well in virtually every European country, and the United Kingdom, where basic foods are zero-rated".

The VAT Action statement said Mr Keys said he was "sympathetic" to the delegation and "was concerned about the escalation in food prices".

A spokesman for Mr Keys' office said there was no comment on the meeting at this stage.

New challenge to Banda

CT 29/8/92

LUSAKA. — In a new challenge to the ageing life president of Malawi, Dr Kamuzu Banda, Protestant church leaders have demanded a national referendum to gauge support for one-party rule.

They also plan an unprecedented ecumenical pro-democracy rally tomorrow.

"This is the beginning of a whole campaign for democracy," the Rev Aaron Longwe, moderator-elect of the Church of Central African Presbyterians, said. — Sapa-AP

Highest-yet poll for UCT SRC

CT 29/8/92

Staff Reporter

FOURTEEN 1993 UCT SRC members, representing a wide range of views, were elected in the highest-yet poll during three days of voting this week.

The SRC office yesterday put the poll at an overall 36% — slightly up on last year's 34,75% — with a provisional undergraduate poll of 44%.

The new SRC members are Mr Craig Walker, a social science student who received the most votes, Mr Diyan Botha, Mr Chris Kenyon, Ms Juliet Miyabo, Mr Rory Shea, Mr Kwanda Sojola, Mr Stefi Anastasiadis, Mr Geoff Steere, Mr Colin Douglas, Ms Ruth Hall, Mr Refilwe Tshabalala, Mr Ryan Coetzee, Ms Hermione Cronje and Mr Jonathan Hulley.

Mr Douglas, Mr Coetzee and Mr Hulley are aligned with the Democratic Party Youth and the Student Democratic Alliance.

Mr Sojola and Ms Cronje, who stood on a joint ticket of "bring UCT under scrutiny", are highly-placed members of the UCT branch of the SA Students' Congress (Sasco).

Ms Hall, whose campaign slogan was "A woman's place is on the SRC", was the only successful feminist candidate, and Mr Anastasiadis based his campaign on environmental awareness.

The 1993 SRC is due to take up office next week.

Third consecutive issue of Scope banned

THE September 4 issue of Scope magazine has been banned for distribution, the Directorate of Publications announced in Cape Town yesterday.

This is the third consecutive issue of the magazine found to be undesirable, following bannings of the publication's August 7 and August 21 editions.

Apart from Scope, five cassettes, one catalogue and two other publications were also deemed to be undesirable.

One film "Better Sexual Techniques Vol 1" was also rejected. — Sapa

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Shacks built in PE protest

PORT ELIZABETH. — A peaceful demonstration yesterday to demand "houses for all" by about 1 000 ANC supporters turned open ground outside the upmarket Greenacres complex into a smoke-filled squalid shack-settlement area.

The building of shacks yesterday was part of the ANC alliance mass action campaign, symbolising the housing crisis in black townships here.

CT 29/8/92

Bardot to sue

Teleletters

Phone: 488-4722

The PAYE answer to a taxing issue

STAR 29/8/92

LEIGH HASSALL

TO PAY as you earn or pay later has been the taxing issue for private-company directors over the past three years. The latest answer is that the monthly remuneration is not subject to PAYE.

In yet another about-turn by the Receiver, the amounts paid to private-company directors and members of close corporations will not be subject to the PAYE withholding tax.

The 1992 Income Tax Act, passed last month, excluded these amounts from the definition of "remuneration", and thereby out of the ambit of the PAYE provisions.

Effectively, the new provisions reinstate the position of two years ago.

Last year, Revenue slapped PAYE on advances and remuneration to private-company directors after a number of schemes had developed which abused the exemption.

A source close to Revenue says the new amendment is not as "toothless" as the law of two years ago, and that any abuse will be stamped out.

In terms of the new amendment, the commissioner is empowered to impose PAYE on the remuneration of specified directors at his discretion.

The latest amendment will take effect going back to March 1 1992. However, as reported in the July issue of "In Touch with Ernst & Young", PAYE already paid since March this year won't be refundable. The money will, however, be offset against any future liability.

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The latest policy provides a considerable cash-flow advantage to private-company directors and CC members. Instead of the monthly tax withholdings under the PAYE system, there will be only three provisional tax payments during a year.

PROVIDENT FUNDS: *A legitimate way to save on tax bill*

Forgoing that bonus could serve you well

STAR 29/8/92

320

ALTHOUGH provident funds and retirement or annuity funds have similarities, the first provides a number of distinct legitimate advantages the latter two cannot, writes tax partner ERNEST J MAZANSKY.

THE essential purpose of a provident fund, like a pension fund or retirement annuity fund, is to create a savings medium to provide for retirement. However, a provident fund can at the same time provide a legitimate tax-saving medium.

A provident fund is similar in principle to a deferred compensation scheme in that the employer pays out funds now as part of the employee's package and gets a tax deduction. However, the income accrues to the employee only at some future time.

Deductible

It also has similarities to pension funds but — in my view — has a number of distinct advantages when compared with a pension fund, especially insofar as more senior executives are concerned.

In the case of a pension fund, both employer and employee usually contribute.

In each case, contributions are tax deductible.

In the case of a provident fund, only the employer's contribution is tax deductible. However, with proper planning, the fact that the employee cannot treat it as deductible should not present a problem.

Sacrifice

This is because it is possible for an employer to make a contribution equivalent both to what it would have contributed to a pension fund and that which the employee would have contributed to the pension fund.

This would make the total contribution tax deductible in the employer's hands.

The employee would in such a case forgo an increase in salary or a bonus. Because he was not making a direct contribution to the provident fund, his contribution would in effect be tax deductible.

Forgoing a portion of a salary or bonus is known colloquially as "salary sacrifice".

While this is legitimate, I would not recommend an employee sacrificing a portion of his existing salary for this purpose — that is, where his salary would drop from one month to the next.

Such an act could be attacked under general anti-avoidance rules.

Although the Income Tax Act regulates criteria for deductibility of an employee's contribution to pension funds, provident funds, medical aid schemes, etc, it is my view that, provided the employee's total remuneration package is reasonable with regard to the value of services rendered by him, the Receiver of Revenue will not be entitled to disallow any employer's deduction as excessive, regardless of its size or value as a percentage of the total package.

This facilitates enough flexibility to allow employees to shelter a portion of their earnings from tax, should they not be required for other purposes.

Obviously this must be done within reasonable limits in order to avoid an attack by Inland Revenue.

Because the provident fund's net income is invested to best advantage, its main benefit is that it facilitates an investment in a growth portfolio.

Such investment is made out of pre-tax income, whereas savings or investments are traditionally made out of taxed income.

This could well suit employees who feel they do not really need an increase or bonus because of their particular financial circumstances.

What would have been granted as an increase could instead be contributed by the employer to the fund for their benefit.

In the case of a provident fund, the employee can receive the full value of the fund on retirement.

Another substantial advantage of a provident fund compared to pension or retirement annuity funds is the additional flexibility it gives employees.

In the case of a pension or retirement annuity fund, on retirement the employee is entitled to a cash payout of a maximum of one-third of the value of this fund, and is obliged, by law, to take the balance by way of an annuity.

In the case of a provident fund, he can receive the full value of the fund on retirement rather than being limited to one-third, and thus has much more flexibility in dealing with his financial affairs.

On retirement from the fund a significant portion (if not the whole) of the lump sum which he receives will be tax free.

Any balance will be taxed at his (lower) average tax rate for the year, rather than at the (higher) marginal rate.

Rules

With proper planning, even this average tax rate can be reduced significantly.

While these rules apply equally to pensions and retirement annuity funds, the benefits can be greater with provident funds in view of the absence of the one-third limitation.

Another point to be noted is that use of a provident fund is not limited to large companies.

Even small companies with only a few employees can create provident funds for their employees, both senior and junior.

Future

In summary, a provident fund is a tax-efficient savings medium which allows discretionary income to be invested on a pre-tax basis in a portfolio which, if well managed, will yield substantial growth.

Moreover, while the employer will obtain an immediate tax deduction, the employee will be taxed only (if he is taxed at all) at some future point in time and then at a favourable rate.

This is of particular benefit in a one-man business where the employer and employee, though legally different parties, are one and the same.

Food relief task-force plan

Weekend Argus Correspondent 326 [illegible]

PRETORIA. — Members of the Consumers Union said yesterday that in the face of food inflation increases by about six percent since the implementation of VAT, more efficient relief programmes were necessary.

29/8/92 ARG

The forum is planning a task force to seek alternative methods of relief in conjunction with the Departments of Agriculture and Health.

VAT action group meets Keys

THE VAT action group of the Food Forum on Friday requested Finance Minister Derek Keys to zero-rate basic foodstuffs.

(320)

Lillibeth Moolman and Sally Motlana said in a news release after meeting with Keys that it had been agreed at the meeting to continue relief programmes for the "very poor", and to improve the efficiency of the programmes.

They said the group briefed Keys on a recent Food Forum conference which had found the main burden of the implementation of VAT had fallen on basic staple foods which had been exempted from GST.

Cipren 30/8/92

This had increased food inflation by about six percent and had come at a time of serious drought and recession in the country. Both parties agreed this was a serious and complex problem.

Keys promises to take new look at food VAT

320

GERALD REILLY

PRETORIA — The zero-rating of basic foods will be taken into account "with all relevant factors" when Finance and Trade and Industry Minister Derek Keys next looks at taxation changes.

Keys gave this assurance to the VAT action group of the Food Forum at a meeting in his office in Pretoria on Friday.

The group stressed to Keys that zero-rating would immediately reduce prices.

However, Keys said he was concerned that the zero-rating of basic foods might not bring about a reduction in food prices in many areas.

Keys and the group agreed clarity on food prices was vital to eliminate exploitation of consumers.

The action group was made up of representatives of consumer bodies, retailers, processors and organised agriculture. Among them were Pick 'n Pay chairman Raymond Ackerman and Premier Group chairman Peter Wrighton.

The directors-general of Keys's two departments were also present.

Keys was briefed on the developments at the recent Food Forum conference.

The conference, he was told, had found the main burden in the implementation of VAT fell on basic staple foods which had formerly been exempt from GST.

This, it was claimed, had increased food inflation by about 6%.

It had also come at a time of drought and recession.

It was agreed at Friday's meeting that relief programmes for the very poor should be continued and that their efficiency should be stepped up.

A forum task group would be formed to investigate food relief problems as well as alternative means of relief in conjunction with the Department of Agriculture and National Health, the forum said.

Meanwhile, Board on Tariffs and Trade deputy chairman Helgaard Muller said work was progressing on the second phase investigation into food price inflation.

Comments from a large number of organisations had been received on the board's "discussion document" released six weeks ago.

Muller said he welcomed the investigations being made by the Food Forum, and a decision would be taken next week on liaison between the board and the forum.

BD 5 M 18/1/92

VAT on basics stays for now, says Keys

STAR 31/8/92

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By Zingisa Mkhuma
and Sapa

The zero-rating of VAT on basic foodstuffs may not bring about a reduction in food prices, Finance Minister Derek Keys told Food Forum representatives in Pretoria at the weekend.

The forum delegation had met Mr Keys to press for zero-rating of VAT on basic foodstuffs and for the introduction of multi-rated VAT tax to be introduced before the end of the year.

However, Mr Keys told the forum on Friday that he would consider their submissions when taxation changes were made early next year.

However, Econometrix director Dr Azar Jammine said VAT was responsible for the increased food inflation and had played a role in "eroding the ability for the masses to eat".

Dr Jammine said food accounted for a high proportion of what low-income groups, especially the black population, spent their salaries on.

The introduction of VAT on basic foodstuffs, such as meat, fruit and vegetables, had compounded the problems for these income groups.

Dr Jammine said he believed that if the Government could remove VAT from basic foodstuffs, and the benefits could be passed on to consumers, low-income groups would no longer be impoverished.

But he warned that the introduction of a multi-VAT tax system could be an "administrative nightmare" and would be expensive to implement.

NEWS Parties urged to boycott feder

Spotlight on VAT

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■ Relief programme for 'very poor' to continue:

Sowetan 3/8/92

THE VAT action group of the Food Forum on Friday asked Finance Minister Derek Keys to zero-rate basic foodstuffs.

Mrs Lillibeth Moolman and Mrs Sally Motlana said after meeting Keys that it had been agreed to continue relief programmes for the "very poor" and to improve the efficiency of the programmes.

He would consider the submission and take into account all the factors when changes in taxation were considered.

They said Keys expressed concern that the zero-rating of basic foods might not reduce food prices in many areas.

It was agreed that clarity on food pricing was important to ensure the consumer was not exploited.

They said Keys was sympathetic to their approach as he was concerned about the escalation of food prices.

The delegation said the group briefed Keys on a recent Food Forum conference which had found the main burden of the implementation of VAT had fallen on basic staple foods which had formerly been exempted from GST.

This had increased food inflation by about six percent and had come at a time of serious drought and recession in the country. - *Sapa.*

TAXATION – 1992

SEPT. – DECEMBER

Blueprint for prosperity

STAR 1/9/92

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An economic and tax convention "Blueprint for Prosperity, will be held at the Johannesburg Sun on October 8, where ideas will be exchanged between organised business, organised labour and the major political parties.

The forum will bring together speakers from the ANC, IFP, DP, government, NAFCOC, Sacob, Fabcos, AHI, Cosatu and the private sector and is being sponsored by Southern Life and The Star.

Martin Sweet, assistant general manager, legal and tax services, Southern Life, said: "The poor performance of the South African economy is cause for great concern.

"Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock. The response of Southern Life and The Star was to back a forum for debate where key players in the political, economic and business environment could exchange ideas.

"Economic issues need to be addressed urgently. We cannot wait for the political reform process to run its course. A sound economic performance before, during and after any such political transition is the cornerstone of any stable democracy.

"Political liberation must be underpinned by economic stability if we are to prosper and make foreign investment more than just a pipe dream. There can be no democracy without economic growth.

"Now, more than ever, we need to build bridges and to direct the enormous potential of our country.

"It is the settling of differences and the discussion of the future with a common purpose that will enable South Africa to take its place as a major player, not only on the African continent, but also in the world.

"Blueprint for Prosperity" aims to bring together people with divergent viewpoints on economic issues in order to discuss their proposals.

Mr Sweet said the future economic policy had to be developed according to an equitable system for a new South Africa, and any system decided upon only after consultation with all interested groups.

"The convention speakers will also discuss future tax scenarios and whether certain taxes can be used as a redistributive mechanism.

"Capital gains tax, transfer tax and land taxes will be debated. Other issues like unemployment, job creation, poverty and crime will also be addressed.

"We hope that 'Blueprint for Prosperity', which is set against the present economic scenario of doom and gloom, will give hope for and insight into the future.

"The convention is an ideal opportunity for every business leader, politician, investment and tax expert to obtain first-hand the views and policies that are likely to shape our economic and financial destiny.

Speakers at the conference include: Dr Zach de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary general, African National Congress), Dr Stef Naudé (director general, Department of Trade and Industry), Khehla Mtembu (managing director, Afsure), Professor Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president NAFCOC), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayandra naidoo (negotiations coordinator, Cosatu).

- **Booking for this convention can be made through Cordev Marketing, telephone (011)-483-3214/5. The fee — for "early-bird" reservations — is R250 per person.**

R14bn handout to homelands

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GERALD REILLY

SA's taxpayers contributed nearly R14bn in grants to the six homelands and four independent states this financial year, much of it spent on salaries and perks for expanding bureaucracies, DP Homelands spokesman Peter Soal said last week.

He agreed with Reserve Bank Governor Chris Stals that growing staff numbers in TBVC and homeland bureaucracies partly accounted for high government spending.

Central Statistical Service figures for the year to end December 1991 showed the number of bureacrats in the six homelands increased by 16 568 from 1990. BIDAY 1/9/92.

They were paid R1,045bn in the last quarter of 1991, compared with R813,634m in the same quarter in 1990. Soal said grants to the homelands in this year's budget amounted to more than R7bn — Gazankulu R929,330m, Kangwane R528,332m, KwaNdebele R386,984m, KwaZulu R3,148bn, Lebowa R1,912bn and Qwa Qwa R355,347m.

Grants to the independent states were also huge. Bophuthatswana got R1,862bn, Transkei R2,492bn, Venda R743,854m and Ciskei R1,114bn.

Soal said not only was it vital that SA drastically thinned out its own massive bureacracy, but an urgent investigation should be launched into the expanding civil services of the homelands.

One of the major problems to be faced in reincorporation would be resistance from vested interest in the bureaucracies — ministers and senior state officials with lucrative perks, courtesy of the SA taxpayers, he said.

SA told to gear up for global export

BIDAY 1/9/92

GERALD REILLY

PRETORIA — SA industries were not geared to cope with a substantial increase in exports once global economic recovery started and export potential improved, Trade and Industry deputy director-general Gerrie Breyl said last week.

He stressed that one of the greatest challenges facing industry was changing a poor export awareness.

A recent survey of 608 manufacturers showed that 43,3% manufactured only for the local market, while 42,3% exported less than 10% of their production.

The normalisation of trade relations with the international community would increase competition. At this stage, however, many products were simply not competitive.

Urgent solutions would have to be found for several issues blocking trade expansion, notably political uncertainty.

Others were inflation, education and training of the work force, and reform of the tariff and tax structure. This was essential in any new economic policy aimed at accelerating industrial development and broadening the industrial base.

There had been breakthroughs in trade relations with central and eastern European countries, as well as Scandinavia. Trade with countries in the Far East, South America and Africa had grown "dynamically", relations with many western European nations had warmed markedly, and considerable expansion could be expected.

Despite a slowdown in world trade in 1991 for the third consecutive year, the total value of SA's two-way trade had grown from R102bn in 1989 to R115bn in 1991. Exports rose from R57,9bn in 1989 to R66,2bn in 1991.

"This is a trend we expect to continue throughout the 1990s, especially now that most sanctions and trade boycotts have been lifted," he said.

Trade with Europe expanded from R44,4bn in 1990 to R45,3bn in 1991, trade with Asia from R19,9bn to R22,8bn, with the Americas from R9,8bn in 1990 to R13bn in 1991 and trade with Africa from R4,8bn to R5,9bn. However, the fact that countries worldwide were opening their doors to trade with SA did not mean local exporters could gain immediate or easy access to the markets. Trade with the majority of these countries was still at a low level.

Government believed the time was right for the private sector to explore international markets. The economic downswing should motivate businessmen to venture into world markets, Breyl said.

Breakthroughs in new trade relations had brought about a totally new dimensions in the country's overseas markets.

"Interest in SA products is at an all-time high as evidenced by the marked increase in the number of trade inquiries reaching the country's foreign economic offices over the past two years," he said.

Industry had concentrated on local production and the limited local market, and as a result had started losing its international competitiveness. It was imperative that a more outward approach be adopted.

Internationally, markets for manufactured good were expanding faster than markets for raw materials, he said.

Calls for zero-rating gain voice

STAR 2/9/92

320

By Zingisa Mkhuma
Consumer Reporter

The record food inflation rate has prompted more political organisations and consumer groups to call on the Government to consider zero-rating VAT on basic foodstuffs.

The Consumer Council, Inkatha Freedom Party (IFP), the Democratic Party (DP) and Cosatu yesterday responded to the Central Statistical Services (CSS) figures which showed that food prices had risen by 30,4 percent between July last year and July this year.

Cosatu said at least 20 percent of the food price increases was a result of the Government's decision to impose VAT on basic necessities, despite opposition from the trade union federation and numerous other organisations.

Cosatu said VAT was partly to blame for the food inflation. It accused businessmen of trying to hide behind VAT and the drought to try to disguise inefficiencies, of monopolistic practices and of generaly exploitating the consumer.

Cosatu reiterated calls to the Government to:

- Zero-rate all basic foods, as well as medicines, medical services, electricity and water.
- Implement "effective" poverty and drought relief programmes.
- Devise methods to ensure the immediate stabilisation of prices of staple foods.
- Expediate investigations into control boards and the Marketing Act.
- Address the monopolistic and exploitative practices in the food industry.

The IFP said it was disturbed by the excessive food price rises particularly in the light of the prolonged recession and the rising unemployment rate.

IFP economics spokesman Gavin Woods called for a co-ordinated strategy to be implemented to bring down food inflation.

"Included in this strategy would be the exposure of those who are making excessive profits and the exemption of basic food stuffs from VAT," he said.

The Consumer Council had asked for the freezing of prices on basic food stuffs as an emergency measure, until the economy had stabilised, executive director Jan Cronje said.

Mr Cronje said: "The unrelenting surge in food costs prevents a decrease of the inflation rate. This prevents a fall in interest rates at a time when South Africa can least afford it.

"Escalating food prices cannot be tolerated as they continue to impoverish consumers."

DP finance spokesman Ken Andrew urged the Government to remove VAT on food and allow imports of cheap foods.

Mr Andrew said soaring food prices needed to be recognised as a national crisis.

Rising food inflation draws wide criticism

[illegible] 320 **ADRIAN HADLAND**

RISING food inflation, estimated at 30,4% since July last year, has drawn strong criticism from political parties, trade unions and consumer groups.

Cosatu warned yesterday that high food prices, VAT and drought relief would be high on the agenda in the next phase of mass action.

The union federation described government's economic policies as a "national scandal".

"To allow food prices to spiral out of control at a time of mass poverty, drought, unemployment and near famine conditions, is the height of irresponsibility."

Consumer Council executive director Jan Cronje said basic food prices should be frozen until the economy recovered. "The unrelenting surge in food costs prevents a decrease in the inflation rate. This prevents a fall in interest rates at a time when SA can least afford it."

ANC spokesman Carl Niehaus said VAT had been a major contributor to food price hikes. "This is what we predicted would happen under the new VAT system."

He said in the light of growing unemployment, the drought and low salaries, food inflation could cause "a very serious situation".

B/DAY 2/9/92

The ANC called on government to find ways of making food more affordable.

DP finance spokesman Ken Andrew proposed the removal of VAT from basic foodstuffs, an investigation of agricultural control boards, the encouragement of cheap food imports, an increase in hunger relief programmes and an end to cartels and monopolies in the food supply chain.

GERALD REILLY reports that Johannesburg's fresh produce market director Daan Spengler said high prices were likely to continue to the end of the year, even if normal summer rains fell.

Comparing supply weights in August with August last year, onions were down by 12%, potatoes by 22,5%, tomatoes by 16% and vegetables generally by 19%. However, because of the abnormally high prices, turnover was up 30% compared with August last year.

'Non-standard' policies warning

LINDA ENSOR

CAPE TOWN — Inland Revenue has warned companies and individuals that they face an onerous tax burden if they buy life assurance products structured on the assumption that the Sixth Schedule of the Income Tax Act is to be abolished.

Inland Revenue's Ian Meiklejohn expressed concern that life assurers were selling policies defined as non-standard in terms of the Sixth Schedule in anticipation of its abolition next year.

Life Office Association chairman Louis Shill also expressed concern about the practice saying life assurers selling such products were "leading people up the garden path" and taking an unfair competitive advantage.

BDAY 3/9/92

While there was agreement between life industry and tax authorities that the Sixth Schedule was unnecessarily restrictive, government had not taken any decision about its fate, Meiklejohn said.

He said life assurers could become "unstuck" in selling non-standard policies.

These are policies with a minimum amount of life cover, where the term for paying premiums is less than 10 years and which carry the normal company tax rate if owned by companies.

Single premium policies sold to companies would be an example of non-standard policies.

Under the regime of the Sixth Schedule such policies are not tax efficient as an onerous penalty tax is imposed when payment is made, in addition to the tax imposed on the money invested in the life assurer's fund. For standard policies no additional tax is imposed when the benefit is paid out.

320 [illegible]

Meiklejohn said the after-tax return on a non-standard policy would be significantly lower than the inflation rate as the tax rate could halve the final return.

Assuming an inflation rate of 15% and a company tax rate of 48% or an individual rate of 43%, a life assurer would have to generate a growth of 33% or 28% respectively to match the inflation rate. This was "highly unlikely", he said.

Keys's iron-fisted tactics may be right — but is the timing?

BDAY 4/9/92

GRETA STEYN

320

[illegible] television satire Spitting Image portrays Margaret Thatcher as a hard-drinking has-been who tells her social worker: "I used to be prime minister, you know." But Thatcherism seems alive and well in SA even as growing dole queues in Britain suggest the Thatcher revolution failed to create a sound basis for long-term growth.

Finance Minister Derek Keys yesterday announced measures that would impress anyone with an Iron Lady approach to economics. He wants to slash government consumption spending by 3% in real terms in the next fiscal year. This is to be achieved by a cut of 5% in staff and a 2% increase in productivity.

As hopes fade of a decisive upswing next year, it is clear he will need an iron will to achieve that. What is Keys hoping to achieve, and should he be taking this action at this point in the business cycle?

Keys's worry over government consumption spending hinges on the use of long-term debt to finance current spending. As government borrows to pay public servants' salaries, the debt mountain grows while the economy's productive capacity stays unchanged. Keys himself says his main concern is with increasing SA's productive capacity. He does not want government consumption to absorb finance that could be used for fixed investment.

Quoting IMF calculations, he said earlier this year that SA needed to invest 26% of GDP, instead of the present 19%, if it wanted to grow at 3,5% a year. By reducing government consumption, finance would be released to raise SA's investment rate and put it on a long-term growth track. Government would have to start saving.

Slashing staff numbers will presumably be done with care. Teachers and nurses are not in the same category as TBVC bureaucrats. Some current spending is an investment in human capital and does add to the country's productive resources.

The reasoning behind slashing government consumption echoes the argument for replacing GST with VAT: by doing away with sales tax on capital goods, billions of rands would be freed to be spent on fixed investment.

But fixed investment continued to fall in real terms after the implementation of VAT. Private sector investment fell by an annualised 2% in the second quarter of this year after shrinking by 5,5% in 1991.

With VAT, South Africans were asked to accept an unpopular tax with benefits for long-term growth. The tax is still unpopular and there is little sign yet of benefits.

Keys is now asking South Africans again to accept more unemployment in the short term for a plan that will yield benefits for long-term growth. He should not be surprised if the plan is not greeted with too much enthusiasm. Three years of falling GDP and the prospect of another year of no growth clouds the judgment.

One cannot help but wonder at Keys's timing. While his thinking cannot be faulted from a longer-term perspective, he has chosen the wrong time to announce and implement a plan that entails more unemployment in the short term. Even if the savings next year were spent immediately on capital projects, there is usually a lag in getting these projects on stream and creating new jobs. Keys did not mention any new capital projects yesterday.

Conservative economists steeped in Thatcherism and Reaganism say government and the central bank have no role in smoothing the economic cycle. But the widening deficit in the UK and the sharp falls in US interest rates illustrate that policy-makers all over the world have abandoned this approach.

☐ KEYS

Picture: ROBERT BOTHA

Fiscal policy has cushioned the recession here as well. South Africans would have become even poorer these past few years if government consumption spending had been less — GDP fell in 1991 in spite of the stimulating effects of a 5,5% real rise in government consumption.

Keys's statement yesterday acknowledges that government has a role in cushioning the effects of recession, but says the pain cannot be "deferred indefinitely". But should the pain not be deferred until the political situation looks better? He notes violence and the achievement of a representative government are the first of four critical issues facing the economy. Can he realistically take measures that yield only long-term benefits before those issues have been resolved?

It is, however, possible that Keys has reasons for his actions other than the longer-run economic gains. Government faces a revenue crisis and cutting back current spending is one way of dealing with the problem.

Revenue from VAT is running way below budget and could end the year billions of rands below expectations. That is the main reason why the deficit before borrowing will be at least 6% of GDP in the present fiscal year, compared with a budgeted 4,5%. If government wants to reduce the deficit next year it will require some creative thinking.

It cannot increase the VAT rate because of political problems, it cannot raise company taxes as it has made a commitment to reduce then and individuals are already taxed t the hilt because of bracket creep. S any action on the deficit will have t be on the spending side.

If the short-term revenue proble is the reason for the timing, one mu question the wisdom of chasing deficit target at this point in t economic cycle. The deficit is n much worse than the UK's, where t chancellor has all but given up on t target of balancing the budget ov the business cycle.

Whether Keys will be judged Thatcherite will depend on wha next year's savings are used t finance. If used to reduce the defici the Iron Lady would be proud. If use to finance new capital projects, he i taking the right action at the wron time. If used for social spending however, he would be spot on. More the pity, then, that he did not give clear indication of what the saving would finance.

To argue that the timing is wron for slashing government consum tion is not the same as arguing f big increases in government spen ing. The general principle cannot b faulted. Government's debt burde could crush future economic growt But taking action now is rather lik kicking a dog when it is down, — unless the money is used in a wa that will soon offset the hardship created by the policies.

While Keys must be applaude for his focus on the need for investment, it seems the present government will not be able to use econom ic policy to any great extent t achieve this longer-run aim. Perhap government should put policies wit long-run objectives on hold if the cause hardship in the short run.

The VAT debacle has illustrate the consequences of perceived unilateral restructuring. Fiscal policymakers, unlike their monetary counterparts in the Reserve Bank, canno act purely as economists. Policie aimed at the long run might have a chance of success only if reached by agreement through a body such as the national economic forum. If there was any good news in yesterday's announcement, it was that the forum was still on track. Now that is a body Thatcher would not like.

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FM 4|9|92

VAT AND FOOD INFLATION

The cost of red herrings

The impact of VAT will soon fall out of the inflation figures. And some of the disinflationary benefits created by tax credits on inputs will now be working their way through the economy. Yet lobbyists continue to press for concessions that will erode the tax base and undermine the entire concept of taxing at each stage of the production and distribution chain.

VAT is a huge red herring in the inflation debate; only constantly rising prices constitute inflation — and the imposition of VAT was a once-off event.

Food price rises have been exceptionally high, for a number of diverse reasons including VAT. Its impact on food prices can be gauged by the fact that food inflation in October last year, when VAT was introduced, was six percentage points higher than it had been the previous month.

If that month's entire increase is attributed to VAT, it would account for only six percentage points of the 30,4% rise in food prices in the 12 months to July. And it does little to account for a differential of nearly 20 percentage points between food inflation and non-food inflation.

"What we are seeing," says Aubrey Dickman, honorary professor at Wits Business School, "is a change in relative prices." Since the end of 1989, positive interest rates have made credit more expensive. Consumers have chosen to borrow less and fund more of their purchases out of income or savings, which has reduced spending potential — and the decline in demand has contained the overall inflation rate.

But consumer resistance is weakest when it comes to food purchases. And when domestic prices rise, consumer choices are limited by a variety of import barriers.

This has allowed producers and distributors to pass on the cost increases generated by a skewed distribution system. And the situation is now being aggravated by one of the worst droughts in history.

There is little we can do about drought damage — but we can solve some of the other supply problems plaguing us. If the people who petition for the removal of VAT on unprocessed foods were to devote their energy to freeing the food distribution channels, they might accomplish something worthwhile.

The pattern of food price rises is revealing. The last time food inflation and overall inflation were in the same ballpark was February 1991: food 15,7%; overall 15%.

Then food pricing decisions began to be made in anticipation of VAT, which applies to a far wider range of foodstuffs than did GST. The differential between food and overall inflation which opened up in March 1991, at 1,8 percentage points, was 4,3 percentage points by September, the month before VAT was introduced, and 10 percentage points by January 1992. The drought came and, by July, the differential had climbed to 15,8%.

The validity of the figures produced by Central Statistical Service (CSS) has been questioned by Raymond Ackerman, chairman of Pick 'n Pay and a prominent member of The Food Logistics Forum, an organisation consisting of farmers, marketing boards, agricultural co-operatives, manufacturers, wholesalers, retailers and consumer groups. The forum commissioned an independent study, by Louis Heyl & Associates, of supermarket food prices and found a 12-month rate of increase of only 21% — with VAT accounting for 6% — in June.

CSS head Treurnicht du Toit says he has examined Heyl's data and is not satisfied with the quality of input. He has no complaints about Heyl's methodology but points out that it is based only on information supplied by Pick 'n Pay and OK Bazaars. "Is that representative?" Du Toit asks.

A readily identifiable problem, he says, was that Pick 'n Pay submitted only bananas for the category "fruit". These, weighted with OK's fruit prices, showed a year-on-year increase of 4%. Official statistics over the same period for all fruit showed an increase of 42%. "Obviously, less representative inputs can make the statistics look better."

Ackerman denies Pick 'n Pay used only bananas in its fruit basket. "Whatever information Heyl asked for, we gave," he says. Heyl wasn't available to clarify the issue.

Ackerman is not happy with CSS's inputs either. "Meat makes up more than 30% of their basket and average meat consumption is nowhere near that figure," he says. "Even Heyl's basket, of which meat made up about 25%, overstates it."

He also says that official inflation figures are boosted by the prices charged by small retailers. "Not because they're deliberately ripping anybody off, but because they don't have the infrastructure and economies of scale that the big groups do." He would like to see food statistics split to show prices of major food chains and of small operators.

Says Du Toit: "In principle, we are not opposed to breaking down the statistics into two categories, but we do not have the resources to restate previous data. It is possible that July's figures can be split but, even so, we will still not be able to provide year-on-year comparisons until next July."

But these are sideshows.

The real debate is over VAT concessions. One of the main reasons GST failed was the erosion of the tax base. At present, 10 foodstuffs (which could all be fairly considered "basic") are zero-rated. They include brown (but not wholewheat) bread, mealie meal, mealie rice, dried beans, lentils, pilchards in cans and milk powder.

The loss to Revenue if all foodstuffs were zero-rated could be about 20% of the present tax base — or R3,5bn-R4bn if VAT revenue for the first full year has been correctly estimated at R18,5bn. In the present economic climate, the possible options for replacing the lost revenue all look implausible.

The standard VAT rate could be increased from the present 10%. But extending the list of exemptions makes it easier to cheat and any substantial increase in the standard rate would increase the incentive to cheat.

Alternatively, direct taxes could be increased. But Ernst & Young international tax partner Ray Eskinazi points out that tax on individuals and companies is relatively high. The average tax rate on a married South African earning the purchasing power equivalent of £24 000 is around 30% — compared with a flat rate of 25% in the UK. As for companies, the nominal SA rate is 48% compared with 33% in the UK.

So there is no easy substitute for VAT revenue lost.

Extending exemptions will not solve the problem of accelerating food inflation. And it is likely to increase what is already a huge shortfall in revenue intake at a time when there is enormous pressure on spending.

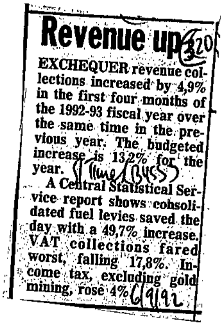
There is no bigger spur to inflation than a burgeoning State deficit. ■

INSURANCE

Selecting targets

With truck hijacks taking place at the rate of eight a day in the PWV area, large fleet operators are re-examining their self-insurance programmes. Some carriers of high risk items are finding it difficult to obtain regular insurance cover.

Grahame Wright, assistant director of brokers First Bowring, claims there is evidence that hijacks are carried out "to order."



Revenue up 320

EXCHEQUER revenue collections increased by 4,9% in the first four months of the 1992-93 fiscal year over the same time in the previous year. The budgeted increase is 13,2% for the year. ST Time (BUSS)

A Central Statistical Service report shows consolidated fuel levies saved the day with a 49,7% increase. VAT collections fared worst, falling 17,8%. Income tax, excluding gold mining, rose 4% 6/9/92

Keys to make the rich pay

S Times [Buss]
6/9/92

(320)

By KEVIN DAVIE

WEALTH, capital gains and land taxes feature in Finance Minister Derek Keys' economic restructuring plan.

The plan is still under wraps as finishing touches are completed, but sources say these taxes — some were first suggested by the ANC — are prominent.

The new taxes will raise new revenue for the cash-strapped Government. They will allow also tax reform by making room for lower individual and company taxes.

These so-called fat-cat taxes could help the Government to sell the more unpopular parts of the plan. Wages, for instance, could fall as the economy is opened to foreign competition through the lowering of import duties.

The wealth tax is likely to take the form of higher death duties. Additional taxes on individuals of high net worth are also believed to be under consideration.

Land taxes are designed to encourage owners of vacant property to sell. This would alleviate the land and housing shortage.

Estimates show that these taxes could increase revenue by 10%, sufficient to enable the Government to cut the top individual rate of tax from 44% to 40% and company tax from 48% to 42%, says one source.

Variable

Changes to VAT are also likely. A variable VAT rate is a strong possibility, some basic foods remaining zero-rated. Luxury goods may have a much higher VAT at, say, 15% to 20%.

The Development Bank (DBSA) recommends the new taxes in its report on economic restructuring, saying: "Serious consideration must be given to making company and personal taxes more efficient by broadening their bases and lowering the marginal rate and extending wealth taxes (national property tax, capital transfer taxes) and capital gains taxes."

The International Monetary Fund report, Economic policies for a new SA, which is believed to have been influential in the design of Mr Keys' plan, pointedly noted that SA had no wealth or capital gains taxes.

Mr Keys and plan architect Japie Jacobs are likely to have discussed it this week when they met an IMF mission which visited SA for its annual update.

Mr Keys was expected to make some details of his plan public this week, but says that the full report should be completed by November.

It is believed that drafts of the report are complete and some have been circulated for comment. The final report is being synthesised by a task force.

Mr Keys says the parts of the "integrated normative economic model" will be assembled and tested for credibility, compatibility and reliability in the next two months.

"Inputs received during December and January would be in sufficient time to help shape next year's Budget."

Contributors include Reserve Bank Governor Chris Stals, Competition Board chairman Pierre Brooks, Trade and Industry Director-General Stef Naude and tax expert Michael Katz. Mr Katz declines to comment.

Dr Naude's report is believed to deal with trade and industrial policy, and calls for phased tariff reductions in line with SA's commitment to the General Agreement on Tariffs and Trade (Gatt), the introduction of export processing zones to stimulate investment, and the replacement of the general export incentive scheme (GEIS).

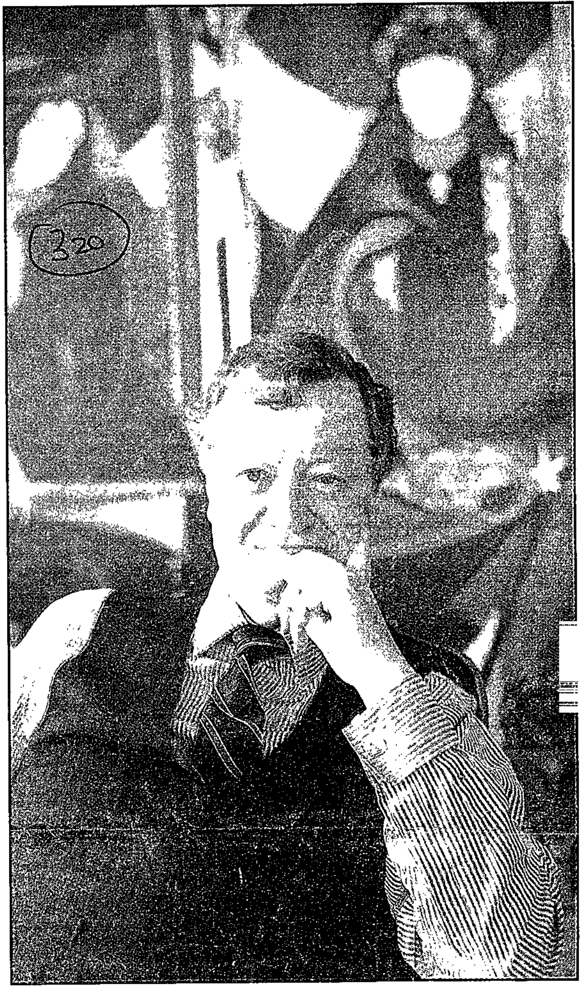
Dr Brooks says he made recommendations for a more effective competition policy, promotion of deregulation and safeguards against unfair competition by the State.

In his annual address last week Dr Stals drew attention to the Reserve Bank's annual economic report which identifies several problem areas which need to be dealt with.

They include the continuing rise in real wages a worker, militancy of trade unions, and strategic industries developed to make SA self-sufficient in certain areas.

Dr Jacobs says the restructuring plan is being completed. Some figures are still being quantified. He says levels of dissaving in the economy are so great that only about

● To Page 3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DEREK KEYS: Master plan to bring in extra revenue as the new South Africa takes shape

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New taxes (320)

● From Page 1

R5-billion is available annually for new investment.

"We can't export capital; we need foreign capital to augment our resources."

A structural adjustment is inevitable because without it "we'll end up in hospital in any case". S Times

Dr Jacobs says a successful adjustment may take longer than 10 years and will need the support of key groups such as the trade unions. [BUSS]

A solution is to empower people: "Training and education hold the key."

Expectations will have to be toned down and productivity improved. 6/9/9 2

Anti-VAT lobbyists praise Govt rethink on basic foods

Star 7/9/92

By Zingisa Mkhuma
Consumer Reporte

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The VAT Co-ordinating Committee (VCC) has welcomed the news that the Government is pondering zero-rating VAT on basic foodstuffs, but warned that the issue should be dealt with urgently.

VCC convener Dr Bernie Fanaroff said on Friday he was happy the Government was taking the issue seriously, but stressed that the VCC had a problem with the time-scale.

Dr Fanaroff was reacting to Finance Minister Derek Keys's statement last week, that during the March Budget the Government might consider exempting basic foodstuffs from VAT.

Mr Keys said the Government's spending would be cut by 3 percent, and that this could entail retrenching up to 5 percent of its workers. About 30 000 public servants could lose thei jobs.

Dr Fanaroff criticised th proposed retrenchments.

"We don't want this to be trade-off. There are other way of decreasing expenditure an increasing revenue, and w would be happy to discuss the with the Minister."

● More low-income earners i the public service could lose their jobs when the Governmen reduces its spending, the Econometrix research institute ha warned.

Econometrix spokesma Tony Twine argued that if the Government fired a cross-section of workers, it could achieve a 3 percent cut in spending by reducing the number of workers by 3 percent.

Mr Twine added: "If you have a 5 percent decline in people only reducing your spending by 3 percent, then it means you are firing a larger proportion of lower-paid workers."

Twinge of conscience nets taxman R3 000

BDAY 7/9/92

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TIM COHEN

PRETORIA — With a likely budget deficit of more than R20bn by the end of the year, it seems South Africans may be beginning to feel sorry for the taxman.

Tucked away in the voluminous Government Gazette is an indication that at least one South African may have taken pity on the Commissioner for Inland Revenue.

Last week the commissioner's Bloemfontein office acknowledged the receipt of the small sum — by the commissioner's standards — of R3 000, which would not have been unusual had the contribution not been anonymous.

The entry also demonstrates that the compiler of the plethora of notices published each week has a sense of humour: the announcement is listed under the heading "Conscience money".

In fact, the invisible compiler has had a field day recently, noting without a trace of consternation the loss of two Treasury bills, together nominally valued at R6m.

The gazette requests the public to contact the bank concerned if anyone has any knowledge of the whereabouts of the bills, and concludes: "Your co-operation in this regard would be appreciated." One would hope so.

Generally the gazette compiler's understated humour is reserved for the list of undesirable publications.

Last week's list included more contributions from Australian luminary Kevin Bloody Wilson.

Among other authors' more pornographic contributions to the "undesirable undermentioned publications or objects" are Wilson's views on Your Average Australian Yobbo.

Tax revenue lags behind estimates

GERALD REILLY 320

GOVERNMENT tax revenue is falling further and further behind budget estimates, according to latest collection figures.

BDay 9/9/92

They show in the first four months of the financial year, April to July, VAT collections amounted to R4,873bn against an expectation of R21,019bn for the whole year.

Therefore, with two four-month periods ahead, VAT would have to yield a massive R16,146bn to reach the budget's target figure, which economists say is highly unlikely.

Income tax collections for the four months amounted to R13,268bn with the year's total expected to be R50,484bn, of which R35,5bn was expected to come from salary earners.

A finance department spokesman said final demands were being served on the 29% — 187 000 — of salary earners who had not submitted their tax returns for the '92 financial year.

Of the 75 000 forms issued in Durban, only 53 000 had been returned — 71%. In Pretoria, 35 000 of a total of 54 000 salary earners had made returns — 68%. In the Johannesburg area 82 000 were issued and so far 53 000, 64%, had been returned. In Cape Town the figures were 54 000 issued and 35.000 returned — a 64% return rate.

Pay talks delay jail monitors

STEPHANE BOTHMA

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BD 23/10/92

THE monitoring of detainees in police custody by a team of former magistrates is being delayed by pay package negotiations.

Law and Order Minister Hernus Kriel was in the final stages of appointing the six-member monitoring team announced on August 11, ministry spokesman Capt Craig Kotze said yesterday.

The monitoring team would report to Kriel and to Police Commissioner Gen Johan van der Merwe.

The six retired magistrates had already been selected, but still had to be "taken into service".

"They must be employed and salary packages must be negotiated," said Kotze.

Kriel announced the appointment of the team to monitor the conditions of police detainees after independent pathologist Dr Jonathan Gluckman said in July the death of prisoners at the hands of policemen continued on a regular basis.

Six detainees died in police custody last week, bringing the number of deaths in detention since January last year to more than 180.

Lawyers for Human Rights director Brian Currin said last night that it was unacceptable that the team would report to the Minister and police commissioner.

A system of reporting to a judge or an attorney-general would have been far more effective, he said.

NON-RESIDENT TAX FM 11/9/92

Unplanned effects

(320)

Some companies with overseas control may find themselves obliged to pay nonresident shareholders' tax (NRST) twice over or even, in extreme situations, more than twice. This could follow from a recent amendment to section 42 of the Income Tax Act. NRST is payable (currently at 15%) by nonresidents — companies as well as individuals — entitled to dividends declared by SA companies.

Kessel Feinstein tax partner Ernest Mazansky says section 42 — as previously worded — based the obligation to pay NRST on the criterion of ordinary residence in the case of individuals and on the place of incorporation in the case of companies.

So any company not incorporated in SA fell into the category of "nonresident" and had to suffer NRST on dividends from SA sources. However, these criteria created problems with certain double tax treaties. To discriminate on the grounds of nationality is outlawed by certain important double tax treaties to which SA is a partner.

The issue was brought to a head by a case in the Income Tax Special Court. A Dutch holding company which had NRST deducted contended successfully that the requirement that it had to pay SA tax, where its SA-incorporated counterpart would have been exempt, was discriminatory and hence barred by the treaty.

Cont —>

FM 11/9/92

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To put SA domestic tax law into line with the treaties, but allow for the continued collection of tax, government this year amended section 42 to require NRST to be paid if the place of effective management of the company receiving the dividend is outside SA. Generally speaking, says Mazansky, the place of effective management is where policy and other important business decisions are taken by the board.

This basis can have unexpected consequences. Consider, for example, the case of a SA operating company (Opco) which declares a dividend to its holding company (Holdco) — incorporated in SA — but which is in turn the subsidiary of an overseas company (Foreignco). Previously, the dividend declared by Opco to Holdco would not have attracted NRST. Now it will attract the tax if the place of effective management of Holdco is actually overseas, where its board takes decisions. This often happens where the majority of Holdco's board comprises foreign-resident employees of Foreignco.

When Holdco, in turn, declares a dividend payable to Foreignco, NRST becomes payable again on the sum remaining after the first deduction of NRST. This is because Foreignco's place of effective management is also outside SA. As the result of double NRST, the dividend will have been eroded by 27,75% by the time it reaches Foreignco, unless Foreignco is in a country with which SA has a double tax agreement containing a clause which relieves the double tax on dividends. Not all double tax treaties have this effect.

Mazansky argues the result is perverse, as SA wants overseas companies to fund their SA operating subsidiaries with permanent share capital rather than with temporary loans. Interest receivable by non-residents is now tax-free, while NRST has been made more onerous, thereby encouraging investment via loan capital rather than share capital. An obvious way to solve the problem is to grant Holdco in the example a credit for the NRST deducted from its dividend from Opco. ■

New group to review tax policy

(320)

B/DAY 11/9/92

GRETA STEYN

TAX policy — including the possible implementation of wealth taxes — is under review by a new Finance Department unit that includes left-of-centre academics.

Headed by deputy director-general Estian Calitz, the unit will work on new fiscal strategies in the wake of the demise of the five-year plan to lower personal and company taxes. It will also take a new look at policy benchmarks such as a deficit of 3% of GDP.

Calitz said yesterday the tax research unit that had been in operation for the past two years was incorporated into the new fiscal analysis and policy planning unit. He would not be drawn on specific issues under consideration, but said the focus would "of necessity be on high priority policy issues" while its brief could "potentially include the full fiscal policy field".

It is understood the committee's work will provide input for next year's budget proposals. It will have to come up with tax and spending suggestions, given a revenue crisis and pressure to increase social spending.

While the Development Bank is pushing for wealth and property taxes, economists believe such taxes would be mainly for symbolic effect and would not add the speculated 10% to revenue (R7bn-R8bn). To achieve that income (more than twice the expected shortfall in VAT collections) would require excessively high rates of taxation.

Calitz said the unit was being guided by University of the Free State Prof Frederik Fourie. Fourie is widely regarded as left-of-centre, as is another member of the unit, Unisa's Prof Philip Mohr.

Fourie has said the task facing economic policymakers was "to gauge the speed and ways of inequity redress that an economy liberated from external and internal constraints can actually bear".

Mohr was a member of the first left-of-centre scenario-planning exercise, the Mont Fleur scenarios.

Calitz said the unit's abilities could be strengthened by contracting expertise at academic and research institutions.

The unit would build on the work of the tax research unit, which included an investigation into the structure of personal income tax — the adjustment of the tax thresholds and the impact of fiscal drag, company taxation and inflation, excise duties on luxury goods and an international comparison of fiscal systems, with the emphasis on government social expenditure.

REVENUE ACCOUNT (320)

Carryover

FM 11/9/92

Revenue flows in the current fiscal year appear to be slowing, with a particularly disappointing intake in July:

☐ Income tax raised only R4,3bn (compared with R5bn in July 1991); and

☐ VAT R1,3bn (R1,4bn from GST).

Thus, in the first four months of the fiscal year:

☐ Income tax earnings amounted to R13,3bn, only 5,42% higher than in the same period in 1991. This contrasts with the figure over three months, when it was 19,26% higher; and

☐ VAT earnings at R4,9bn, were 17,85% lower than GST earnings.

The setback to income tax may simply be technical — July ended on a Friday, so cheques paid to Inland Revenue late on that day were only banked on the Monday. August's figures would reflect the carryover.

Revenue from other sources in the first four months was:

☐ Non-resident shareholders' tax R105m (down 14,78% from the first four months of the last fiscal year);

☐ Donations tax R3,8m (up 156,68%);

☐ Estate duty R31,8m (up 8,04%);

☐ Trade securities R56m (down 24,86%);

☐ Stamp duties and fees R266m (up 11,42%);

☐ Transfer duties R445m (up 52,04%). The increase reflects the 0,75% levy on financial services introduced in the Budget and payable at the start of each quarter. This accounted for about R80m of July's figure of R167m;

☐ Mining leases and ownership R80,5m (up 232,23%). Most of this amount came in the form of a carryover from the previous fiscal year;

☐ Interest and dividends R7,7m (down 60,32%);

☐ Levies R4,7m (up 711,4%);

☐ Recoveries of loans and advances R8,4m (up 27,6%); and

FM 11/9/92 (320)

☐ Departmental activities R436m (up 250,73%).

In the four months, total earnings from inland revenue, after payments to the self-governing territories and TBVC states, were 1,1% lower, at R18,9bn.

However, Customs & Excise earnings have grown steadily, following increases in excise duties announced in the Budget — the category brought in R1,4bn in the four months, up 30,97%. Increases in the fuel levy in October and April pushed earnings to R2,2bn, up 49,72%.

Earnings from customs duty totalled R959m in the four months, up 5,03%, and from the surcharge, R487m up 0,31%. The categories miscellaneous were down 55,52% and the ordinary levy down 20,22%. In spite of a large disbursement to the Customs Union countries in July of R1,2bn (out of R1,3bn brought in), net C&E earnings for the year reached R2,7bn, 50,95% higher than last year.

Total earnings for the State Revenue account over the first four months of the fiscal year were R21,6bn, only 3,29% higher than in the comparable period in 1991. ■

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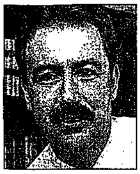
FM 11/9/92 (320)

RAY ESKINAZI

Trick or treaty



Ray Eskinazi is international tax partner at Ernst & Young

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FM 11/9/92

Taxpayers and governments see double tax treaties differently, as illustrated by the quote: 'The taxpayer hopes the treaty will prevent the double taxation of his income; the tax gatherer hopes the treaty will prevent fiscal evasion; and the politician just hopes."

The UN Group of Experts on Tax Treaties has pointed out that growth in the flow of investment from developed to developing countries depends largely on the international investment climate, of which an important part is preventing or eliminating double tax.

Negotiations are believed to be under way to extend SA's network of 22 treaties to Taiwan, France and certain eastern European countries. Issues that need to be considered in negotiating future treaties include:

☐ The tax system could be based on source rather than residence, initially limiting the base for collection;

☐ In relation to each future treaty partner, should SA be classified as a developed or developing country? SA's treaties with developed European countries are based on the OECD model, which assumes a reciprocal flow of investment. As SA is a capital importing country, the income flows mainly to the developed country. By reducing its taxes (including withholding taxes) imposed on the basis of source ofincome, SA sacrifices revenue in favour of a developed country which would subject the income to tax but grant a credit for the SA taxes paid.

The UN Group of Experts on Tax Treaties has altered the OECD archetype to develop a model treaty between developed and developing countries. It may serve as a useful basis for future treaty negotiations;

☐ The possibility of fundamental amendments being made to SA's tax system — to reflect the new political, social and economic order — should be anticipated in negotiating the treaties;

☐ The extent to which concessions such as "tax sparing" should be included in a treaty must be considered so that they complement future domestic tax-based incentives. "Tax sparing" would allow the tax which would have been levied by the source country, in the absence of tax relief, to be set off against the liability of the foreign investor in his home country, resulting in a benefit to the investor;

☐ If SA's tax system were supplemented by a network of favourable treaties with other African states, SA could serve as a tax-efficient conduit for routing investment in Africa from Europe and North America. The scope of any anti-treaty shopping provisions in each treaty would affect this opportunity.

This possibility should be seen in the light of information contained in the World Bank 1992 Investment Report. Flows of direct foreign investment to Africa halved from 1989 to US$2,2bn in 1990 — slightly more than Portugal received that year;

☐ Over time, SA could conclude a series of multilateral tax agreements with other sub-Saharan African states, much like the series of agreements concluded by the Nordic states of Denmark, Finland, Iceland, Norway and Sweden;

☐ An "Investment Guarantee Agreement" (IGA) could be used to supplement a treaty and guarantee investors get treated in a certain way on nontax issues. Malaysia has concluded about 20 IGAs with mainly developed countries.

An IGA is meant as a guarantee against noncommercial risks such as expropriation or nationalisation and to allow for remittances and repatriation of capital.

For a developing country, an IGA should help to quicken the pace of industrialisation by encouraging the inflow of foreign capital. It is generally considered that an IGA that prevents arbitrary action by a recipient country generates confidence in foreign investors.

Gamble and win at your peril

LEIGH HASSALL

STAR 12/9/92

Now the Receiver demands to know all

320

FROM winning the red sports car at Sun City to selling your emerald necklace to recording your blackjack losses at the local casino — the taxman wants to know it all. Not much in life is sacred any more as the standard Income Tax return, IT12, bears out.

The Income Tax Act gives the Commissioner of Inland Revenue carte blanche to decide on the questions to be asked in the individual's annual return.

Part 8 of the buff form, amusingly entitled "Receipts and accruals which you consider not taxable", makes full use of the commissioner's discretionary powers. The section is all-encompassing and covers capital receipts, foreign income, exempt income and even includes such income received by your minor children.

The capital section is particularly demanding, requiring disclosure of receipts from, among other things, your close corporation interest, your collection of stamps, cars or other valuables, your shares, bonds and gold coins. The July issue of Ernst & Young's "Business Brief" states that there is no "de minimis" below which profits may be disclosed, so a profit of R50 from the sale of a collector's stamp must be recorded. Furthermore, the receiver requires details of the following if the aggregate exceeds R3 000 — inheritances, prizes, donations, jewellery sales, matured insurance policies and gambling and betting gains or losses.

The taxpayer certainly has to face up to his vice when fulfilling the receiver's disclosure requirements for gambling and other betting losses. Not only must he tally up the number of gambling transactions he undertook during the year, but also record the total amount he wagered with the total amount lost or won. A sobering process for weekend blackjack players!

Presumably, if one has a certain number of betting transactions, one will be classified as a professional gambler and taxed on the gains or refunded on the losses!

Receipts from sources outside the Republic such as interest and royalties, with details showing from whom it was received and from which country, must be disclosed.

Income which in your opinion is exempt is, however, obliged to be recorded in the Section 3 of Part 8. In other words, the exempt investment income which has not been included elsewhere in the return is applicable. It includes the relocation costs paid by your employer.

Ernst & Young say the risk lies not in the disclosure of this information but in the failure to disclose it. The receiver is limited to three years from the date of the assessment in which he may re-open a return.

However, where there has been fraud or non-disclosure, the three-year limit falls away and the assessment may be reopened at any time. In addition stiff penalties, at twice the extra tax liability, will be imposed.

Next year's IT12 Part 8 will probably be more condensed in an overall shorter IT12. However, the same information will be required.

In the past year the receiver has successfully challenged a number of taxpayers on the grounds of non-disclosure of material facts.

Ernst & Young say their is little doubt that the receivers of revenue are becoming more efficient and aggressive in their scrutiny of the annual tax returns. In a precedent-setting Zimbabwe court case, a taxpayer failed to disclose the profit from the sale of his exotic car. It was held that, even though it was a single transaction, the receiver had the right to tax the profit.

Which just goes to show that disclosure is better than cure.

Do whites have wealth to redistribute?

W/Mail 11/9-17/9/92

320

A tax on the assets of millionaires might not raise enough money to rebuild black communities and could merely add to emigration queues, *argues* **REG RUMNEY**

THE idea of a wealth tax won't die. Gordon Young, of the Cape-based Labour Research Services, has once again raised the idea.

In a paper titled *The Price for Apartheid — The Wealth Tax and How It Can Pay for the Re-construction of Black Communities,* Young suggests a five percent tax on all personal wealth over R1-million for a fixed period of 10 years.

At the same time, he dismisses the restoration of prescribed asset requirements to channel some of the billions life assurers control into uplifting the poor. He argues that, among other things, this is a tax on savers. Young also suggests scrapping the tax-free status of pension fund and retirement annuity contributions as a means of raising an extra R5-billion to R8-billion a year.

The starting point of Young's paper is that the mainstream of the business class and many middle-class whites declare they owe nothing to the black community. Blacks will have to pay for what they want, is this approach.

"This is unlikely to move a democratic government. Having used apartheid to protect them on their rapid climb to prosperity, comfortable middle class whites cannot now deny to a new government just those measures of state intervention which they themselves used so successfully until the present day."

South African Chamber of Business chief economist Ben van Rensburg is emphatic that this attitude does not reflect the feeling of business. However, he does say business would be implacably opposed to a punitive tax.

Young also quotes a 1990 statement by Democratic Party leader Zach de Beer, who has been closely associated with business interests, as arguing for a "reparations tax" on the wealthy to provide additional funds for essential services for the poor, such as housing, health and education.

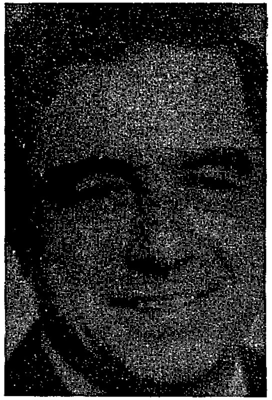
De Beer, while not repudiating his words, says he was definitely not advocating a tax on assets.

"The second strategy," Young writes, "calls for the restoration of prescribed assets. According to this school of thought there are vast unused billions standing idle in the coffers of the financial institutions. These must now be compulsorily be invested — at low or zero rates of return."

The good deal of Young's paper is devoted to showing why this route is wrong. Anyone with life assurance investments — a sizable part of the population — will probably agree with him.

The third strategy is to impose a tax of, say, five percent a year over a fixed period of, say, 10 years on all personal wealth over R1-million.

"This would raise enough to rebuild black communities. And it would constitute a cleaning of the slate for the economic crimes of apartheid."



Zach de Beer ... Don't tax assets

University of the Western Cape (UWC) economist Lieb Loots points out, in relation to the scrapping of tax concessions on pension fund contributions, that the overall tax burden is important.

Loots believes South Africa is at the point where further tax will be counter-productive, leading to an erosion of tax morality and lower rather than higher tax revenue. He reminds us that only 11 percent of the economically active population pay tax.

Van Rensburg even contends that whites are overtaxed. "A wealth tax is not as straightforward as personal income tax, and personal income tax in itself is not straightforward."

Young's paper calls for a dispassionate examination of the wealth tax. But the language is emotive. "By means of apartheid, a large number of people were able to obtain vast wealth because of the pigmentation of their skin. With all the might of the state, the law, and institutions of every kind, not least the police and armed forces, they created an environment favourable to the acquisition of wealth by themselves. Blacks were, however, excluded from this system, except to serve it in a menial capacity."

There is more in the same vein, but take that paragraph as an instance. While it is true in broad respects, few whites will agree they have "vast wealth".

Wealthy they are, but only in relation to the dire poverty of most blacks. This makes a difference. Were whites vastly wealthy in world terms — and numerous — there would be a much greater surplus to redistribute and make a difference.

In July 1991 Market Research Africa found that one in every five urban white adults has a net worth of less than R10 000, and over half the white urban population has net assets under R100 000. Only 1,7 percent were rand millionaires.

Gradually impoverished by the declining economy most whites feel a lot poorer than they were. They are, for two reasons. Firstly, there has already been a shift in income away from whites towards blacks in formal employment. Charles Simkins, in his income distribution model, found that between 1985 and 1990 white real per capita incomes declined while black per capita income rose.

Finally, is the wealth tax redistributive justice, or retributive justice, a punishment for whites, or a means of redistributing wealth?

Young appears to think they are the same thing. "The wealth tax proposed here is not intended to raise revenue. It has the objective of re-distributing wealth, in particular the ill-gotten gains of apartheid."

If redistributing wealth doesn't improve the lot of the have-nots, it has little purpose other than to give pain to the haves. It seems a curiously puritan notion, and not one exactly designed to glue a fragile nation together.

6 BUSINESS DAY, Tuesday, September 15 1992

Mining revenue to state coffers drops

~~[illegible]~~ 320

BDAY 15/9/92

MATTHEW CURTIN

GOVERNMENT's tax receipts from the gold mines as a proportion of total revenue fell to another record low in 1991, the Chamber of Mines said yesterday in its yearly statistical review of the mining industry.

The total contribution of the mining sector to government revenue also fell to a record low, albeit less precipitously.

The figures reflect the further marginalisation of the industry within the SA economy as the mines faced another year of low commodity prices. The chamber said average rand gold prices in 1991 were almost unchanged for the third year running at R998 an ounce.

Tax paid by the industry fell last year to the lowest level in nominal terms since 1979.

The chamber calculated that in the year-ended December the gold mines paid R957m in tax. That compared with R827m paid by the industry in the year-ended March 1991, which was the lowest sum contributed to state coffers since the amount of tax paid doubled from R445m to R861m between 1978 and 1979.

Government received only a little more than 1% of its total revenue from gold mines in 1991, compared with 2,2% in 1990, 4,5% in 1989, 10% in 1985 and 26% in 1981. Overall revenue from mining fell to 4,1% of total revenue in 1991, down from 4,6% the year before.

Government revenue from the gold mines is likely to fall lower still in the current financial year, thanks to the rewriting of the mining tax formula in the gold mines' favour in the 1992 Budget and the sustained weakness in gold prices.

Chamber figures showed that in 1991 SA's gold mines produced 559,2 tons of gold (1990: 603 tons), after treating 93-million tons (102-million) of ore.

Uranium production fell by a third to 1 974 tons (2 913 tons), the lowest level since 1954, a reflection in the slump in uranium prices because of a glut of the material on world markets.

The chamber said the average number of employees on the gold mines fell to 424 250 from 473 685 in 1990, the lowest figure since 1977.

The chamber's safety statistics showed that the number of mineworkers who died on the gold mines fell sharply to 443, against 522 fatalities in 1990. The fatality rate per thousand workers fell to 1,18 from 1,24, although the reportable injury rate rose to 19,7 from 19,2.

Nearly 5 000 workers have died on the gold mines from 1983 to 1991.

Doubt over deferred compensation schemes

BDAY 15/9/92: (320)

LINDA ENSOR

CAPE TOWN — A recent case in the Natal special court for hearing income tax appeals has led to fears regarding the viability of some deferred compensation schemes, especially in the case of small companies or close corporations, Sanlam legal researcher Emile Wessels said.

In the latest issue of Optimum, a publication of Sanlam's legal services department, Wessels said the court had refused a company a Section 11 (a) — a deduction for the payment of a gratuity — "with grave tax consequences".

The court confirmed a decision by the Commissioner of Inland Revenue to disallow the deduction, though being a special court, its decisions are not binding on subsequent courts.

"It was held that the expense was not incurred in the production of income or, alternatively, not laid out wholly and exclusively for purposes of trade," Wessels said.

The court had followed a subjective approach, namely that if the taxpayer (the company) did not intend the expenditure to produce income it would not qualify for a Section 11 (a) deduction. It found that the expenditure on the gratuity in question was not intended to produce income but to improve the retirement benefits of the company's major shareholder.

A gratuity payment on retirement would be acceptable if its clear purpose was to induce the employee to stay on in employment or to motivate him to work harder — that is, if the payment played a role in producing income.

Wessels said the result of the judgment was that gains could be taxed three times as the policy would not have been held in the life assurer's untaxed portfolio; the full proceeds would be included in the company's gross income without a corresponding deduction; and the gratuity would be included in the employee's gross income.

"I believe that deferred compensation should not be marketed in a vacuum — the surrounding circumstances must be taken into account to facilitate the successful implementation of a scheme. If the true purpose of the scheme is to produce income (by motivating employees) one must try to accumulate evidence that shows this to be the case," Wessels said.

"It can be dangerous to implement a deferred compensation scheme in the case of companies where the majority shareholder is the only person to benefit from it. It may be difficult to convince a court that he needed this type of inducement to stay on, especially where he is the sole shareholder," Wessels said.

Mr Phineas Rakgabale (right) of Mahwelereng won R200 for displaying his *Sowetan* bumper sticker. Mr Johannes Monama of Tritex filling station in Potgietersrus gave him his prize.

Violence must 'be stopped'

Sowetan 16/9/92

~~30~~ ~~180~~ ~~214~~ ~~136~~

■ CRITICAL PERIOD Premier boss warns of effects of political instability:

By Joshua Raboroko

CERTAIN ACTIONS by political parties damaged the economy and would weaken the ability of the corporate world to help small business develop and create jobs for the disadvantaged.

Speaking at the Business and Entrepreneurial Development Conference in Midrand yesterday, the chief executive of the Premier Group, Mr Peter Wrighton, said black economic empowerment could not take place in an atmosphere of violence and political instability.

"We all know that the regeneration of business cannot take place without peace and political stability. We plead with our leaders to act more like statesmen in this critical period of our history," Wrighton said.

He appealed to the corporate world to help township entrepreneurs.

"Big brother must help small brother grow," he said.

National Sorghum Breweries' Professor Mohale Mahanyele said one of the stumbling blocks to black advancement was lack of finance.

He saidbig business and the Government should pump money towards black economic empowerment.

Cosatu's appeal to employers

Sowetan 16/9/92.

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Deadline to taxes nears as protests increase:

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By Ike Motsapi

THE CONGRESS of South African Trade Unions has set December 1 as a target date for employers to stop deducting the Pay As You Earn tax from workers' salaries.

Cosatu media officer Mr Neil Coleman yesterday said they expected companies to support the call as part of he ANC-led mass action.

Instead, employers would be asked to pay the tax into a fund for "peace and democracy" to be established soon.

The federation also agreed to step up the mass action campaign.

It would also call for the occupation of government buildings.

PAYE defaulters face prosecution

B/DAY 17/9/92.

(320)

GERALD REILLY

PRETORIA — The Commissioner for Inland Revenue was obliged to prosecute or penalise employers who defaulted in PAYE or SITE payments in terms of the Income Tax Act, an Inland Revenue Department source said yesterday.

Penalties faced by employers who submitted to Cosatu demands that they join a tax revolt and stop making monthly tax payments on behalf of employees included a 10% surcharge on the tax withheld.

There was also a criminal sanction of a R400 fine or six months jail or both for each individual non-payment.Dozens of employers were convicted every year for non-payment contraventions, the source said.

Legal sources said incitement to commit an offence — such as threatening employers to coerce them into co-operating in a tax boycott — could be dealt with in terms of the Riotous Assemblies Act and the Act on Intimidation.

Inland revenue statistics showed nearly 80% of income tax revenue came from SITE and PAYE payments. No figures were available indicating the revenue from SITE payments alone but there were just over 900 000 taxpayers earning between R20 000 and R50 000 a year.

Anyone earning less than R50 000 a year is a SITE payer and does not have to submit an income tax return.

DP parliamentary finance group member Douglas Gibson said yesterday any employer submitting to the tax boycott campaign should be prosecuted to the limit.

The country was in dire need of funds for vital socio-economic upliftment projects and any unlawful interference with the tax collection system had to be condemned, he said.

An NP statement yesterday said the PAYE sabotage plan was nothing less than "economic terrorism".

"It is yet more evidence of the Cosatu tail trying to wag the ANC/SACP alliance dog and undermine ANC moderates' attempts to get negotiations back on track.

"If Mr Mandela is genuine about resuming negotiations and becoming a part of the solution, then he should call Cosatu to order and stop the alliance's spoiling role in the economy," it said.

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Tax receipts down 11%

STAR 18/9/92

By Derek Tommey

Tax receipts dropped 11,2 percent in August to R5,3 billion — down from R6 billion a year ago.

But the Ministry of Finance has hastened to reassure the public that this is not the start of a trend.

It says that one reason for the low figure is the large month-end carryover to September.

When a month ends on a Friday, a weekend or a Monday, tax payments intended for that month are usually only recovered the following month.

Two other reasons are that VAT collections appear to be continuing to fall below budget, and certain departmental income was received in 1991 but not in August this year.

Because of these factors, it says the August, 1992 figure for Inland Revenue cannot be used to deduce the revenue pattern for the entire financial year.

FM 18/9/92 (320)

MASS ACTION (320)

Deep end

FM 18/9/92

The ANC/SACP/Cosatu alliance says its PAYE tax boycott will start on November 1. It wants employers to stop paying PAYE deductions to Revenue and place them, instead, in a "fund for peace and democracy."

Employers who comply will face serious penalties. Arthur Andersen tax partner Pierre du Toit says the Fourth Schedule to the Income Tax Act imposes a duty on every employer (unless the Commissioner has granted an exemption) to withhold employees' tax (PAYE) and pay it to Revenue within seven days of month's end.

It is a debt due to the State and an employer who fails to withhold PAYE is personally liable for the amount.

Failure to pay over PAYE also exposes the employer to a penalty of 10% of the unpaid amount.

And, under section 89*bis*(2) of the Act, tax not paid over within the prescribed period attracts interest at the current gazetted rate (now 18%). The Commissioner may absolve the employer from the penalty if he is satisfied failure to pay was not due to an intent to postpone or avoid the tax or assist the employee to evade his obligations under the Act.

However, it is highly unlikely the Receiver will not move against employers who fail to make the payments. If taxes cannot be collected a government writ has ceased to run.

Union officials too could face penalties. In certain circumstances they could face charges of extortion under common law. The alliance will be putting pressure on employers to put money, which should have gone to the government, into a fund to benefit workers. Assuming the demand is backed by threats of strike action or worse, then all the elements needed to prove the offence would be present.

Extortion may be tried in the Supreme Court and the penalty imposed could be severe. ■

P du Toit

LABOUR

Some taxing questions for employers

W/Mail 18/9-24/9/92 (320)

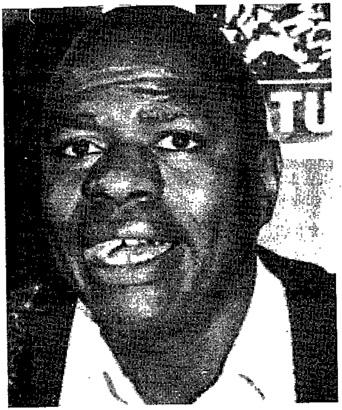
To deduct PAYE and stay out of jail or to support Cosatu's tax boycott call? **MONDLI MAKHANYA** *reports on employers' dilemma*

WHAT may prove to be South Africa's largest tax revolt kicks off next month with a Congress of South African Trade Unions-initiated campaign to boycott Pay As You Earn (PAYE) tax.

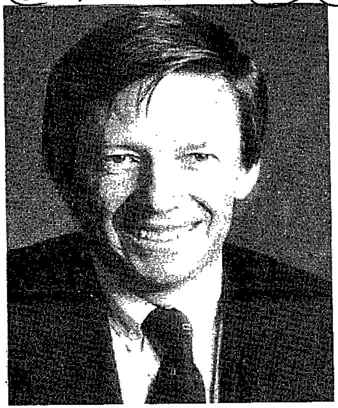
The Cosatu campaign — adopted by the federation's campaigns conference last weekend — coincides with the "fourth phase" of the Tripartite Alliance's mass action campaign. It holds out the threat of a huge confrontation between organised labour and business.

Cosatu has given employers till October 1 to respond to demands to stop deducting PAYE from workers' salaries and November as the date for workers to stop paying the tax to the government. This money, says Cosatu assistant general secretary Sam Shilowa, should be placed in a multiparty-controlled "Fund for a Democratic South Africa".

Already the campaign has caused ripples. Government has threatened to review its participation in the National Economic Forum if Cosatu proceeds with it. Business has been largely tight-lipped, but has declared that it is not prepared to break the law by complying with the campaign's demands.



Cosatu's Sam Shilowa ... put money in a fund



Anglo's Bobby Godsell ... invited Cosatu to talks

Under the Income Tax Act, failure by an employer to hand tax deductions to the government constitutes theft and the employer would be liable for a jail term or a fine. Employer bodies have voiced fears that rather than taking on big companies, government may target small businesses who neglect to pay over PAYE money.

The boycott has its genesis in Cosatu's national congress last year, which coincided with the Inkathagate scandal. It gained momentum after revelations of corruption in the Department of Development Aid.

South African Chamber of Business economist Ben van Rensburg rules out any possibility of complying with the Cosatu demand. "Does Cosatu expect employers to willingly become criminals? We won't commit criminal acts on their behalf," he told *The Weekly Mail*.

According to Saccola president Johann Liebenberg, employers have not even discussed the issue, and have had no contact with Cosatu on it.

Shilowa remains adamant that unless employers back the campaign, there will be friction. He quips: "If they are really serious about curbing state expenditure, they'd better join us."

Cosatu's campaigns conference focused on another employer-union flashpoint: a union drive against employers who fired or disciplined workers during the August general strike and the wave of wage strikes this year. This will entail picketing and even occupying head offices.

Singled out for attack was Anglo American Corporation, whose subsidiaries fired several thousand striking National Union of Metalworkers members during the recent engineering industry strike.

A high-level Cosatu delegation is to meet Anglo to discuss their re-instatement and the corporation's "attitude to the right to strike". A national council of Anglo shop stewards is also to be convened to discuss action.

Anglo reacted to the threat by inviting Cosatu to talks. Industrial affairs director Bobby Godsell called for the resumption of the failed Social Charter between Cosatu and Saccola. "The focus should be on the source of the conflict, not only labour relations but also on the process of political transition," he said.

Food prices are hard to swallow

By Lynda Loxton

South 19/9 - 23/9/92

320

SWEAT it out or campaign for action! These seem to be the only options open to hard-pressed consumers as they battle to cope with rapidly-rising food prices.

Some economists claim inflation is on its way down and that when the first anniversary of the introduction of VAT is reached next month, food prices in particular should stabilise.

Others say it is much more serious and that wide-ranging changes in the food production and distribution chain are needed to halt the rapid rise in food prices.

Those changes include:

- Taking VAT off all basic foodstuffs.
- Lifting import duties and other restrictions on imported foodstuffs, which will make it possible to import cheap (but not inferior) tinned fish and vegetables.
- Deregulating the marketing

food prices been?

The answer depends on who you talk to and brings to mind the old saying: "There are lies, bloody lies and statistics."

According to that official purveyor of statistics, the Central Statistical Service (CSS), food prices rose 30,4 percent in the 12 months to July this year.

VAT accounted for about six percent of the increase.

These shocking figures have been sharply attacked by retailers, including Pick 'n Pay chairman Mr Raymond Ackerman, who claim that food prices have risen only by between 14 and 17 percent, and by 21 percent if VAT is added.

But no one can be happy with either set of figures — there is no doubt that food prices are rising and, some say, the Western Cape has been worst affected even though there has been no "excuse" such as drought.

So why have food prices risen?

After canvassing several sources,

SKINNED: With prices going through the roof, a supermarket trolley of food costs a small fortune, as 52-year-old John Newman of Garden Village discovered Photo: Yunus Mohamed

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long enough to come back to work tomorrow, the way most South Africans do.

Those of us who aren't that lucky have so much to worry about right now that it's hard to know where to start. I have a sneaking desire to see all the newspapers in this country banned, the BBC World Service and Radio Moscow jammed, and all imports of foreign magazines limited to those published more than five years ago. Only in that way would we be able to avoid knowing what is happening beyond our own taxi-route and thus

around the fruit machines in the casino is for my cousin.

Instead, we have all this global information pouring in to disturb our equilibrium. Did you know, for example, that scientists in Britain have invented an artificial dog to help them breed fleas? I kid you not.

They need fleas in order to conduct scientific experiments of the sort that keep anti-vivisectionists in business. To get enough fleas in the normal manner, they would have to employ thousands of people to spend every day picking the fleas off

about such things.

Sadly, the big wide world seems to be coming closer and closer to our little cesspool. We've already been invaded by an army of American "investors" who are intent on keeping our country as close to George Bush as an armpit boil; and they're succeeding rather well.

In fact, one of my contacts in the world of high finance made the interesting point that, while Oupa "Son of Idi" Gqozo may be the puppet of the South African government, we ought to ask ourselves

acle in the world, it's the fact that, knowing what we do, we still get out of bed every morning and go out into the world. But then, we only do that because we've forgotten most of what we knew before we went to bed. As I said, nature builds us to fit the world in which we have to live.

Or, to use an example supplied by my good friend, Sting: "Rabbits only have three-minute memories, because if they remembered what happened to them last time they left the hole, they'd never come out."

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and goings on the campus in the northern suburbs. UWC stalwart staff member Mr Henry Abdol left the university after decades of loyal service — to join Armscor. Another military-related staff shuffle has seen the appointment of a former South West African Territory Force member as head of 'Campus Control'. We believe security has improved since he arrived.

NO SAY, NO PAYE

C/Press 20/9/92 (320)

By SNUKI ZIKALALA,
South African Labour Bulletin

COSATU is planning on playing its trump card – a tax boycott – in December in its campaign to have the government step down in favour of a constituent assembly and interim government.

The main problem facing the campaign, however, is that it will need the co-operation of employers.

At a recent campaigns conference, Cosatu's campaigns co-ordinator, Jay Naidoo, targeted December 1 as the date on which the boycott would start. The plan is to have employees tax deductions paid into a "peace and democracy" fund, which will be made available if and when an interim government is in place.

While workers will continue having taxes deducted, managements are going to be asked to defy the law and pay the taxes into the fund.

Cosatu acknowleged that employers weren't likely to warm to the idea, but felt that through negotiating it could receive undertakings from most of them.

It said workers would be asked to put pressure on employers to consider the request.

Although the idea seems far-fetched, events in the past weeks have shown a willingness among some employers to compromise with unions and communities on broader issues.

During the August stayaway – part of the mass-action campaign – employers agreed after consultation with unions not to dismiss striking workers.

Banks have held discussions with the SA National Civics Association in an attempt to avert a bond boycott. Although no general agreement was reached, The Perm accepted in principle Sanco's call for a code of conduct for banks.

The other oanks were, however, scared off by Sanco's demand that they stop providing the government with banking services until an "irreversible process of democratisation" was underway.

Council of SA Banks head Tony Norton said: "It is a point of principle that people cannot co-opt our industry."

Finance Minister Derek Keys announced on Wednesday that the economic forum, due to have been launched this week, had been postponed because of Cosatu's determination to go ahead with the tax boycott.

Cosatu is an important member of the forum, created to formulate a national economic policy that could rescue SA's economy.

The tax boycott plan has won the support of the SA Council of Churches, in an attempt to ensure that a broader section of the community takes part.

Cosatu will also be trying to co-opt non-unionists and white workers by highlighting the "government's misuse of funds".

Naidoo said: "We will have to convince white workers that the government has been misusing the tax money. They will also benefit from a proper, efficient and well-run government."

In a campaign that relies so heavily on co-operation by employers – and for that reason excludes the public sector – Cosatu and other supporters are going to have a lot of convincing to do.

TIMES, Business Times, September 20, 1992 3

Tax take plunges

TAX collections in August plunged — revenue of R5 353-billion was 11,2% down on August last year. This is the second time this year that revenue has fallen below the corresponding figure in 1991 — July collections were 5% down. S/Times (B455) 20/9/92

Standard Bank chief economist Nico Czypionka says cumulative April-to-August tax revenue is a mere 1,4% up on the corresponding time last year. A 15,7% increase was budgeted for.

(320)

Mr Czypionka says government expenditure has increased 20,3% compared with a budgeted 16,5%. The final Budget deficit could be as high as R22-billion — 6,2% of GDP.

Handelsinstituut chief economist Nick Barnardt says interest on government borrowings to finance the shortfall will be at least R700-million.

The Department of Finance attributes the decline in revenue to the monthend falling on a weekend. Much of the tax collected will be processed the following week and will be shown in September's figures.

The distortion is magnified because provisional tax payments are made in August.

A spokesman says the August 1991 figures were abnormally high because of a R170-million profit on the trading account of the Department of Water Affairs.

Business, labour urge consultation

320

DIRK HARTFORD

GOVERNMENT has been urged by business and labour to avoid presenting its integrated normative economic model — which Finance Minster Derek Keys has said will be ready in November — as a fait accompli.

The forum's future hangs in the balance after government decided to defer its decision on whether to take part because of Cosatu's mass action and anti-PAYE campaigns.

Cosatu negotiator Jayendra Naidoo argued it was difficult to consider documents from any party which had gone through extremely rigorous scrutiny, resulting in that party being strongly committed to it.

He said labour and business were keen to see all proposals — before they were fine-tuned — on the table at a plenary session of the proposed economic forum. B/DAY 21/9/92

Business representative John Hall said while business understood time-constraints on government regarding its economic model, employers had been frustrated by "pseudo-consultation" in the past.

Anglo American's Bobby Godsell said there were many long-term documents which the economic forum — when it was launched — should begin comparing immediately.

Tax break condition likely to be retained

LINDA ENSOR

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CAPE TOWN — The scrapping of the Sixth Schedule — if and when it comes about — would not necessarily do away with the requirement that there be an element of life cover in deferred compensation policies for such policies to qualify for tax deductions, Inland Revenue's Ian Meiklejohn said on the weekend.

BDAY 21/9/92.

Speaking at the Cape Assurance Industry Liaison Committee (Cailcom) conference, Meiklejohn said "there is a widely accepted view that because the Sixth Schedule will go, the life cover requirements in terms of Section 11 (w) of the Income Tax Act will go as well.

"But this does not follow. To justify a Section 11(w) deduction life assurers have to be able to show that their products are different from those of other financial institutions."

Meiklejohn said the requirement that life cover amounting to eight times the premium be included in endowment policies was necessary to keep level the playing fields between deposit taking and contractual savings institutions.

He said he was also disturbed by the use of deferred compensation policies in some cases and urged that service contracts be reviewed. It was acceptable from the point of view of tax deductions for deferred compensation to be used as an incentive to keep an employee in employment — which meant the benefit was forfeited if the person left the firm.

However, if the service contract contained a clause giving the employee an irrevocable entitlement to the benefits of the deferred compensation policy — even when he or she left employment — then the premiums would become taxable as a fringe benefit.

Meiklejohn said Inland Revenue had not clamped down on malpractices as yet as it was difficult to unravel existing schemes and it was virtually impossible to change course midstream.

However, he stressed that it was not impossible to do so and urged employers to review carefully their service contracts in terms of Section 7 (1) of the Income Tax Act which required that any amount capitalised for the benefit of an employee was taxed in his hands.

On the taxation of retirement funds, Meiklejohn said while suggestions were being discussed at present, he felt it would be dangerous to introduce any radical changes to the taxation of these funds. Any changes would occur within the framework of the protection of vested rights and only after full discussion with all interested parties.

While it was assumed that life offices were overtaxed and that a new dispensation would mean lower tax, there were also areas where life offices were undertaxed, he said.

The de facto tax deductibility of about 47% of expenses was probably too generous, Meiklejohn said, and should be closer to 42%. Legally, 55% of expenses are tax deductible but expenses relating to dividend income were disallowed so the figure was lower.

Borrowings of R7bn likely

Fiscal crisis as deficit heads for 6%

320

BDM 21/9/92.

GRETA STEYN

GOVERNMENT will have to borrow about R7bn more than budgeted as its cash crisis deepens and it heads for a deficit of more than 6% of GDP, economists say.

Revenue and spending figures released at the weekend show the revenue squeeze did not ease in August, contrary to expectations that seasonally large tax payments would provide relief. Instead, Inland Revenue deposited 14% less in the Exchequer account in August compared with last year.

The major problem is the under-collection of VAT, with a projected shortfall of at least R5bn. Unable to increase the VAT rate because of its political sensitivity, government will be forced to borrow excessively — building a debt mountain that will be a burden for years to come.

Persistent recession is also playing havoc with government finances as other tax collections reflect the slack economy. The cash-strapped Exchequer's deficit is already running at about 90% of the budgeted R15,9bn.

Economists immediately revised their deficit and borrowing projections for the year. Forecasts for the deficit now range from R22bn-R25bn, from R20bn after the previous figures were released. This represents a deficit of more than 6% of GDP, against a budgeted 4,5%. They warned that a tight rein would have to be kept on spending to avoid more pressure on shrinking resources.

The surprisingly low revenue figures for August prompted the Finance Department to issue a statement to calm the capital market. The statement ascribed the low Inland Revenue figures to a "reasonably large month-end carry-over" to September, low VAT collections and differences in departmental incomes between August 1991 and this year.

The statement said: "Provisional tax payments by individuals are usually made in August. Due to the extent of this type of payment the effect of a month-end carry-over on the August revenue figures is substantial. The low August figure for revenue cannot be used to deduce the revenue pattern for the entire fiscal year."

Economists are assuming that the April-August pattern will not continue for the full fiscal year, otherwise SA would have a deficit of R30bn.

Total revenue was up by only 1,4% after the first five months of the fiscal year, but projections are for an increase of about 7% for the year. This compares with a budgeted rise of 15,7%.

Finance Minister Derek Keys, who is in Washington for the IMF/World Bank meetings, said in London last week: "As taxable income declines with the economy, we are not achieving our budgeted revenue. Fortunately, we feel we can handle the divergence without raising taxes and without recourse to money creation."

Nedbank chief economist Edward Osborn said the deficit could be as high as R25bn. He was concerned about the interest payments incurred through more borrowing.

☐ To Page 2

Deficit

BDM 21/9/92. 320

☐ From Page 1

Even assuming very conservative borrowing and spending in the future, interest payments could rise to almost 18% of total spending in the financial year 2002/3, from a budgeted 16,4% in the present fiscal year and 11,7% in 1983.

HILARY GUSH reports Standard Bank economist Nico Czypionka noted Inland Revenue collections were down compared with the April-August period last year.

"Note that the decline is in nominal and not real terms. This is an ugly situation. It shows the Minister of Finance has an extremely difficult job. The main culprit is the undercollections for VAT. To some extent, government can do little about revenue, but government expenditure will have to be curtailed."

some developers are offering property for rent, as well as for sale. Panda director Chris Wolf said some units at Guildford Place would be rented.

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Petrol tax hike — govt's best option

CT 22/9/92

From GRETA STEYN

JOHANNESBURG. — The government's easiest option to alleviate its cash crisis would be to raise petrol taxes, economists said yesterday.

They also predicted economic reforms such as tariff and surcharge reductions would be put on hold until the revenue dilemma eased.

In the next fiscal year, individual taxpayers would continue to face erosion of income through fiscal drag as they bore the brunt of government's financial crisis, they said.

Sacob economist Ben van Rensburg said the easiest way out for government would be to raise the petrol levy.

In the Budget, the levy on petrol was raised by 8c a litre to bring the take from this source to R939m. Any further increase would raise at the most a few hundred million rands.

Van Rensburg predicted excise duties would be raised substantially in the next Budget, but said government was not likely to take recourse to a luxury VAT rate.

"Variable VAT rates are unlikely to increase income from the tax and it causes too many administrative problems," Van Rensburg said.

He believed looking for more sources of revenue was a futile exercise in an economy battered by recession. The personal tax take had been knocked by retrenchments, income from company taxes had been hit by liquidations and VAT collections were feeling the pinch of cutbacks in consumer spending.

"SA is already overtaxed. Raising more tax will only harm the economy further. Individuals are 45% worse off after three years of fiscal drag. If government wants to reduce the deficit next year, it has to cut back on spending rather than look for additional revenue sources," he said.

Afrikaanse Handelsinstituut economist Nic Barnardt said the deficit of 6% of GDP had to be seen as a sign of the severe recession, rather than expansionary fiscal policy.

"Spending figures do not provide any evidence of aggressive fiscal policy to turn the recession around," said Barnardt.

Petrol levy rise is 'easiest option'

B/DAY 22/9/92

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"Spending figures do not provide any evidence of aggressive fiscal policy to turn the recession around," said Barnardt.

Spending for the April-August period was up 20% on the previous year. Although this is ahead of the budgeted 16,5%, economists said the seasonal pattern of spending suggested it was still on line to end the fiscal year near the original targets.

Barnardt predicted the recession would last for another six to 12 months, and said the timing might not be right to cut government spending dramatically in the next Budget. His view was that the undercollection of VAT was largely a reflection of the recession, although other economists believe government may have overestimated the tax base.

The latest revenue breakdown for the fiscal year to July shows VAT income running at almost 18% below last year's GST take — compared with a budgeted rise of 12% (after transfer to self-governing states).

Customs and Excise and the petrol levy income rose by about 39% in the April-August period, against a budgeted rise of 28,4%.

This buoyancy is helping to alleviate the pressure on the fiscus.

● Comment: Page 14

Land tax 'inevitable'

(320)

LINDA ENSOR

CAPE TOWN — A land tax would be inevitable in the new SA, Arthur Andersen senior tax partner Pierre du Toit said at a Sapoa meeting yesterday.

"No regime in future will be able to resist the pressures for a tax on land," he said, highlighting the long history of dispossession by whites of black land in SA.

However, Du Toit was confident that an ANC government would introduce land tax to generate revenue and not for the wrong reason of redistributing wealth.

There was much to be said for the right kind of land tax. It could be a source of considerable revenue, would not act as a constraint on the economy and could promote productivity if it was levied on the notional productive value of the land. BDAY 23/9/92.

Du Toit was optimistic that there would not be dramatic changes to taxation. The promised reduction of tax rates would not continue but neither would there be excessive increases in tax rates. There would be wealth taxes, but they would not be crippling ones.

He said there had been an accelerated conversion between government and the ANC towards a social democracy in which the market would be left to deal with production, while redistribution would be achieved through expenditure.

A future tax system would emerge out of the need to balance the infinite aspirations and needs of the people with the limited economic resources.

Forum sticks to VAT demand

GERALD REILLY 320

PRETORIA — Groups probing the causes of escalating food prices would continue to put pressure on government to scrap VAT on basic foods, Pick 'n Pay chairman Raymond Ackerman said yesterday.

He said the groups were due to report back to a plenary meeting in mid-November after three months of "intensive investigations".

The forum's aim was not to produce paper but to identify problems causing pressure on prices and how best to relieve the pressures, Ackerman said.

A major aim of the forum was still to persuade government to abolish VAT on basic foods. With unemployment still on the rise and disposable incomes shrinking this had become increasingly vital.

One of the task groups was taking a close look at control boards and the part they played, if any, in food price escalation. B/DAY 25/9/92

"We also want to ensure those that are heading for privatisation are properly privatised and that they will not merely fall into the hands of the big boys and leave consumers out in the cold."

Another group was investigating the effect of import duties on food prices and whether these could be adjusted or abolished where they could be shown to have an inflationary impact on prices.

Also being probed was the part manufacturers, wholesalers and retailers played in the buildup of prices. "We want to make sure our own houses are in order."

DU TOIT ON TAX

FM 25/9/92. (320)

On deals and traps

Pierre du Toit is senior tax partner, Arthur Andersen & Associates

The power of Inland Revenue to accept compromise positions in its administration of tax laws is becoming increasingly pertinent. I refer here not to rulings, in terms of statutory discretions, but to the common situation where a taxpayer discusses a contentious point of tax law with Revenue officials and they agree on its interpretation, or on how it would apply in a given case. In this context a recent Cape Provincial decision comes as a timely reminder of the limited significance of such arrangements.

In Namex (Pty) Ltd v CIR — 1992 (2) SA 761 — the Receiver sought to recover full taxes despite the fact that its claim was contended to have been included in a Companies Act S311 compromise agreement. Without deciding on the validity of those arrangements, where a third party makes a compromise with the company's creditors, the court concludes that, in any event, the Receiver would not have the power to accept such an arrangement, and that the fisc would therefore not be bound by the agreement.

This decision, contradicts a general practice to the contrary. It is significant in its reconfirmation, by implication, that an official cannot bargain away the State's right to taxes.

Under current tax law, the Receiver has limited capacity to use its discretion in making common-sense arrangements, of the sort that one might find between private parties. Apart from explicit discretions, like doubtful debt allowances, there is the capacity, through estimated assessments, to come to an arrangement if pertinent facts are uncertain. There is, however, no statutory counterpart where the law is uncertain.

Ruling issued

Many a ruling issued over the years which constitutes an agreement as to the manner in which a point of law will be interpreted, or even how the law will be applied to an undisputed set of facts, has no statutorily binding value whatsoever. The Receiver cannot be prevented from re-opening the issue.

Our administrative law is undergoing change. Old *obiter dictum* pronouncements that the power to settle doubtful issues is incidental to the power to collect tax (refer City of Cape Town v Claremont Union College — 1934 AD 450) may be hauled off the shelf. Or new concepts, such as the doctrine of legitimate expectation, may grow into empowering the fisc to strike deals, for example in order to avoid expensive litigation. But we are not there yet.

At the same time there is much to be said for creating a carefully circumscribed capacity to make binding rulings on contentious points of law. This will be essential if the intended self-assessment for companies is to be introduced.

However, mindful of the ever increasing sophistication and aggression in our tax administration, and the changes which over the next 10 years may flow from political dynamics, taxpayers are well-advised to research the law, plan their affairs accordingly and then fight without compromise for the protection of their rights under the law.

Deals, and I refer only to *bona fide* ones, may still have a strategic value in the right circumstances, but to rely on them as if they were law can turn them into deadly traps. ■

TRAVEL ALLOWANCES

(320)

Shifting gears

FM 25/9/92

Employees driving small cars can now avoid the deduction of PAYE on reimbursable travel allowances by restructuring the arrangement with their employers. Those driving large cars, however, will still be better off — even after PAYE — if they receive a reimbursable allowance which compensates fully for motoring costs. This follows from the wording of a recent amendment to the Income Tax Act.

Writing in the August Tax Letter of KPMG Aitken & Peat, tax partner Pat McGurk says the amendment has changed the definition of "remuneration." A reimbursive travel allowance has not (since 1985) been regarded as remuneration if:

☐ It is based on the actual distance travelled by the recipient;

☐ Paid at not more than a rate determined by the Finance Minister;

☐ Paid for a maximum distance of 6 000 km/year; and

☐ The recipient has no other form of travel allowance from his employer.

In any other case, remuneration would include 25% of the travel allowance which would be subject to PAYE deductions.

The 1992 amendment says travel in excess of 6 000 km/year will also be excluded from the PAYE deduction if the reimbursive allowance is based on actual distance travelled and does not exceed the stipulated rate. This will be the case even if the employee receives a monthly travel allowance.

The stipulated rate is 70c/km for vehicles worth R25 000 or less and 100c/km if the value exceeds R25 000. However, McGurk says these rates are far below the actual current costs of motoring, which stand at around 92c/km for a car of up to 1500 cc. For a car of engine capacity of 2,5*l* or more, a reasonable rate would be about R1,44/km.

So, if the employee driving a large car is reimbursed at economic rates, he will not be permitted by the amended definition to take advantage of the concession. He will still, however, have an improved cash flow, despite the PAYE deduction. The deduction

continue →

FM 25/9/92

would be no more than 16c/km (1,44 times 25%, or 36c, times 43%, giving about 15,48c).

(320)

The allowance will still be reflected on the employee's IRP5 and he will have to justify it when he submits his tax return — by claiming expenses either actual or based on Revenue tables for car costs to offset the allowance received. He will then be able to pocket the balance of R1,28.

The concession will benefit employees driving a small car, as almost all new cars today cost more than R25 000 and therefore qualify for the R1/km rate.

Employers should therefore make a careful calculation in the light of these factors before making any adjustment to reimbursable travel allowances. ■

Keys breathes life into economic forum plans

Weekly Mail Reporter W\Mail 25/9 - 1/10/92

THERE'S still life in the National Economic Forum (NEF), despite the government's deferment of its decision on participation. A flurry of activity is expected in the next few days following Finance Minister Derek Keys' return from the International Monetary Fund conference in Washington. Keys has indicated that on his return he will "urgently" seek meetings with the Congress of South African Trade Unions, whose proposed PAYE boycott sparked the government delay on the NEF. ([illegible])

Meetings between Keys and business representatives are also scheduled. Only after these will the cabinet make its decision.

Keys' press secretary, Lesley Lambert, stressed that the deferment of the decision has not affected the functioning of the government's team, which was still available for NEF meetings.

The signs are that the NEF will be back on track once Keys and Cosatu iron out their differences over the PAYE issue. A possible solution being mooted is that Cosatu will continue paying lip service to its PAYE boycott, while urging Keys to press the cabinet into a swift transition to interim rule. Once a transitional government was in place, the boycott would be dropped. ([illegible]) (320)

There is considerable scepticism, even among unionists, about Cosatu's capacity to wage a campaign. Without the co-operation of big business — which is adamant it will not break the law — the boycott would be stillborn. Cosatu would have to lead the way by withholding PAYE, exposing both it and its affiliates to prosecution.

'His' and 'hers' children a poser in tax returns

LEIGH HASSALL

YOUR kids, my kids and our kids — but who is entitled to claim the tax rebates? The increasingly common occurrence of second and third marriages with their resulting off-spring has created some interesting scenarios for the taxman.

In terms of our Income Tax Act a yearly R100 tax rebate may be claimed for each child and R150 for fifth or more children. Adopted, illegitimate, step-children and dependent handicapped children also qualify for the rebate.

While the R100 rebate is not significant in itself, where it is material is the resulting classification it affords the taxpayer. If the taxpayer is entitled to the child rebate, he or she is considered a "married person" and taxed at significantly lower rates.

Unravelling the rebates

STAR 26/9/92 (320)

For example, at a taxable income of R60 001 after deducting the primary rebate, a "married person" will pay R14 075 tax, an unmarried person R16 840 and a "married woman" R17 350. There is a considerable advantage to being classified a "married person".

In a traditional family, that is a first marriage for both parties with no other children from outside the marriage, only the husband is entitled to the child rebate.

His wife, assuming she has taxable income, is not entitled to the child rebate and is taxed as a "married woman".

The situation changes when the couple divorces or permanently separates. Both parents may now claim the child rebate and be classified as a "married person", if they can prove their contribution to the upkeep of their child.

A couple of years ago, tax law allowed the rebate to one parent only — the parent who contributed the most to the child's upkeep. A source close to the Receiver's office says this resulted in the Receiver's men becoming embroiled in the personal affairs of the couple by having to choose which parent contributed the most to the child's maintenance."

The scenario becomes a lot more complicated in second or later marriages. The day the wife remarries, she reverts to her "married woman" classification and the rebate for her first-marriage child goes to her second husband!

The husband into his second marriage may thus claim the rebate for his first-marriage child, his step-children and the children of his current marriage.

If the husband divorces and marries for the third time, it appears that he may continue to claim for the step-children of his second marriage. At this stage the husband has probably accumulated more than five children and is eligible for the higher rebate of R150 for the rest of his brood.

It should be noted that other rules apply to couples separated before March 1962.

Before the child rebate may be claimed, however, certain conditions laid down by the Act have to be met. The two pervasive requirements are, firstly, a child must be unmarried on the last day of the tax year and, secondly, should have been alive during a portion of the tax year. Children under the age of 18 years may be claimed.

Between 18 and 21 years, the child will only qualify if he is partially or wholly dependent on the taxpayer and not liable for tax in his own right. Between 21 and 26 years, in addition to the conditions of the previous age group, the "child" must be a full-time student at a public educational institution.

A handicapped child may be claimed at any age even if he is married, provided he is dependent on the taxpayer.

Of greater monetary value than the child rebate is the primary rebate. This rebate is granted to all taxpayers, but the amount varies according to the classification. A "married person" scores the most with a R2 225 rebate, the "unmarried person" a R1 950 rebate and the hard-done-by "married woman" is only entitled to a R900 special rebate.

Where there is greater parity among the three classifications is in the 65 years-and-over rebate. The R2 500 annual rebate is allowed to all taxpay ers. However, the taxma recoups some of this gen erosity in denying th "married woman" th R120 rebate to the 63 an 64 age group.

The Income Tax Ac lays down some interest ing rules in the determi nation of who is marrie and who is not. Apar from married men, wid owers and widows, a di vorced or permanentl separated married man i allowed to retain hi "married person" statu for the full year of his di vorce.

The Star Wedne

Tax amendments boost for exports

STAR 30/9/92

320

7[illegible]

Many are under the impression that income-tax allowances pertaining to beneficiation apply only to mining activities.

According to Ed Hoffman, tax partner of KPMG Aiken & Peat, there was a section of the Income Tax Act that dealt with beneficiation in terms of mining and which related only to base minerals. This section was, however, repealed by the 1990 Income Tax Act.

Incomplete

Section 37E, which now deals with beneficiation process allowances, has nothing whatever to do with mining operations but a great deal to do with exporting.

Mr Hoffman says: "In the 1991 amendments a somewhat incomplete 37E Beneficiation Allowance was introduced because Revenue had not then fully formulated the procedures required to qualify as a beneficiation process. In any case, at that time such processes related only to local base metals and raw materials.

"The whole of Section 37E has now been broadened so that a beneficiation process is defined as one in which any local or imported raw materials, or what are known as "intermediary goods", are used in a process which produces either other intermediary goods or to produce finished goods.

"If the answer exceeds 35 percent, then you have added value of more than 35 percent and the requirement has been met."

Mr Hoffman says the committee must also be satisfied the process under review will be carried out on a scale which makes it internationally competitive and capable of generating further industrial activity.

"And it must be export-driven — this is most important. At least 60 percent of the value of the item produced must be exported."

A further requirement is that if the taxpayer intends utilising imported capital goods such as plant in his process, he will use foreign term credit for financing the acquisition.

Exclusions which do not qualify as beneficiation processes are:

- A simple purification process in which the inputs are left unchanged.
- A physical process which merely changes the shape of the raw material input.
- A mining operation.
- A process normally carried out in the course of mining operations.

Beneficiation allowances relate to three sections of the Income Tax Act:

- Section 11 (bA) — pre-production interest.
- Section 12C, which deals with the 20 percent annual allowance on plant and equipment in the process of manufacture, or similar processes.
- Section 13(1), which deals with the building allowance — the 5 percent allowance on industrial buildings.

To qualify for a beneficiation allowance the manufacturer or producer has to have the approval of a committee which is called upon to decide whether the process under review is a beneficiation process or not.

"In terms of the Income Tax Act, the Minister of Finance, with the approval of the Minister of Trade & Industry, forms a committee to investigate processes that might well be re-defined as beneficiation processes," Mr Hoffman says.

"Interestingly, as we all know, the Minister of Finance and the Minister of Trade & Industry are one and the same person."

Mr Hoffman said he understood that such a committee had now been established and that it has already sanctioned large sums of money for use in processes approved as beneficiation processes.

"But there are certain requirements to be complied with. Beneficiation requires at least 35 percent to be added to the value of the raw materials or intermediary goods used. According to the Act this is determined by using a single arithmetic formula: A-

(BplusC)x100

A 1

Here, A equals the ex-factory price of the product produced, B equals the cost of raw materials and intermediary goods inputs and C equals the cost of electricity used in the process.

In all three sections, as they stand, the taxpayer will only qualify for the deduction in the year in which the plant and machinery or the building is brought into use.

"In other words, he will be allowed the deduction once his process has commenced even though this may not be when the expense is actually incurred — the deduction will only be granted when the plant and/or building is brought into use.

"Some capital projects take years to complete. Section 37E now provides that if the taxpayer's process qualifies for classification as a beneficiation process he will not have to wait for his entire plant to come on stream before he can claim the deductions provided for in the above three sections.

"He can claim the deductio as and when he incurs the expense. Effectively, he thu enjoys an accelerated allowance."

Where a taxpayer, althoug entitled to a beneficiation allowance, has no tax base (fo instance, when a new proces has taken some years to set u but is not yet in production) provision is made in the Act fo him to apply to the Receiver t disallow the beneficiation allowance or part thereof so a not to create a tax loss.

Payable

In this case the Receiver will issue what is termed a Negotiable Tax Credit Certificate for an amount which represents the normal tax which would have been payable on a taxable income equal to the amount disallowed.

This certificate being negotiable, the taxpayer may sell it to another taxpayer who may utilise it for paying his own taxes.

One year on, the VAT miracle is yet to materialise

BDay 30/9/92. **GRETA STEYN** (320)

Those who expended a great deal of energy promoting VAT during the months leading up to the introduction of the new tax exactly one year ago today must be wondering what has gone wrong. For it is abundantly clear that the system is not working the way it was envisaged then.

In the days of the mass media campaign extolling the virtues of the tax, Finance Deputy Minister Org Marais would quote from an IMF study which said VAT could catch 60% of the GST being evaded. He liked referring to the New Zealand experience in implementing VAT; the Kiwis underestimated the yield from VAT by about 20%.

No one foresaw that VAT would plunge government into a cash crisis and that there would be no clear evidence after a year of the tax benefiting the economy in the way it was intended to.

The shift to VAT was intended to boost economic growth and help the poor indirectly through "trickle-down effects". It is an essential building block of the "supply-side" economic strategy that sees the alleviation of poverty as the spin-off of a rapidly growing economy free from distortions such as double taxation.

The elimination of the double taxation inherent in the GST system was meant to raise economic efficiency and boost growth. The abolition of tax on capital and intermediate goods and services was intended to put about R6bn into the hands of business instead of the Exchequer account. Government estimated this could add 0,6% in GDP over a three-year period — creating 50 000 additional jobs. Expectations were of a boost for business, led by increased capital spending.

There is little evidence that fixed investment has responded to the tax change. The Reserve Bank notes in its latest Quarterly Bulletin that net fixed investment has slumped to only 1% of GDP compared to an average of 14,5% in the '70s and 8% in the '80s. Private fixed investment has fallen in real terms since VAT was implemented.

Supply-siders and other VAT protagonists would argue, however, that the situation would have been even worse if the tax change had not taken place. They would point out that the latest figures show a moderation in the rate of decline in fixed investment. They would add that investment spending takes time to build up momentum.

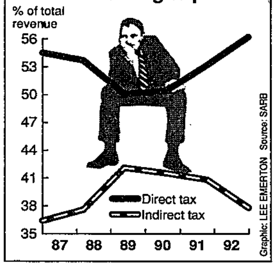
Business also probably failed to respond to the tax break because of political uncertainty. Ironically, the mass action against VAT must have fuelled the uncertainty and could have, to some extent, prevented the tax from working in the manner intended.

But it is an inescapable fact that there is no conclusive evidence yet of positive effects on economic growth. Growth spurred by the tax change would have alleviated poverty indirectly. Instead, the direct effects of the higher tax are higher costs for SA's poorest.

In theory, VAT was meant to help bring down inflation by reducing business costs. But VAT added 1,4 percentage points to inflation, mainly through its effects on food prices. Did business pass on lower costs on other items in the CPI basket? The question is difficult to answer, as it would be difficult to distinguish between the effects of the recession, tight monetary policy and the move to VAT.

If VAT does succeed in catching tax evaders, the latter will raise prices as they start paying taxes — putting upward pressure on inflation. If, after that, there are any positive effects on inflation, they have not been quantified. The Vatwatch committee, charged with the task of monitoring the link between VAT and inflation, came to the puzzling conclusion in its first report that VAT had caused prices to fall but that "general inflation" had caused them to rise again.

Not according to plan



Graphic: LEE EMERTON Source: SARB

The contrast between the indirect and (so far) invisible benefits to the poor of the change from GST to VAT and the direct effects on their shopping bill lies at the heart of the VAT debacle. It is the reason why the rate had to be dropped to 10% and why government has not been able to implement the purist, IMF-approach of no exemptions. It is part of the reason why government will end the fiscal year with an embarrassingly high deficit and an interest bill that will limit social spending. The pressure to extend exemptions continues even as the Exchequer's cash crisis deepens.

Lowering of the rate to 10% is only part of the revenue problem: the other is that the income from VAT is running well below Budget. Economists estimate a shortfall of about R5bn. So much for Marais' hopes that SA could share in a similar windfall to New Zealand by spreading its net wider and raking in huge amounts from tax evaders.

Marais at the time described government's calculations of the take from VAT as conservative. What went wrong?

Obviously the recession is a major reason for the VAT shortfall, but to some extent the base was underestimated. Projections had to be made without a clear idea of what input tax credits would cost the state. It is now emerging that the tax break for business was probably even bigger than government calculated.

Finance officials say the VAT rate will have to be increased, but they sound pessimistic about their ability to push it through. They are said to be pinning their hopes on getting the economic forum off the ground to negotiate an increase in the rate.

But a trade-off seems unavoidable, with possibly all basic foods exempt from VAT. The perceived failure of the poverty "safety net" is a strong argument in favour of variable rates. As averse as government and the IMF are to variable rates, they may be the only solution to the revenue crisis.

The alternatives include other taxes and spending cuts. The petrol levy is running above budget, indicating that fuel price increases have been absorbed easily. There is scope for further increases. Another source of revenue, albeit small, could be wealth and property taxes. Giving up on reducing company tax rates and keeping fiscal drag intact would also help. On the spending side, the scrapping of own affairs will provide a substantial "dividend" for next year.

Another alternative to raising the overall VAT rate is taxing business. There might be a way of taxing some inputs that now receive credits; several countries that implemented VAT introduced new taxes on purchases of capital goods. Germany took five years to phase out all tax on capital spending — SA was overhasty in abolishing it and might find itself forced to reintroduce it.

Yet another alternative is to make direct aid to the poor more effective — a course of action that the economic forum could possibly facilitate. As part of such a programme, government could equalise pensions for all races immediately.

There are arguments for or against all the alternatives. But compromise will be necessary, as it is clear the IMF's vision of the role of VAT in the SA economy is not materialising. It is now up to South Africans to work this one out.

Govt reluctant to zero-rate basic foods

GRETA STEYN

GOVERNMENT is signalling it does not want to zero-rate all basic foods — exactly a year after the implementation of VAT.

In a statement marking the first anniversary of the tax, Deputy Finance Minister Theo Alant emphasised the need to keep the tax free from exemptions.

He did not refer to Finance Minister Derek Keys's agreement to look into the possibility of zero-rating basic foods, but said VAT worked best with the minimum of exemptions and zero-ratings.

He also addressed criticism that government had miscalculated the VAT base. He noted VAT collections for the first 10 months of its implementation were R1bn less than GST collections over the same period.

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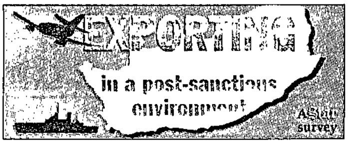
But the out-turn was satisfactory, he said, in light of the continuing recession and the accompanying decline in consumer spending.

BDAY 30/9/92

However, finance sources said government had underestimated the extent of revenue lost through abolishing tax on capital and intermediate goods. Economists predict VAT receipts could end the fiscal year R5bn below budget.

● See Page 12

EXPORTING IN A POST-SANCTIONS ENVIRONMENT



Exports have been given a shot in the arm by, among other things, recent amendments for income-tax allowances. But the depressed world markets are still going to be hard to penetrate. This survey examines some of the loopholes and possibilities for exporters.

Red-light warning for exporters

STAR 30/9/92

The latest available insolvency figures from some of SA's major trading partners are a warning for local exporters to tread carefully in their dealings abroad, says Credit Guarantee senior economist Luke Doig.

In Britain, business closures of 1 320 a week in April and May were 17 percent up on the same period in 1991.

Sony, the Japanese electronics manufacturer, reported its first full-year loss by the parent company to end March 1992 of $154 million.

In Australia, the recession has slashed small business incomes and left one in four businesses in the red.

Germany and America have both experienced a drastic economic slowdown and company failures have risen commensurately. The OECD has forecast that rich countries unemployment levels will be higher in this year than at any time since 1986 with only marginal improvement expected next year.

As unemployment grows, so consumers are forced to default on their debts, which then impacts on company cash flows and liquidation eventually results.

Tax incentives could change

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STAR 30/9/92.

Most countries' statutory trade sanctions against SA have been repealed.

There are still some exceptions, in particular those imposed by state and city governments in the US, but the position is far more favourable than that prevailing before Nelson Mandela was released early in 1990.

A positive attitude will not of itself suffice to develop exports, particularly as the world is in economic recession, and this greatly impacts on SA's open economy, which imports and exports more than 50 percent of its gross domestic product.

While an international economic recovery is necessary for sustained and growing exports, we have, over the past number of years, introduced a great variety of export incentives.

Certain of these are within the tax system, and certain outside. The Income Tax Act's Section 11 has been terminated and its place, in the main, taken by the so-called GEIS (General Export Incentive Scheme).

Before considering these various incentive schemes in more detail, it is necessary to examine export structures and offshore companies which may have been set up during the dark days of sanctions. Structures which may have been tolerated by the authorities during the period of "total onslaught" may not be viewed so sympathetically during the new conditions existing today.

This development should also be seen against the background that most Western economies are moving towards substantially lower taxes with a broader base.

* * *

The 11 bis Allowance was terminated on March 31 1992, as the authorities believed that there were too many abuses to justify its continuance.

Perhaps even more important, the scheme rewarded expenditure on exporting and not the actual end result of successful exports. At the same time, the somewhat roundabout 11 bis scheme was relatively safe from the point of view of Gatt.

In spite of 11 bis's termination, there is still scope for planning, as the Income Tax Act provides that any expenditure which was not claimable as at March 31 1992 may be carried forward for the period ended March 31 1993.

* * *

GEIS, points out tax manager Andrew Brink, came into effect on April 1 1990. This scheme was to supplement and eventually replace 11 bis and the previous so-called A&B schemes.

Tax partner Philip Diepqik ... planning opportunities in the tax treatment of concessions.

Deloitte & Haskins Willem Cronje ... IDC assists industrialists.

GEIS is the main export incentive scheme at present. A problem with GEIS is that it is at odds with the principles of GATT and, therefore, cannot have a permanent life. The Department of Trade and Industry has indicated that one cannot expect GEIS to continue for more than three years — beyond 1994.

Any business qualifying for GEIS should take immediate action to reap this benefit. The annual budget for GEIS is in excess of R1 billion.

Tax manager, Naas Moraitis, points out that the complex-looking GEIS formula is actually simple in essence.

What it means is that each of the four categories of export receives a different tax-free cash subsidy (although there may initially be a promissory note) of a certain percent of export sales.

The full amount of this incentive is given where the local content exceeds 75 percent of the export value. On the other hand, where the local content is less than 35 percent, no benefit is given.

This cut-off point of 35 percent seems to be becoming established for export incentive schemes, because it is also found in the beneficiation scheme contained in Section 37E of the Income Tax Act (see below).

Where the local content is between 35 and 75 percent, the actual factor is used. For example, if the local content were 50 percent, the various turnover incentives which are detailed below would be reduced by one-half.

For the present period, period five (ie, the six month period from April 1 1992 to September 30 1992), the net incentive rate (assuming 100 percent, or at least 75 percent, local content) will be:

Category 1
0 percent (no assistance)
Category 2
2,5 percent (minimum level fixed at 2,5%)
Category 3
6,5 percent
Category 4
19 percent

Andrew Brink points out that there is a growing list of exceptions from GEIS, either because no relief is merited, or because relief takes some other form of export incentive. Exporters should review this list of exceptions before undertaking in-depth planning in this area.

Category 1 is in the dog-box and receives no relief at all under GEIS. This category includes primary products — for example, live animals, logs and mineral ores.

Category 2 constitutes beneficiated primary products — for example, meat and sawn timber. The subsidy is 2,5 percent of exports.

Category 3 constitutes material intensive products — for example, tinned meat products and leather, planed planks and sheet metal. The current incentive for category 3 is 6,5 percent.

There is a huge jump between categories 3 and 4, the most beneficial category. Category 4 constitutes manufactured products — for example, footwear and clothing, furniture, steel cabinets and the like, and constitutes a massive 19 percent of turnover. When it is appreciated that this is tax-free, it can be understood how substantial this incentive is.

The reason for the vast difference between categories 4 and 3 is to encourage manufactured goods in our export component.

Tax partner Philip Diepqik points out that there are planning opportunities not only in the quantum of the concessions obtainable in respect of import levies, but also on their tax treatment.

Unlike the GEIS position, where all the incentives are clearly free of tax, the non-GEIS position is more complex, with certain of these incentives free of tax.

Apart from the major mainstream incentive of GEIS, and the new incentives for major new capital investment in Section 37E, there are a number of other more specific incentives, taking the form of interest subsidies and cash grants.

Deloitte & Touche tax partner Willem Cronje says the IDC has been and still is instrumental in assisting industrialists to export, where they may not qualify for one or other mainstream incentive scheme.

In the past, assistance has been given to industrialists working two or more shifts in order to increase export capacity. Another relevant matter in this area is the transformed industrial assistance scheme of the previous Decentralisation Board.

This board is continuing, but has changed its focus from border area and homeland development into general industrial development.

Plan to 'blockade' stores over food prices

By Zingisa Mkhuma 320
Consumer Reporter [redacted]

STAR 1/10/92

The VAT Co-ordinating Committee (VCC) said yesterday it would embark on a "blockade" of major stores on October 13 to fight rising food prices.

The VCC was responding to Central Statistical Services figures showing that food prices between August 1991 and August this year had increased by more than 28 percent. It reiterated its call for zero-rating of VAT on basic food.

The VCC — formed as a coalition of organisations opposed to VAT on basic foodstuffs, and an initiative of Cosatu — said it had earmarked October 13 to focus on food inflation and VAT on basic foods.

The campaign, called "Asinamali", would include pickets and marches to supermarkets and to the offices of the Receiver of Revenue.

The labour federation's members would be mobilised to buy bread and milk at prices "set" by the VCC. The price of a litre of milk would be R1,15 — it costs R2,40 at most outlets. The VCC said it still had to "set" the price of a loaf of bread.

Cosatu spokesman Neil Coleman said the Government had failed to do anything meaningful to arrest rising food prices.

Housewives' League president Jean Tatham said the 10 Food Forum working groups were investigating ways to deal with food inflation.

● **Food price inflation in upward spiral — Page 21**

Treasury tough on tax-deductible donations

STAR 3/10/92.

(320)

LEIGH HASSALL

ARE donations tax-deductible? A recent full-page newspaper ad by a charity organisation promised that donations made would be tax-deductible to the donor. This was wishful thinking.

The Income Tax Act is particularly stringent on donations being claimed as an expense by both com panies and individuals. The only permitted donations are to certain educational institutions and the Bible Society. Any other donation is not tax-deductible.

Furthermore, the Act is pretty frugal with the volume of donations made. The total amount made in a year is limited to 5 percent of taxable income for a company and the greater of R500 or 2 percent of taxable income for an individual.

Taxpayers who pay SITE only — that is, who do not submit a return — donate from the goodness of their hearts as they are not entitled to any tax deduction.

The permitted educational institutions defined in the Act are: universities, technikons and similar institutions, the National Study Loan and Bursary Fund and other educational funds.

However, if the educational donation is in the form of a bursary or fees for a nominated student, it will be disallowed. Voluntary contributions in respect of school fees are not deductible either.

The term "other educational funds" covers all funds established for the sole purpose of education and training and which have not been entered into with the aim of making a profit.

The funds must have been established to provide for education facilities and can be of a capital or current nature. However, in terms of the Act only high schools (secondary schools beyond Std 6) are allowed to create such funds.

Let taxman assist when you relocate

STAR 3/10/92 (320)

MOVING is an emotional and expensive business, but you can exercise some control over the latter with planning, reports LEIGH HASSALL.

OPTING for the howling gales of Cape Town or the cloying humidity of Durban? If you're relocating with your company, make sure you move the tax-efficient way.

The taxman is unusually generous in allowing certain of the employee's relocation expenses to be paid by his company. Nor does he regard such personal expenses paid as a fringe benefit to the employee, and so the amounts escape free of tax.

Bearing this in mind, the employee should negotiate a tax-efficient salary package with his employer concerning his new position. The ideal situation is where the company pays as many of the relocation expenses as are allowed by the Income Tax Act to be included as part of his annual salary package.

The Act allows the company to pay for the transportation costs of the employee, family and pets to their new destination and the removal costs of his household contents.

Certain other costs in the sale of the employee's previous residence may be allowed to be paid by the company at the discretion of the taxman; for example, cancellation of bond fees and agent's fees on the sale of the property.

However, where the taxman draws the line is at the loss incurred on the sale of the previous residence.

If the employee takes his time over choosing a new place of residence, the company may bear the rental costs of the temporary accommodation up to 183 days after the date of transfer.

The taxman is particularly generous in exempting from tax the employee's settling-in expenses of his new permanent place of residence. To the delight of your home decorator, the cost of new curtains will be allowed to be paid by the company. The taxman will also allow the company to pay for new school uniforms for your children.

In practice this settling-in allowance should not exceed 1,5 times the married employee's and 0,75 times the single employee's monthly salary.

Unbearable beauty

The bond registration, transfer duty and legal fees of your new residence are accepted by Revenue to be exempt from tax. The costs borne by the company will be tax deductible in their hands, provided the costs borne or reimbursed have been made in terms of an employment contract.

All this effort being made by the taxman to make relocating to the unbearable beauty of Table Mountain or the foot-scorching beaches of the South Coast a little easier to bear.

NEVER FEAR: *Its role in our future revenue harvest likely to be small*

Wealth tax need not be frightening

STAR 3/10/92 (320)

THE very words 'wealth tax' make local investors twitch, but an expert argues they need not be that anxious, reports LEIGH HASSALL.

WEALTH taxes will have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one, says Marius van Blerck, chairman of the SA Fiscal Think Tank.

His comments are likely to soothe the frayed nerves of local investors, mainly white, who jump every time the words "wealth taxes" are used.

The term "wealth tax" generally includes the following categories:

Gifts, death

Annual net wealth tax, and capital transfer taxes such as gift tax and death tax. South Africa already has the latter two taxes.

Internationally, in the highly developed OECD countries, there is a trend away from wealth taxes because their collection has not proved to be cost-efficient.

Van Blerck cites the example where in 1965 property tax (which includes wealth tax and taxes on property transfers) in OECD countries averaged 2 percent of gross domestic product while this figure had dropped to 1,8 percent by 1985.

He says a similar trend has developed in South Africa. In 1975 property taxes at a general government level amounted to about 1,6 percent of GDP and by 1985 this had dropped to 1,3 percent.

Van Blerck notes that while South Africa is following the trend of reduced reliance on property taxes, South Africa levies less property tax than the OECD average. However, at a central government level, South Africa levies more property tax than the non-OECD countries.

Thus, as South Africa's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

Does the decline in the importance of property taxes mean that they should be abandoned? The answer is no, says Van Blerck, because, with regard to the existing wealth taxes, there already exists an infrastructure to collect the tax. These taxes are then reasonably efficient as there is little extra collection cost.

However, this does not hold true with the introduction of new wealth taxes, particularly annual net-wealth taxes. Such taxes have been found to be inefficient in that they require excessive administration costs and generate disproportionately negative perceptions in relation to the revenue they subsequently generate.

Declining

Van Blerck notes that while property taxes are generally declining in importance, it is clear that the more highly developed economies are more successful in using these taxes as a source of revenue than their less developed counterparts.

Accordingly, as the South African economy becomes more developed it will be in a better position to extract property taxes.

Call for tax breaks

South 3/10-7/10/92. (320)

ENTREPRENEURS are the unsung "heroes" of our economy and need more state support and better tax breaks, according to Dr Ben Vosloo, managing director of the Small Business Development Corporation.

He said Small Business Week 1992 would focus attention on the key role of entrepreneurial activity in small and medium-sized enterprise (SME). This role was the cost-effective creation of jobs and spreading of wealth.

SMEs had played a prominent role in the "impressive economic performance" of certain countries in South East Asia and the West. This had caught the attention of business leaders, policy makers and academic analysts in many countries, he said.

"Many governments have tried to encourage the development of SMEs in their countries with both indirect and direct assistance measures — such as tax incentive schemes," said Vosloo. [redacted]

He explained that SMEs in South Africa paid tax at a marginal rate of 48 percent. But similar enterprises in Britain paid 25 percent on profits of up to R1,25 million.

"So in South Africa, a developing country, we have the absurd situation in which our SMEs pay tax at more than double the level of our counterparts in a developed country.

"Given that it is now common knowledge that the impetus for wealth and job creation has shifted from big business to SMEs, it is essential that government abandons its bias in favour of large businesses," he said.

"A more prosperous South Africa cannot be built by focusing supportive initiatives almost exclusively on the big business sector."

Lynda Loxton

Borrowing to make up R30bn shortfall

Keys rejects tax increase

S|Times [Buss]
4/10/92
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Business Times Reporters

THE Government has ruled out any increases in taxes — direct or indirect — before the next Budget.

Amid growing concern about the Government's cash crisis — tax collections are way below target — Finance Minister Derek Keys says taxpayers will not be called on to help solve the revenue problem through new taxes.

However, the fuel price is to be raised. Mineral and Energy Affairs Minister George Bartlett confirmed on Friday that fuel would cost more — but not because of a levy. Mr Bartlett says the Government is considering an increased price. He will not say how much more it may cost.

Wealth

Fuel prices will have to rise because the equalisation fund — or slate — is short of money.

Motorists have been underpaying about 14,5c/*l* for petrol since July, but a source says an increase like this is unlikely because it would add about a percentage point to the inflation rate.

A fuel-industry source says any increases this year are likely to be staggered to minimise the effect on inflation.

Mr Keys warned in an interview that a rise in VAT could be considered at the start of the next fiscal year.

Higher fuel taxes and the introduction of capital gains and wealth taxes were seen by economists as distinct possibilities because of the budget crisis.

They estimate that revenue could undershoot expenditure by at least R30-billion, twice the budgeted deficit.

This shortfall — equivalent to about 8% of gross domestic product — is more than double the 3,5% guideline set by the International Monetary Fund.

Mr Keys is concerned about the way the economy is staggering under the weight of the recession.

"But now is not an occasion for an increase in taxes because the deficit is growing."

The Government will instead continue to borrow from the market to fund the shortfall.

"If we didn't borrow, the extra load would have to fall on you and me."

Mr Keys says a drop in interest rates, as and when it happens, will stimulate the economy. It could also help to revive confidence.

But Reserve Bank Governor Chris Stals doused hopes of an imminent cut in rates on Friday. He implied that a drop in rates would be considered only when inflation dropped below 14%. The August consumer price index was 14,3%.

Dr Stals says SA's economic collapse is cause for concern, "but we cannot solve that by creating more money".

The World Bank warns that a budget deficit of above 4% of GDP could lead to lower investment spending and hamper chances of a successful political transition.

An informal discussion paper by the World Bank says a deficit of 4% of GDP is manageable.

The paper was completed in May before revenue shortfalls led to projections of an 8% deficit.

But authors Brian Kahn, Abdel Senhadji and Michael Walton warn that the fiscal situation may already be worse than it seems.

"Sooner or later the Government will have to pay for losses or shortfalls of lower level of government and homeland administrations (as well as the underfinancing of the state pension fund)."

Money

They say a permanent increase in the deficit — above 4% — "is likely to be in direct conflict with an investment recovery (especially private investment required for growth)".

The authors say budget deficits must be financed from borrowing the excess savings of the private sector, by borrowing from abroad or by printing money.

Excessive domestic borrowing causes rising interest rates with negative implications for investment. Excessive foreign borrowing results in unsustainable current account deficits and printing money is inflationary.

SA could comfortably move from being a capital exporter to a moderate importer of money in the 1990s.

BLUEPRINT FOR PROSPERITY CONFERENCE

STAR 5/10/92

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A search for solutions to South Africa's economic and tax problems

By Magnus Heystek

The shocking news from the Reserve Bank that Gross Domestic Fixed Investment — basically an investment in future job creation — has dropped to less than one percent of Gross Domestic Product should, hopefully, focus the mind of politicians on what is happening to the economy.

Without large-scale investments now, the capacity of the economy to provide jobs is severely diminished.

As it is, the economy is absorbing virtually no new entrants into the labour market.

That is why it is now necessary to bring home the point that South Africa needs a vibrant and growing economy.

Most political parties are in agreement as far as economic objectives are concerned. How to get there is a different matter.

This is what the Blueprint for Prosperity Conference is all about. The conference takes place on October 8 at the Johannesburg Sun and will discuss the various economic and fiscal strategies needed to secure a higher growth rate.

This is the first time such a conference has been held in South Africa and has already been dubbed as an "economic Codesa".

For scenario planners at large companies, the conference is vital.

It will provide in one day all the economic and fiscal policies advocated by major political and business groupings in SA.

Questions to be thrashed out include: What kind of tax changes will an ANC government introduce?

Could SA have a plethora of new taxes, including wealth taxes and even a redistribution of wealth?

How will this affect your business?.

Speakers include Dr Zac de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary-general, African National Congress), Dr Stef Naudé (director-general, Department of Trade and Industry), Khehla Mtembu (managing director, Afsure), Professor Michael Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president Nafcoc), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayandra Naidoo (negotiations co-ordinator, Cosatu).

● **Bookings for this convention can be made through Cordev Marketing, telephone (011)-483-3214/5. The fee is R250 per person.**

Campaign to boycott PAYE

CT 6/10/92 (320)

Own Correspondent

DURBAN. — A national campaign to boycott PAYE tax is to be launched by the Congress of South African Trade Unions (Cosatu), it was confirmed yesterday.

All Cosatu regions throughout the country and their allies within the ANC/SACP/Cosatu alliance are believed to have been fully briefed on the campaign and were gearing for its implementation.

Cosatu spokesman Mr Neil Coleman said all congress movement aligned organisations and other interested parties would start refusing to pay PAYE to the government as "organisations" from November 1.

He pointed out that Cosatu believed that the state still wanted to proceed with its "unilateral restructuring process of the country's economy without proper consultation with peoples' organisations".

Cosatu recently warned that the government's sudden withdrawal from the national economic forum was a clear recipe for turning the economy into a battlefield.

Mr Coleman said the second phase of the PAYE boycott is planned from December 1, when employers should stop paying tax deductions to the government and instead pay the money into a fund for peace and democracy.

Employers, workers will pay more

Govt urged to tax pension contributions

[redacted] [redacted]

BIDAY 7/10/92 (320)

GRETA STEYN

PENSION fund contributions will no longer be fully tax deductible and taxpayers will pay more to the Receiver if government accepts proposals in the Jacobs report on financial services.

The report, released today, recommends that only two-thirds of an individual's pension fund contributions should be deducted from income for tax purposes, and only 80% of an employer's contributions.

It recommends that some tax be paid on current pension contributions instead of being delayed until pension benefits are ultimately paid.

Finance special adviser Japie Jacobs said in an interview the tax on pensions would be shared by employers and employees. Employees would pay tax on a third of their contributions at the marginal tax rate. Companies would pay the company tax rate on 20% of their contributions to pension funds on behalf of employees.

"Government has been losing R5bn a year because of deferred tax on pensions. We are recommending a new system that will reduce the loss to the fiscus," Jacobs said. He could not, however, quantify how much extra tax the new dispensation would yield. He added it would be phased in and a new approach to the taxation of the eventual payout of benefits would have to be devised.

The change in the treatment of taxable income could push some individuals into higher marginal tax brackets. Jacobs, however, did not believe the new dispensation would prompt people to stop contributing to pension funds.

The report does not extend the new tax dispensation to provident funds, but said in a note this would have to be examined.

Jacobs noted that there would be no changes to taxation of lump sums and there would be no taxation of capital gains.

Other aspects of the report include the widely expected recommendation of the "four funds" approach to taxing life assurers. Asked whether the life assurers would pay more or less tax in terms of the new approach, Jacobs said some companies would pay more and others less. The report suggested that the "four funds" approach be phased in over three years.

A recommendation in the report that could reignite competition between banks and building societies is the scrapping of the Sixth Schedule of the Income Tax Act. This means policies will no longer have a minimum element of life cover and the minimum terms of policies will be reduced

☐ To Page 2

Pensions

BIDAY 7/10/92. [redacted] (320)

☐ From Page 1

[redacted]

from 10 years to five.

Another recommendation in the Jacobs report that could spark debate is that there should be only one regulating authority for all financial services. At present, banks are regulated by a Registrar based in the Reserve Bank while life assurers fall under the Financial Services Board. Jacobs said there were still some grey areas that would have to be tackled before the two could be married.

The recommendation of one regulatory authority stemmed from the principle that risk management should be approached in a functional rather than institutional way.

Jacobs said an important focus of the report was prudential control and ensuring that the public was aware of who carried the risk. A new approach had been devised for the treatment of principals and agents in investment transactions.

The report also recommended that marketing of financial services be subject to regulation. Jacobs said he hoped self-regulatory bodies would be created to ensure that norms were met.

LINDA ENSOR reports draft legislation is being prepared to give effect in the 1993 parliamentary session to the recommendations of the Jacobs report on the promotion of equal competition for funds between deposit-taking and contractual savings institutions.

Finance Deputy Minister Theo Alant said the draft amendment Bills would be released for comment in due course. He said the Jacobs report was obtainable from the secretary of the Financial Services Board, Private Bag X238, Pretoria 0001.

Move to tax pension premiums

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STAR

By Sven Lünsche 7/10/92

The Government is considering proposals that could result in individuals paying tax on their pension fund contributions for the first time.

The Jacobs report on financial services, which was released today, recommends that only two-thirds of individuals' contributions to pension funds should be tax deductible and not the full amount as is the case at present.

At the same time 20 percent of pension fund contributions by companies could attract tax.

The report also recommends the scrapping of the "Sixth Schedule" for life insurers, which would allow the groups to offer products with no element of life cover and reduce the term on policies to five years.

● Report — Page 12

Pension fund tax move 'socially irresponsible'

STAR 8/10/92.

[redacted] 320 [redacted] [redacted]

By Sven Lünsche

The Jacobs Committee's shock proposal to scrap the full tax-deductibility of pension fund contributions has been described as "socially irresponsible and a short-sighted attempt to shore up the Government's short-term cash-flow problems".

The Jacobs report on financial services, released yesterday, recommends that blanket tax deductions on pension fund contributions by individuals and companies be phased out.

Other key proposals include the establishment of one regulating authority for all financial services and scrapping the Sixth Schedule of the Income Tax Act. (see box)

It is expected that the amended legislation to give effect to these proposals will be passed during the 1993 session of Parliament.

Tax analysts say the report should not be equated with impending legislation in that its contents are only recommendations published for comment by interested parties.

However, the key proposal, if accepted, will force individuals to pay tax on one-third of their contributions to pension funds.

At present, the full pension fund contribution is tax-deductible.

The burden will be worsened if it pushes taxpayers into higher tax brackets.

The committee's key proposals

- Employees would have to pay tax on one-third of their pension fund contributions.
- Employers would have to pay tax on 20 percent of their contributions to pension funds at the company tax rate of 48 percent.
- Benefits at retirement from all fund sources would be limited to a reasonable amount.
- Replacing the sixth Schedule of the Income Tax Act with legislation which would tax-exempt life insurance investments with no life cover and a term in excess of five years.
- A "four-front" approach to the tax base of life insurers, allowing life companies to run four separate funds for tax purposes.
- All providers of financial services to the public would be required to register in terms of a proposed Financial Services Act, creating one regulatory body for the industry.

Twenty percent of pension fund contributions from employers could also attract tax at the prevailing company tax rates.

Independent pensions broker Patrick Anderton says it is a measure of the Government's desperate need to tax every available source that it is prepared to sacrifice the previously sacrosanct area of retirement provision, Des Parker reports.

Mr Anderton believes the plan runs counter to all advice to the Government on pension funding over the years.

The proposal would also cut across ANC policy, which is that tax should be levied on the life assurance sector, rather than on the man in the street.

Tony Davey, Southern Life's general manager, legal and tax services, says implementation of the proposals would provide the fiscus with additional cash flows.

"There is also a socio-economic perspective, which is that the full current tax relief on contributions favours the higher income groups, which effectively results in the state granting disproportionate incentives to those who arguably need it least," Mr Davey says.

The second drastic recommendation is scrapping the Sixth Schedule of the Income Tax Act a proposal that has been welcomed by the Life Offices Association (LOA).

Currently, investments with life companies have to be for a minimum of ten years and must have a certain level of life cover to escape tax liability.

The life cover requirement is now set to fall away from any investment of longer than five years, if the recommendation is accepted.

The report makes important recommendations on the tax base for long-term insurers, proposing a four-fund approach.

According to the deputy director of the LOA, Jury Wessels, the industry as a whole will pay less tax if the four-fund approach is adopted, although this will differ from company to company.

Life insurers which focus more on individual life products will generally pay less than those which offer retirement and pension fund products, he says.

Furthermore, if accepted, the proposals will result in one regulating body for the entire financial services industry to replace the Registrar for Banks (banks) and the Financial Services Board (life insurers).

The committee, which was headed by the special adviser to the Department of Finance, Dr Japie Jacobs, was appointed to investigate the factors affecting equal competition between banks and life companies.

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Pension fund tax proposals slated

STAR 8/10/92.

By Sven Lünsche

Shock proposals to scrap the present full tax exemption on pension fund contributions have come under fire from political and financial commentators.

The Jacobs report on financial services, released yesterday, recommends that only two-thirds of individuals' contributions to pension funds should be tax deductible. Twenty percent of company pension fund contributions could also attract tax.

Japie Jacobs, special adviser to the Finance Minister, also recommends scrapping the "Sixth Schedule", allowing life companies to offer products with no element of life cover and to reduce minimum policy terms to five years.

The proposal also cuts across ANC policy, which is that tax be levied on the life assurance sector rather than on the public.

Independent pensions broker, Patrick Anderton, described the proposal as an attempt "to shore up the Government's short-term cash-flow problems".

Democratic Party pensions spokesman Brian Goodall said: "It is surprising that steps are now being taken to discourage South Africa's major form of contractual savings — pension fund contribution."

● **Pension tax move "socially irresponsible"** — Page 19

Warning on pension proposals

Jacobs plan 'will worsen tax burden'

320 [redacted] [redacted]

B10m 8/10/92.

GRETA STEYN and LINDA ENSOR

TAX experts warned yesterday that companies would be forced to shoulder more of the tax burden if recommendations in the Jacobs report on financial services were implemented.

They also said any tax benefits accruing to individuals under the new proposals would be wiped out by inflation.

In terms of the recommendations, 80% of an employer's pension fund contributions would be deducted from income for tax purposes and two-thirds of an individual's contributions.

The report also recommended that some tax be paid on current pension contributions instead of being delayed until pension benefits were ultimately paid.

Arthur Andersen tax expert Pierre du Toit said the tax to be paid by employers had not been paid before and would be a new burden on companies.

He added that, for individuals, inflation could erode any tax benefits granted when the eventual payout took place.

"Once government starts milking the retirement cow, there is a danger it might never stop," Du Toit said.

He was especially concerned by the reference to the treatment of pension fund "build-ups". The report said consideration should be given to placing an upper limit on the investment returns that would be tax-free. Du Toit said it was of great concern if this meant government was considering taxing asset appreciation.

"This would represent a substantial change in philosophy and serious debate is required," he said.

Tax expert Costa Divaris said the move to tax pensions was like "attacking motherhood and apple pie" because it might be politically easier than raising the VAT rate.

He said all taxes were eventually paid by the consumer and it would be simpler just to increase the VAT rate. He foresaw that the increase in taxable income would cause salaries to rise as people would want to be compensated for the increased tax payments — and inflation would follow.

It was possibile that the eventual payout would be taxed as a saving on which income had been earned.

Other consultants said there were likely to be tax concessions when the pension payout was made, but felt there was a need for more clarity on the issue.

Southern Life tax expert A H Davey said any changes to the tax dispensation would be acceptable only if they gave concessions on the end benefits side — equivalent to what it took on the contribution side.

Du Toit said even if the concessions were equivalent, more tax would still be paid.

Deloitte & Touche's Willem Cronje said it was not sound policy to tamper with a rule such as the tax-free nature of pensions. Government lacked credibility and people would worry that the tax-free portion would be drawn into the net in future. The move to tax pensions contributed by business would generate uncertainty.

A spokesman for the life assurance industry said it would lobby for public sector

☐ To Page 2

Pension

B10m 8/10/92.

320 [redacted]

☐ From Page 1

pension funds to receive the same tax treatment recommended by the report for private sector funds.

Life Offices Association director Jurie Wessels said in Cape Town that the industry felt strongly that the public sector funds — which enjoyed huge advantages over the private sector — should be treated in an equal manner.

Not only did the inequalities distort the market and the patterns of employment, but they also meant that the private sector pension industry would have to bear a greater tax burden than would be necessary if the public sector was also taxed on a similar basis.

The pension fund industry was not thoroughly consulted on these proposals which were apparently included at a fairly late stage in the report, apparently at the request of Finance Minister Derek Keys.

Sanlam chief economist Johan Louw said the report confirmed the vitally important role of contractual savings in SA.

"It confirms our view that contractual saving does not interfere with discretionary saving. These forms of saving supplement each other — there is a need and place for both.

"Regarding the application of contractual savings, the report agrees that it is not the function of the mobilisers of these funds to act as entrepreneurs who establish new factories and mines. These are trust funds to be invested in the best possible way to the benefit of policyowners."

● See Page 8
● Comment: Page 10

Govt urged not to tax pensions

320

CT 8/10/92

THE proposal to tax pension fund contributions was regressive and people should not be discouraged from providing for their retirement, the Democratic Party said yesterday.

Mr Brian Goodall was reacting to the shock recommendation of the Jacobs Committee that pension fund contributions no longer be fully tax deductible.

Taxpayers will pay more to the Receiver of Revenue if the government accepts the committee proposals.

"It is also hoped that the same rules will apply to both the public and the private sector.

"Lump sum payouts to the private sector are taxable, lump sum payouts to the public sector are not, despite recommendations by the Margo Commission that all should be treated equally," Mr Goodall said.

A spokesman for the life industry said it would lobby for public sector pension funds to receive the same tax treatment recommended by the report for private sector funds.

In terms of the Jacobs Committee recommendations, 80% of employer's pension fund contributions would be deducted from income for tax purposes and two-thirds of an individual's contributions.

Tax expert Mr Costa Divaris said the move to tax pensions was like "attacking motherhood and apple pie" because it might be politically easier than raising the VAT rate.

He said all taxes were eventually paid by the consumer and it would be simpler, and in line with stated tax policies, just to put up the VAT rate. He foresaw that the increase in taxable income would cause salaries to rise as people would want to be compensated for the increased tax payments — and inflation would follow.

Arthur Andersen's tax expert Mr Pierre du Toit said expressed concerned over the reference to the treatment of pension fund "build-ups". The Jacobs' report said that consideration should be given to place an upper limit on the investment returns that would be tax free. Mr Du Toit said it was of great concern if this meant government was considering taxing asset appreciation.

"This would represent a substantial change in philosophy and serious debate is required," he said.

Southern Life tax expert Mr A H Davey said any changes to the tax dispensation would only be acceptable if it gave concessions on the end benefits side — equivalent to what it takes on the contribution side. — Own Correspondent, Political Staff

Capital transfer tax likely, expert says

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JOHANNESBURG. — The likely introduction of a capital transfer tax would raise significantly more revenue than the current estate duty, and would lend more legitimacy to South Africa's tax structure, said Southern Life's Martin Sweet today.

Mr Sweet, assistant general manager of legal and tax services, told an economic conference here that a new capital transfer tax was more likely than the introduction of a capital gains tax to finance more social expenditure.

It would also create more marketing opportunities for the life assurance industry.

"One could expect a new capital transfer tax to raise significantly more revenue than our present estate duty.

ARG 8/10/92

"Such a tax would lend more legitimacy to our tax structure.

"If a capital transfer tax is introduced, new marketing opportunities will arise in the life assurance industry, to meet the new liquidity requirements brought about by such a tax."

He said the country had one of the most generous forms of estate duty in the world. — Sapa.

COMPANIES

Sacob calls for ‘tax certainty’

BDAY 8/10/92

~~140~~ 320

HILARY GUSH

GREATER certainty and consistency is needed in SA's tax system to facilitate business planning and decisions, says the SA Chamber of Business (Sacob).

In its annual report it says: "The last year provided various instances of uncertainty and vacillation, such as the last-minute changes in the exclusion of the VAT zero-rating of certain foods. A plea is made for greater certainty and consistency, especially in the stamp duty area."

Asked if, considering a Budget deficit of more than 6% of GDP, he expected the authorities to scrap stamp duties, Sacob tax committee chairman Bob Wood said: "In view of the small revenue yield from the R2 stamp duty on agreements or similar documents, we believe the duty should be repealed as it is a severe administrative burden on the private sector and on the Receiver of Revenue in policing it".

Stamp duties currently yield about 1,1% of gross inland revenue. The committee continues to oppose the imposition of a capital gains tax as it believes it would tax capital as such, not gains, and would discriminate against small business.

Research on, and speedy implementation of a system of group taxation is also recommended in the report.

Jacobs Report: 'New company tax burden'

TAX experts warned yesterday that companies would be forced to shoulder more of the tax burden if recommendations made in the Jacobs Report on financial services were implemented.

The report recommended that some tax be paid on current pension contributions instead of being delayed until pension benefits were ultimately paid.

Arthur Andersen tax expert Pierre du Toit said the tax to be paid by employers was not paid before and would be a new burden on companies.

Life offices expressed "cautious satisfaction" with the report, but warned it could discourage people from saving for retirement.

Liberty Life vice-chairman Dorian Wharton-Hood described the report as a positive step to creating equal opportunities for banks and life offices.

However, making pension funds no longer fully tax deductable could discourage people from saving for retirement, unless a balance was achieved between the pension they received and taxed contributions.

The danger of discouraging people from saving for their old age was that they could end up dependent on the state, he said.

Meanwhile Sanlam's chief economist Johan Louw said the report confirmed the "vitally important role of contractual savings in SA".

"It confirms our view that contractual saving does not interfere with discretionary saving. These forms of saving supplement each other — there is a need and place for both.

"Regarding the application of contractual savings, the Jacobs Report agrees that it is not the function of the mobilisers of these funds to act as entrepreneurs who establish new factories and mines.

"They are trust funds, to be invested in the best possible way for the benefit of policy owners."

Louw said that although life assurers and pension funds made most of their investment indirectly through involvement in new or existing share issues "they make a major contribution to total capital investment in this country.

"The support these institutions give to share prices makes rights issues attractive to companies. In this way new enterprises are started and unlisted companies are encouraged to obtain listings on the JSE."

Louw said that, according to the Jacobs report, longterm assurers had about 11% of total assets invested in property.

"In this way essential commercial and industrial infrastructure is created. In fact it makes sense for institutions to include fixed property in their investment portfolios."

In view of "the enormous amounts of capital that will be required in a changing SA to effect far faster economic growth and a drastic increase in the creation of new job opportunities, it is clear that the mobilisers of contractual savings will continue to play an exceptionally important and indispensable role."
— Business Editor and Own Correspondent

(320) CT 8/10/92

Rush for revenue threatens future of private pensions

BDM 9/10/92

LINDA ENSOR

(320)

THE outcry over the proposed taxation of retirement fund contributions by the Jacobs report on financial services is to be expected. No one except government likes higher taxes in whatever form. But the dismay seems to reflect a belief that the step, if implemented, will be merely the first of a stream of other erosions of the wealth of the privileged to fund socio-economic reconstruction.

Government is looking for additional sources of revenue to fund its mounting deficit and to meet its obligations to the underprivileged in the areas of health, welfare and education. Specifically, the report says, more tax is needed to correct the racial disparities in the state's social pension system.

In the process of searching for new sources of finance, sacrosanct principles such as tax incentives to encourage self-provision for retirement could be discarded. There is widespread fear in the assurance industry that tampering with retirement funds opens the way for taxation on ever higher proportions of retirement contributions.

So sensitive is the issue that the report says it had "proved difficult to hold objective and dispassionate discussions on the matter".

Some warn the proposals will lead to the destruction of the retirement provision system, as happened in New Zealand when the tax deductibility of contributions was scrapped.

Old Mutual employee benefits GM Garth Griffin notes that the taxation of retirement funds was not part of the brief of the Jacobs committee and is an "ill-considered proposal" driven more by government's need for revenue than by considerations of promoting a suitable system of retirement provision.

The report proposes that only two-thirds of an individual's retirement fund contributions be deducted from income for tax purposes, and 80% of an employer's contributions. To offset this, one-third of the lump sum benefit at retirement, death or withdrawal should be tax-free, and the remainder subject to tax. But Fedlife GM Dick Otto believes it unlikely that the one will offset the other, and benefits will suffer as a result.

The report argues that its proposals are preferable to maintaining the current system of full deductibility of contributions and attempting to change towards significantly higher taxation of lump-sum benefits. Furthermore, there will be no changes to the taxation of lump sums and no taxation of capital gains.

Not only is the principle of protecting incentives for retirement provision undermined, but the report contradicts its own stated principle that taxation should not be used to affect the flow of funds to life offices.

Some life office spokesmen say that if the proposal is accepted companies may decide to reduce the rate of contributions in order to neutralise the tax effect of the proposed measures and maintain the after-tax income of their employees. This would diminish the flow of funds to retirement institutions.

The more likely alternative would be for workers to demand higher wages to compensate for the effect of the tax, at a time when the economy can ill afford further cost pressures. This would be in addition to the higher tax bill for employers.

The report contradicts itself in yet another respect. Whereas it stresses that net capital formation, supported by a sound domestic savings ratio, is essential for economic growth, it nevertheless suggests measures which could discourage savings. "There is a great need for an increase in available savings, both to maintain a healthy investment ratio and to provide for the country's capital investment needs," it asserts.

Griffin warns: "We must avoid meddling lest we destroy the goose that lays the golden egg. Saving is vital to the economic development of SA and the retirement industry is a major contributor to savings."

It is no wonder that the pension fund industry has an irresistible lure for government. Together the pension, provident and retirement annuity industry controls an estimated R250bn in assets. The problem for government is that it has to await the end of the term of a policy before the benefits are taxed. Government estimates it has been losing R5bn a year because of the deferred tax on pensions. Furthermore, the tax exemption on interest earnings of retirement funds amounts to a concession of more than R1bn a year.

In 1991, according to Life Office Association figures, the industry received R3,4bn in lump sum payments and R6,5bn in recurring premiums for group schemes and pension funds, giving total group premium income of R9,9bn.

The industry welcomes, however, the uniform treatment accorded to pension and provident funds. In contrast to some initial interpretations, Inland Revenue's Ian Meiklejohn says the report's reference to "retirement funds" includes both provident and pension funds. It also applies to retirement annuities so that all funds would be treated in the same way.

Sanlam employee benefits GM Francois Marais believes this is a good move and is a step towards removing any distinction between the two types of fund.

He says that a uniform tax treatment would benefit provident funds which are currently allowed no tax deductions on member contributions. The reduction of the tax incentive to opt for pension funds will strengthen the trend towards provident funds, Marais says.

Already there is a trend in the industry to convert defined benefit pension funds (that is, where the benefit is defined in terms of a formula usually linked to final salary) to defined contribution funds (where the level of contribution is predetermined) because of fear of the vulnerability of defined benefit funds to high inflation.

Marais says if the proposal was implemented, the only remaining difference would be that the entire benefit of provident funds could be taken as a tax-free lump sum, whereas only one third of the pension fund benefit could be taken in a lump sum.

The report says that after debate on the taxation of the profit accumulation of retirement funds it was decided that this would be inappropriate as it is essential for the investment returns to exceed the inflation rate. Any such tax would have an impact on the benefits of millions of contributors who are currently not liable for tax owing to low incomes.

Also, there should be an incentive for retirement savings, even for contributors with a higher income. However, consideration should be given to an upper limit on the income on which such incentives apply.

The suggestion to cap benefits is largely acceptable, industry sources say. It would remove tax deductibility on pensionable earnings beyond a certain limit, and would specifically be targeted at the rich. But Otto warns that capping should not be at too low a level as it would then act as a further disincentive for retirement provision. And any capping should be automatically inflation-indexed.

Be that as it may, the proposals on retirement fund taxation came as a surprise to the industry and are likely to generate a storm of debate and controversy. The soundest comment in the report as it relates to the taxation of pension funds, say life industry spokesman, is its reference to the need for more discussion with all interested parties before a final decision is taken.

Challenge of First and Third Worlds

GAVIN DU VENAGE (320)

MEETING First and Third World needs of this country is the biggest challenge for fiscal planning, says tax advisory committee chairman Michael Katz. B/Day

Katz told Blueprint conference delegates yesterday the danger existed of creating a structure that favoured the one over the other. 9/10/92.

The old adage of "the more you earn, the more you pay" no longer formed part of the conventional wisdom in tax structures.

The thinking now was that "redistribution is better achieved on an expansion of business than on raising taxes". Lower taxes encouraged investment, but this could disappoint the Third World element, and the resulting instability would inhibit growth. On the other hand, an overbearing tax system could dry up revenue.

Katz discounted a tax on dividends. This, in effect, would be a double tax, and would encourage business to finance through debt.

"This tax system makes debt attractive, and will lead to badly structured companies" he said. Katz also discounted the value of a fringe benefit tax. Smaller concerns could not afford these costs on their vehicles.

Central planning 'stifled economy'

B/Day 9/10/92

BILLY PADDOCK

DECADES of centralised and interventionist planning with a flabby and inefficient bureaucracy, and not the political impasse, was the reason for the country's stagnant economy, Inkatha national chairman Frank Mdlalose said yesterday.

Speaking at the Blueprint for Prosperity conference in Johannesburg, sponsored by Southern Life and the Star, he said SA had to look beyond cyclical downturns, recessions and the political impasse to find solutions to the economic and tax problems.

An economy which remained heavily regulated and inward-looking and which was being held back by an oversized and inefficient bureaucracy was the real issue at hand, he said.

The economy had failed to provide encouragement to the productive and had instead sheltered the inefficient and punished the entrepreneur.

Mdlalose said it was vital that the country identified the role of other economic actors such as labour and business carefully in trying to find the solutions.

He said there was too much blurring of the various roles and relationships, with each actor demanding a say in areas which were not traditionally his domain.

Mdlalose criticised Cosatu's demand to be included in economic decision-making, on Budget determination and the distribution of life savings.

"If we are to have a prosperous interaction, we would need to find a medium between broad consultation on one hand and a clear definition of what would constitute an unhealthy power struggle which could very well open the door to a paralysis in decision-making," he said.

He said Inkatha's strategy would demand the deregulation of industry; a concerted effort in education and training to maximise productivity and a broadening of the industrial base together with export-orientation. It would also seek to stimulate increased economic activity rather than attempt to divide a crumbling cake as a means of redistribution.

DEPARTMENT OF STATE EXPENDITURE

No. 2812 **9 October 1992**

Statement of Revenue collected during the period 1 April 1992 to 31 August 1992.

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

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No. 2812 **9 Oktober 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Augustus 1992.

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting	Month of August Maand Augustus		Total 1 April to 31 August Totaal 1 April tot 31 Augustus	
		1992–93	1992	1991	1992	1991
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	50 484 300 000	3 037 871 074	3 069 287 917	16 306 415 504	15 656 160 493
Loan Levy 1989–94	Leningsheffing 1989–94	—	—	—	143 700	1 754 663
Sales tax	Verkoopbelasting	21 019 700 000	(15 622 348)	1 530 084 563	26 392 905	7 513 268 060
Value added tax	Belasting op toegevoegde waarde	—	1 518 413 074	—	6 391 578 989	—
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	320 000 000	17 238 445	25 624 718	122 111 540	148 689 825
Non-residents' tax on interest	Rentebelasting op buitelanders	—	—	296	46 390	(9 255)
Undistributed profits	Onuitgekeerde winste	—	—	32 433	51 569	209 061
Donations tax	Geskenkbelasting	6 000 000	478 164	633 981	4 300 196	2 123 349
Estate duty	Boedelbelasting	75 000 000	7 193 754	5 452 003	38 989 767	34 882 601
Trade securities	Handelseffekte	221 000 000	19 092 721	18 089 235	75 110 772	92 638 034
Stamp duties and fees	Seëlregte en gelde	830 000 000	67 496 002	74 564 374	333 565 411	313 365 982
Transfer duties	Hereregte	1 110 000 000	76 287 664	93 331 279	521 330 759	386 041 352
Miscellaneous	Diverse	—	—	—	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	295 000 000	—	114 714 446	80 453 929	138 930 887
Interest and dividends	Rente en dividende	59 450 000	4 690 303	2 252 480	12 380 697	21 631 633
Levies	Heffings	19 000 000	(189 642)	5 246 587	4 508 036	5 826 063
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	59 550 000	4 495 018	2 908 435	12 864 211	9 467 191
Departmental activities	Departementele bedrywighede	1 129 000 000	79 392 032	294 265 795	515 394 903	418 578 261
Capital Revenue	Kapitaalinkomste	20 000 000	—	—	—	—
	R	75 648 000 000	4 816 836 261	5 236 488 542	24 445 639 278	24 743 558 200
Less: Payments to self-governing territories	*Min:* Betalings aan selfregerende gebiede	1 361 300 000	113 215 000	90 285 000	567 733 000	451 352 000
Payments to TBVC Countries	Betalings aan TBVC-Lande	760 700 000	59 451 290	—	298 146 121	—
Total: Inland revenue	Totaal: Binnelandse inkomste R	73 526 000 000	4 644 169 971	5 146 203 542	23 579 760 157	24 292 206 200
Customs and excise duties:	Doeane- en aksynsregte:					
Customs duty	Doeanereg	3 124 000 000	240 871 340	263 405 929	1 199 867 221	1 176 433 985
Excise duty	Aksynsreg	4 754 000 000	248 963 551	217 061 030	1 632 523 722	1 273 419 432
Surcharge	Bobelasting	1 670 000 000	126 899 360	128 744 062	614 249 682	614 595 099
Miscellaneous	Diverse	17 000 000	9 489 798	23 813 538	35 312 826	81 874 038
Fuel levy	Brandstofheffing	6 634 000 000	561 670 829	381 422 698	2 758 409 080	1 848 695 553
Ordinary levy	Gewone heffing	64 000 000	14 961 942	5 312 622	32 376 648	27 142 360
	R	16 263 000 000	1 202 856 820	1 019 759 879	6 272 739 179	5 022 160 467
Less:	*Min:*					
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	5 040 000 000	53 507 000	—	2 457 991 000	2 236 648 250
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	11 223 000 000	1 149 349 820	1 019 759 879	3 814 748 179	2 785 514 217
	R	84 749 000 000	5 793 519 791	6 165 963 421	27 394 508 336	27 077 720 417
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	—	—	28 583 731	—	29 516 855
	R	—	—	28 583 731	—	29 516 855
	R	—	5 793 519 791	6 194 547 152	27 394 508 336	27 107 237 272
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	—	17 675 576	12 455 120	69 793 378	84 697 972
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	—	2 904 080	2 461 993	32 794 227	16 076 433
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	—	5 350 230	683 379	8 722 259	3 249 521
	R	—	25 929 886	15 600 492	111 309 864	104 023 926
Grand total	Groottotaal R	—	5 819 449 677	6 210 147 644	27 505 818 200	27 211 261 198
Reconciliation with statement published by Government Notice 2617 in *Government Gazette* of 18 September 1992:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 2617 in *Staatskoerant* van 18 September 1992:					
In Transit 31 March 1992	In Transito, 31 Maart 1992	—	—	—	480 288 319	—
In Transit/Overremitted, 31 July 1992	In Transito/Te veel oorgedra, 31 Julie 1992	—	(233 132 683)	—	—	—
Collections as above	Invorderings soos hierbo	—	5 819 449 677	—	27 505 818 200	—
	R	—	5 586 316 994	—	27 986 106 519	—
In Transit/Overremitted, 31 August 1992	In Transito/Te veel oorgedra, 31 Augustus 1992	—	(233 058 985)	—	(223 058 985)	—
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	—	(10 160 879)	—	(85 379 978)	—
Received into Exchequer Account	In Skatkisrekening ontvang R	—	5 353 097 130	—	27 677 667 556	—

Cosatu tax revolt could be called off

(320)

DIRK HARTFORD

COSATU is poised to suspend its anti-PAYE campaign. This could open the door to getting the stalled national economic forum back on track. B/Day

Cosatu said it would consider at its central executive committee meeting next week whether to suspend the campaign in the light of political developments.

Union and ANC sources say it is certain to drop the planned boycott as a result of recent agreements between the ANC and government. 9/10/92

The anti-tax campaign was the major reason government refused to go ahead with the forum's formal launch last month.

Finance Minister Derek Keys said government would not take part while parties to the forum supported illegal actions.

Employer organisation Saccola was also reluctant to to be involved with the forum while Cosatu promoted a tax boycott.

Cosatu's Jay Naidoo told the Blueprint for Prosperity conference yesterday that although Keys promised a consultative approach, "it is not clear whether he can overcome the constraints of government mindset" to avoid government unilaterally deciding on economic issues. The key to unlocking the economy from its downward spiral was effective government participation in socio-economic forums.

Cosatu sees such forums developing into democratic institutions dealing with key issues.

● See Page 2

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fund sources is appropriate. *Bryan Deans*

FOOD INFLATION FM 9|10|92

Chain gang

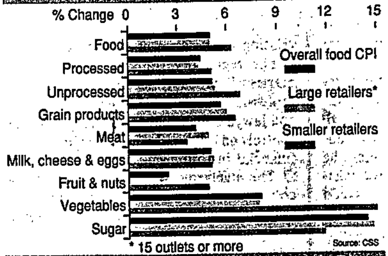
(320)

Now that major food chains have had their way with the inflation statistics, they may not be entirely pleased with the results. In response to pressure from these stores the Central Statistical Service published separate data for inflation at smaller and larger retailers (defined as having 15 or more outlets) with its release of consumer inflation figures for August.

continue

FM 9|10|92 (320)

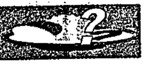
Change in food CPI May-August



* 15 outlets or more

Source: CSS

Where's the beef?



It's true the data supports the contention of Pick 'n Pay chairman Raymond Ackerman that smaller retailers are more inflationary than larger ones; food prices of large chain stores rose 5% over the three months to August while prices of small operators rose 6,3%. These figures translate into 21,55% and 27,68% annualised.

But the data doesn't support the view that food price increases at the larger chains are lower than official food inflation.

According to CSS head Treurnicht du Toit, VAT accounts for about six percentage points of the 28,5% food price rises, in the 12 months to August. So the chain stores' annualised figure for the past three months, which strips out the effect of VAT, corresponds closely with the 12-month VAT-free figure. Of course, comparisons between 12-month rates of increase and annualised rates over three months are not necessarily valid. CSS is unable to provide a breakdown for months before May, so an accurate 12-month assessment cannot be made.

Nevertheless, a comparison of the rates over the periods available show chain store and overall inflation rates are very similar. Over three months the overall food and chain store food figures are the same, 5%.

During the month of August the figures for all foods (1,4%), processed foods (0,8%) and unprocessed foods (1,7%) are the same. The implication is, in recent months at least, that CSS's food inflation figure accurately reflects price rises at the large chain stores.

So bringing the small retailer into the debate may not aid the large chains' position. The Consumer Council's Wander Hoon says the differential between the two rates of inflation is not unreasonable: "The big stores are able to negotiate lower price increases than the others." And the smaller players are not uniformly more inflationary — in the categories meat (4,9% against 3,6%) and sugar (14,7% against 11,8%) the chain stores lead the smaller players.

Pick 'n Pay food director Sean Summers says he is puzzled by the figure for meat: "Our meat prices today are cheaper than they were a year ago — and that's what some of the consumer bodies tell us." But Hoon says individual butchers are generally cheaper than the chains because they sell in bulk and don't package meat: "Customers can get better discounts for large amounts." Other chains say it's difficult to explain the anomalies between the types of retailers, since the way CSS categorises items is very different from the way the stores do. Shoprite Checkers say all its information is forwarded to the Food Logistics Forum, which will release its findings late next month.

CSS's Du Toit says the figures are representative: "The list of outlets from which we compiled the data is pretty clear-cut. You won't find anyone you wouldn't expect to find on the list of chain stores."

☐ Inflation reached the top end of expectations in the 12 months to August, at 14,3%, after a relatively big month-on-month increase of 1,1% (seasonally adjusted 0,9%). It was the second highest monthly increase this year — the largest was in April when VAT was extended to cover more items and the index rose 1,3%.

But the 12-month rise in the consumer price index was below July's 14,6% and the lowest level since March last year, according to the CSS. The decline in the official inflation rate owes much to last year's high base — large increases occurred in the second half of 1991. ■

Tax court to decide on film partnerships

STAR 9/10/92.

(320) ([illegible])

By Leigh Hassall

The Transvaal Income Tax Special Court meets today for a hearing that is likely to have a material effect on the pockets of more than 44 000 taxpayers.

The case is the first appeal brought by taxpayers who invested in the popular film partnership ventures of the mid-1980s.

A number of points in dispute apply also to other film partnerships and the outcome will determine Inland Revenue's attitude to the thousands of taxpayers who invested in similar ventures.

The special court will hear the case for allowing the appropriate tax deductions to the companies and individual taxpayers who invested in about 180 film partnerships.

Many investors entered the partnerships on the basis of written rulings issued for the Commissioner of Inland Revenue approving the availability of the appropriate tax concessions to the partnership investors.

At assessment time, the CIR went back on the rulings and disallowed the tax concessions to some taxpayers.

Other taxpayers have simply not been assessed for up to seven years.

It is common knowledge that there is a huge backlog of assessments at the Revenue offices.

Experts predict a lengthy court hearing — estimates range from six weeks to six months — and judgment can be expected only one or two months after its completion.

OCTOBER • 9 • 1992 Financial Mail LEADING ARTICLES

VALUE-ADDED TAX (320)

No taking it back

FM 9/10/92.

The tax take from VAT's first 10 months is lower, even in money of the day, than the GST receipts for a comparable period — R14,363bn against R15,178bn. If an adjustment is made for inflation, the comparison looks even worse.

All sorts of unwarranted inferences are being drawn: in particular, that VAT "has failed." This is nonsense and overlooks the effects of a severe recession and consequences of setting the initial rate too low for political reasons.

Modern thinking, based on experience, holds that taxes on consumption are a vital part of the fiscal mix, especially in an inflationary environment. The revenue they generate makes it possible to reduce taxes on income to levels that provide strong incentives to create wealth. Investment capital will not flow to countries that levy higher rates of tax than the newly established international norm.

SA selected GST when a general tax on consumption was introduced, partly in the belief that VAT was too complex administratively for a country with strong Third-World elements. In the end, GST was gutted by too many exemptions, and some inherent weaknesses were exposed.

The transition to VAT was made at the most inopportune time — politically — that could be imagined. The outcome was economically deleterious compromise. Yet VAT is in place and no prospective government of whatever complexion is going to be able to do without it. VAT is a good tax. Though it can be evaded, it is far more difficult to beat than GST. It has proved its worth around the world, in countries rich and poor, educated and uneducated.

The radical Left, inevitably, has seized on opposition to VAT as part of its political stock in trade, and this posture will remain. One of the Left's main objections is that it appears to increase the cost of food for the poor.

But some important points need to be made about VAT on foodstuffs. First, Cosatu's vociferous constituency does not actually include the really poor, who operate in the informal economy or who are simply unemployed. If they are to receive substantial social benefits, the wherewithal will have to come in part from indirect taxes.

Second, an important proportion of all types of foodstuffs is purchased by the middle classes and the affluent. Further moves to zero-rate more food items will white-ant the tax base all over again, and must be resisted strenuously, on strong moral grounds.

Lastly, SA must face the unpleasant fact that the initial VAT rate was set too low and will probably have to rise. Government, this or any other one, will have to live with the political discomfort, knowing that VAT is a sound and necessary tax, a permanent part of the fiscal structure. ■

VALUE-ADDED TAX FM 9/10/92

Job's comfort

(320)

A comparison of 10 months' VAT takings with GST figures for a comparable period shows that setting the rate at 10% was a gamble that failed. Raw data indicates that VAT took in R14,36bn against GST's R15,18bn. For the comparison to be meaningful the inflation rate should be stripped from the figures. With inflation at 15% the VAT take would have been R12,49bn in constant terms. This is a decline of 17,7% on GST figures.

FM 9/10/92

(320)

We are still, however, not comparing like with like because gross domestic expenditure has dropped by about 2%. Had it been static, the VAT take would have been R12,74bn. This would have reflected a decline of 16,1%.

To complete this hypothetical exercise, suppose government had stuck to its original intention to apply VAT at 12%. Then the take, on a constant economy and in constant money, would have been R15,29bn! Marginally more than GST for the earlier period. This crude reckoning confirms the advance calculation that VAT at 12% would be equivalent to GST at 13%. (The exercise ignores one further complication — that the additional two percentage points would have further discouraged consumption — but this is impossible to quantify.)

What to do about the shortfall in revenue at this stage of the financial year is only part of government's general misery about public finance. We could be facing a deficit of more than 8% of GDP. Even allowing for savage pruning of expenditure, some additional sources of revenue are called for in the next Budget.

As an interim measure, more excise on petrol would be the least administratively and politically awkward tax to impose, even though it would have to be piled on to an increase of about 14c/*l* needed anyway to balance the slate according to in-bond landed cost calculations. ■

Reaction to Jacobs report

BDay 9/10/92.

(320) ~~(300)~~

LINDA ENSOR and SHARON WOOD

CHANGES to the taxation of retirement funds suggested by the Jacobs report applied equally to pension funds, provident funds and retirement annuities, Inland Revenue's Ian Meiklejohn said yesterday.

Meiklejohn was on the committee chaired by Finance Ministry special advisor Japie Jacobs which investigated the relationship between life assurers and banks and building societies.

He said the report's reference to "retirement funds" included provident, pension funds and retirement annuities. All three were based on similar principles, in that contributions were pre-tax, the build-up was tax-free, and benefits fully taxed.

Fedlife GM Dick Otto said it was unclear how the suggested taxation on one-third of an employee's retirement contributions would apply to retirement annuities.

Meiklejohn believed there was a need for the maximum 15% deduction of taxable income allowed for retirement annuities to be increased. There was no intention to increase the maximum limits of R1 750 and R3 500 on RA contributions.

The uniform treatment suggested for pension and provident funds was welcomed yesterday by Sanlam employee benefits GM Francois Marais. He said this would benefit provident funds.

Meanwhile, Old Mutual has strongly rejected the suggested taxation of retirement fund contributions, saying it would begin to destroy the retirement system and irreparably harm the contractual savings capacity of the country at a crucial time.

Old Mutual employee benefits GM Garth Griffin said the suggested changes would lead very quickly to the reduction of pension fund contributions.

The suggested taxation of employer and employee contributions would make it more tax effective for employers to stop contributing to pension funds and increase cash payments to staff.

Banks yesterday welcomed the possible opportunity to provide insurance-related products, as recommended in the report.

Standard Bank senior GM Dennis Matfield said the report would not change the banking industry much, but allowing banks to enter the insurance market through subsidiaries presented possibilities.

However, banks needed clarity, he said.

The proposal to form one financial regulatory board was also greeted with optimism. The report recommends that a financial regulation policy board should replace the offices of the Registrar of Deposit-taking Institutions and the executive officer of the Financial Services Board.

● See Page 6

LABOUR

Cosatu revives anti-VAT campaign

W.Mail 9\10 - 15\10\92.

320

Weekly Mail Reporter

THE Congress of South African Trade Unions is reviving its campaign against Value-Added Tax amid signs that its PAYE boycott is getting off to a slow start.

Coinciding with a government announcement of VAT revenue collection, Cosatu's *Asinamali* (We have no money) campaign kicks off on Tuesday with pickets and marches to Receiver of Revenue offices. The federation wants food, medicines, medical services, electricity and water to be zero-rated and that the government negotiate poverty relief measures.

This campaign is premised on the federation's contention that the year-old consumer tax has been an outright failure, with revenue expected to fall R5-billion short of target. It also says the exemption of capital goods has not led to a surge in capital expenditure and points to the failure of the government's poverty relief programme, where half the allocation has not been distributed.

Asinamali also coincides with the delay in launching the National Economic Forum, at which Cosatu had planned to table its demands on VAT and food prices.

Pumping fuel into Cosatu's campaign is a Labour Research Service report claiming to have nailed the culprits behind the food price surge.

Published in the latest issue of *Bargaining Monitor*, the report blames some the country's biggest meat producers, Imperial Cold Storage and Foodcorp's Kanhym. It points to their increased profits margins during a recession as proof that these companies are "hiding behind VAT" to increase profits.

There are signs of government uncertainty on VAT. While Finance Minister Derek Keys has said zero-rating will be considered next year, his deputy, Theo Alant, recently contradicted him, saying no such zero-rating was on the cards.

Explaining this, Alant's spokesman, Marius Marais, said Alant was not in the cabinet and was therefore not in a position to speak authoritatively on the subject. The question of zero-rating, he said, awaited a cabinet decision some time in November.

"We are still waiting for figures on the September year-on-year inflation rate and only then will we know whether to zero-rate anything or to raise the rate," Marais said.

A government announcement on VAT revenue is due next week.

Cosatu's other campaign, over PAYE, is however getting off to a slow start. The grassroots mobilisation the federation threatened a few weeks ago has yet to materialise.

Banks still unhappy

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By CHERILYN IRETON

THE Government's search for ways to level the playing fields between life assurers and banks appears to have failed.

The banks have been noticeably silent since the release of the Jacobs probe into equal competition in the financial markets. Sources suggest that some are unhappy with the recommendations and still believe they are disadvantaged on savings issues.

The life offices charge that the Jacobs recommendations have sparked uncertainty over the future tax on retirement savings, threatening the retirement structure.

Strapped

Some assurers claim that the plan to tax employer and employee contributions to retirement funds — they include pension and provident funds and retirement annuities — is a veiled attempt to raise funds for the cash-strapped fiscus.

S/Times (BUSS)

But the Government maintains that it will get little benefit if the tax recommendations are adopted.

11/10/92.

State actuary Piet Robbertse says a study is under way to estimate the potential effect on the fiscus. He estimates that in some cases the Receiver of Revenue will get less tax and in other cases more.

Southern Life deputy general manager Tony Davey suggests that by limiting deductions on pension contributions, taxpayers' income would be larger, leading to higher tax payments, and improved government cash flow.

Old Mutual general manager Garth Griffin says if the Government is indeed looking at ways to accelerate its tax take, creativity will be needed to avoid damaging both the flow of savings and the extent to which people are encouraged to provide for their old age.

Fedlife general manager Dick Otto says one of the reasons for the Jacobs committee stemmed from banks' belief that life assurers were receiving unfair tax advantages.

"But I am not sure that the life industry, under the suggested four funds approach, will yield more tax. What will happen is that their tax position will be more defensible and they will remain as competitive as ever."

Meanwhile the Institute of Life and Pension Advisers (ILPA) has questioned why Jacobs has focused on pensions when the Government-appointed Mouton Commission is still sitting. ILPA spokesman Abri Meiring says the commission is due to report to the Government next month.

STAR 12/10/92.

Switch to provident funds foreseen

By Derek Tommey

South Africans earning R5 000 a month could pay an extra R51 in tax if the Jacobs pension recommendation are accepted, says Francois Marais, general manager of group benefits at Sanlam.

Dr Japie Jacobs, special financial adviser to the Minister of Finance, has recommended that one third of an individual's pension fund contributions should be subject to income tax. At present pension fund contributions are fully tax deductible.

Marais says the marginal tax rate of a maried person with an annual income of R60 000 is 41 percent.

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Income

If he contributes 7,5 percent of his income to his pension fund he would pay R375 a month.

If the Jacobs recommendations are accepted, he will pay an extra R51 in tax a month, or R615 a year — which is about one percent of his income.

Marais says that the adoption of the Jacobs recommendations would speed the switch by firms to providing provident funds in place of pension funds.

At present, an employer's contributions to provident or pension funds are tax exempt.

However, Jacobs is recommending that 20 percent of an employer's contribution to a pension fund should be taxable, while making no recommendation on the taxing of provident fund contributions.

This will favour provident funds over pension funds.

A member's contributions to a provident fund are fully taxable. But taxing pension fund contributions would reduce the advantages for employees that a pension fund has over a provident fund.

Marais says employers are already moving away from pension funds to provident funds because of misgivings about the open-ended liability of a pension fund payout based on final salary in times of high inflation and low investment income.

Members of a provident fund receive retirement benefits in full in cash.

B/Day 12/10/92

Jacobs 'irresponsible'

THE Jacobs commission's proposal to tax pension contributions was an irresponsible attempt to solve government's cash flow dilemma, Federation of SA Labour Unions president Johan du Plessis said, at the weekend. 320

Du Plessis warned that workers' opposition to VAT would look like "a Sunday school picnic" once trade unions co-ordinated their opposition to the proposed tax.

REPORTS: Business Day Reporters.

Protests over VAT and food prices begin today

STAR 13/10/92

(320)

By Abdul Milazi

The African National Congress will today hold demonstrations and occupy major food chainstores countrywide to launch "Asinamali", a campaign to fight VAT and the recent price increases of basic foodstuffs.

ANC national campaigns organiser Mandla Dlamini said yesterday that today's demonstrations would include blockades of payout points and the occupation of major food chainstores.

"We want the Government and the food-controlling boards to know that people cannot afford the high food prices. We also want the Government to stop restructuring the economy without consulting the people," said Dlamini.

He said the campaign would continue until these problems had been addressed.

Pretoria police spokesman Lieutenant Brahm du Preez said although the police respected the rights of organisations to protest, the police would take action if the rights of individuals or companies were violated.

Relief on basic foods expected

Keys hints at VAT hike next year

B/DAY 13/10/92.

320

GRETA STEYN

FINANCE Minister Derek Keys hinted yesterday government would raise the VAT rate next year but would soften the blow with relief on basic foodstuffs.

Asked in an interview in Pretoria whether there was a chance of the VAT rate being raised, he said: "There has to be. That is why I pointed out that I was in negotiations with the VAT committee on the definition of basic foodstuffs. There is only one reason why one would be doing that."

Asked whether that meant basic foodstuffs would be zero-rated, Keys said he did not want to say too much about it, "but I am quite happy with the way the negotiations are going".

The Cosatu-led VAT Co-ordinating Committee has asked government to zero-rate basic foods. The committee fears VAT will be increased to 16% in the next Budget. Economists believe a rate of at least 12% is inevitable given government's revenue crisis.

Keys said budgeting for revenue from VAT had been difficult because it was a new tax. With VAT having been in place for a year now, government was better equipped to make future projections.

The main reason for lower-than-expected revenue was the weak economy. The economy had been assumed to grow in nominal terms by 15% (a real increase of one percent) and was growing only by a nominal 11%. Adjusted for inflation, it meant the economy would shrink by 2%-3% this year.

Asked whether SA was overtaxed, he said: "For the level of government spending we have got, we are undertaxed. Look at the deficit. If we want to be more lightly taxed, we need a smaller government."

Government's debt was not yet a problem but "if we went on adding to the debt as we did this year it would certainly become a problem". SA had been incorrectly characterised as a country with low government debt.

The planned cuts in government consumption spending meant attention would have to be given to the way in which key areas such as nursing, teaching and police were run. The programme to cut consumption spending would not, however, affect social spending such as pensions.

Although he could not disclose any details on the economic model before November, he emphasised that cutting government spending was only one element of government's thinking on the economy. The need to increase investment in productive capacity required that measures be taken to make it more attractive to invest.

Investment was important because there were only two sources of growth for an economy — higher productivity and investment in new productive capacity. SA had had virtually no new additions to its productive capacity at the current level of investment.

The economic forum was being hampered by Cosatu's mass action campaign, but dialogue was continuing, Keys said.

On drought aid from the IMF, he noted the finance was not at concessionary rates. SA had agreed to review the situation after next year's Budget "when we can give (the IMF) a clear idea of what our policy is".

Fuel levy fast becoming major state revenue earner

Star 13/10/92.

(320)

By Sven Lünsche

The fuel levy is rapidly emerging as one of the major revenue items for the state at a time when income from VAT is falling well below budgeted estimates.

For the first five months of the current 1992/3 fiscal year (April to August) R2,76 billion was collected from the fuel levy, almost 50 percent more than in the comparable period in fiscal 1991/2.

VAT revenue of R6,42 billion over the same period was 14,6 percent below the R7,51 billion collected from GST in the first five months of the 1991/2 fiscal year, according to figures released by the Central Statistical Services.

A fuel tax of 54,9c/litre is levied on every litre of petrol sold.

While the levy was not raised in conjunction with the recent 7c hike in petrol prices, earlier increases during the year ensured rising revenue from this source.

The poor income from VAT, however, which officials attribute to the poor state of the economy, has resulted in overall revenue increasing by only 1,3 percent to R28 billion from R27,64 billion in 1991/2.

The Government had budgeted for a 13,2 percent rise in revenue to R84 billion for the full fiscal year.

The revenue collected in the first five months amounted to only 33 percent of the budgeted figure, compared with 37 percent at the same stage last year.

Of the other major revenue items, income tax collections rose 4,3 percent to R16,11 billion (R15,44 billion), excise duties were up 28,2 percent to R1,63 billion (R1,27 billion) and customs duties two percent higher at R1,2 billion (R1,18 billion).

The slowdown in the level of imports reduced revenue from import surcharges by 0,1 percent to R614,2 million (R614,6 million).

During the first five months of the fiscal year state spending surged by 20,2 percent from R35,36 billion to R42,51 billion, boosted by a rise in expenditure to R10,17 billion in August, compared with average levels of R7 billion in the preceding months.

The major expenditure items for the first five months were: Foreign Affairs, including assistance to homelands R2,47 billion (1991/2: R2,12 billion); Finance R7,82 billion (R6,83 billion); Trade and Industry R1,71 billion (R887 million); Police R2,52 billion (R2,25 billion); Defence R3,58 billion (R2,99 billion).

While economists are optimistic that spending can be curtailed to meet the budgeted level of just over R100 billion for the full year, the shortfall in revenue is leading to a serious overrun in the deficit before borrowing.

Finance Minister Derek Keys had budgeted for a deficit of R15,93 billion for the full fiscal year — with only five months gone the deficit at R15,67 billion has already reached that level.

If this trend continues, the deficit could surge to R30 billion. While this is unlikely, Keys has stated that the deficit for the full fiscal year could rise to R25 billion, or six percent of estimated Gross Domestic Product.

This is well above the budgeted 4,5 percent and double the internationally accepted level of three percent of GDP.

Retirement tax not 'a recommendation'

(320)

STAR 13/10/92

CAPE TOWN — Members of retirement funds need not fear a new tax assault on their pension contributions as a result of the Jacobs Report, says Sanlam.

Such fears according to Sanlam are the result of a wrong interpretation of the report.

Senior General Manager George Rudman emphasised in a statement yesterday the Jacobs Committee had made no specific recommendations on the taxation of retirement funds.

He said the report in fact cautioned against "the possibility of incorrect perceptions" and expressly stated that the views recorded in this section of the report were divergent and not necessarily representative, or a consensus.

One of the suggestions made by those consulted by the committee was that employees should pay tax on one third of their pension contributions, and that employers should pay tax on one fifth of their contributions.

At present member contributions to pension funds are deductible for tax purposes, to a maximum of 7,5 percent of the member's salary — while contributions to provident funds are fully taxed.

In practice the tax is deferred to the time when the pension is paid out. Pensioners may take a third of their pensions as a tax-free lump-sum, to a maximum of R120000, but they are fully taxed on the balance which is usually paid out as a monthly pension.

The Jacobs Committee submitted that, instead of taxing a portion of the tax-free lump sum (as recommended by the Margo Commission), it would be better to keep it tax-free and rather tax a portion of the contribution.

However, this was not a recommendation, Mr Rudman said. And the committee did warn that the macro-economic consequences had to be considered, including the possibility that people could reduce their pension contributions to offset the higher taxes.— Sapa.

Petrol levy to the rescue as VAT fails to deliver the goods

Business Staff ③②⓪ ARG 13/10/92

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This is well above the budgeted 4,5 percent and double the internationally accepted level of three percent of GDP.

Pension contribution tax 'an excellent idea'

320

LINDA ENSOR

CAPE TOWN — The Jacobs report's suggestion that one-third of pension fund contributions be taxed has been described as "excellent" by the trade union-linked Labour Research Service (LRS). B/DAY

The LRS argued yesterday for 100% of pension fund contributions to be taxed to remove government subsidisation of the pension benefits of a privileged minority.

"The tax break on pension contributions is a tax break for high and middle-income members of pension funds only — the relatively privileged segment of our population. Pension funds and retirement annuity funds are increasingly used by wealthy individuals for tax planning purposes — not for . . . pension. These are the very people who don't need tax breaks!"

The LRS said the deductions allowed on pension fund contributions provided a tax break for those who earned enough to pay tax; helped high-income earners more than low-income earners; meant overall tax rates, including VAT, had to be higher to compensate for revenue lost to the fiscus; and carried no benefit for provident fund members or the unemployed. B/DAY 13/10/92

LRS committee member Mark Anderson pointed out that a married person earning R2 000 a month would pay only R4 or R5 more in tax a month if the Jacobs proposal was adopted. The lower the wage, the less the cost. Provident fund members would pay no more.

He added that the wealthy had no need for government subsidies to provide for their old age, and said the removal of the tax break would be line with the current trend towards tax neutrality.

Ackerman happy about VAT plans

BDAY 14/10/92

LINDA ENSOR

CAPE TOWN — Pick 'n Pay chairman Raymond Ackerman yesterday welcomed indications that Finance Minister Derek Keys would ease the VAT burden on basic foodstuffs next year.

Ackerman suggested that there be three levels of VAT — a zero rate for basic foodstuffs, a rate for basic commodities and a higher rate for luxury items.

He believed VAT on non-food goods would probably have to be increased to 12% to make up for zero-rating basic foodstuffs. (320)

He said it was vital to give relief to the poor.

The enormous poverty and unemployment in SA was apparent in that during the past six to eight months gross sales of bread had declined 5% in volume.

Maize meal sales had also dropped.

Ackerman believed the meeting the Food Forum had held with Keys probably contributed to the change in government thinking on the VAT issue.

The forum represents food manufacturers and retailers as well as consumer bodies.

He said a feedback session to hear the reports of various Food Forum task forces investigating such issues as labour productivity and flexibility and the effect of agricultural control boards on food prices would be held in Johannesburg towards the end of November.

VAT: 'Exempt More foods'

Staff Reporter

THE only alternative to an increase in VAT, with relief on basic foodstuffs, was to lower the percentage increase and tax all foodstuffs, Housewives' League vice-president Mrs Sheila Baillie said this week.

She suggested the state increase the number of zero-rated foodstuffs to include items "such as vegetables and meat"

(320) CT 15/10/92

MEDICAL INSURANCE

Fees plus VAT are intolerable

(320)

A Business Times SURVEY

THE findings of the Medical Association of SA (Masa) investigation into health-care and expenditure patterns for the period 1975 to 1991 make interesting reading.

Clearly refuted is the myth that South Africans are pill-poppers — we are not greater pill-swallowers now than we were in 1975.

There was no evidence of over-servicing in the macro-statistics and inflation in medical services was below the national average as expressed by the consumer price index for most of the period.

DANGER

The most worrying aspect of the report is the clear inability of medical aid schemes to keep their annual subscriptions to members in line with inflation in the health sector.

Escalating membership fees, together with the imposition of VAT on medical services, are contributing to an intolerable health-cost burden on the man in the street.

"There is a real danger that medical schemes are pricing themselves out of their existing markets and that, consequently, the health-cost burden will shift to the state and hence the taxpayer," according to Masa's investigation.

"The analysis suggests that the proposed changes to the Medical Schemes Acts will be inadequate to deal with underlying and basic structural problems which the authorities still need to identify."

The investigation found that the high cost of medicines is due largely to the decline in value of the rand against hard currencies. This rapid rise inhibited the flow of medicines to the population at large. The rise in the price of private medicines was accelerated by GST and now VAT imposts.

Over the 16-year period under review, the cost of medical services exceeded the CPI by only 13,1% and that of medicines was 32% greater than inflation, whereas the cost of membership to a medical aid scheme grew at a rate 96% higher than inflation.

DEMAND

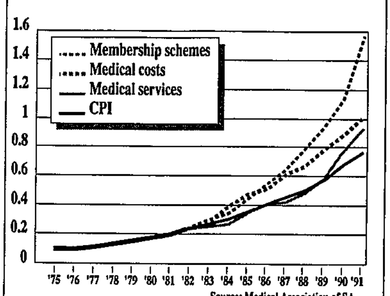
The investigation queries the wisdom of imposing VAT on medical expenditure.

Higher prices create resistance, private sector demand falls off, only to create pent-up demand for the same goods and services on a subsidised (free) basis, from the public sector — eventually paid for by the taxpayer.

It concludes that the structural problems underlying SA's private health care industry — existing medical aids — need to be analysed comprehensively, including such factors as the quality of management expertise in the health-care delivery system.

PRICE INDICES

MEDICINES: SERVICES: CPI: MEDICAL AID CONTRBUTIONS



Source: Medical Association of SA

INFLATION (320) FM 16/10/92.

The power of positive thinking

The recent rise in the price of petrol will have a minimal effect on the inflation rate. Official calculations are that the additional 7c/*l* on petrol will directly increase inflation by only 0,184 percentage points (petrol's direct weighting in the CPI is 3,18%). The indirect effect is estimated to be 0,32 percentage points within the six months following.

Brokers Frankel Max Pollak Vinderine economist Mike Brown agrees with these estimates.

It is important to see the petrol price rise in its proper perspective so that inflation is not fuelled once again by expectations that become self-fulfilling. The damage that perceptions can do, despite the reality, has been vividly demonstrated in the past two years.

In the third quarter of 1990, the outlook for inflation was encouraging. Consumer prices rose 13,8% compared with the corresponding quarter of the previous year, down from a peak of 15% in the first quarter. Government spending was set to fall in real terms — for the first time in at least a decade. Twelve-month growth in the broad monetary aggregate, M3, had fallen from a peak of 23,67% in January to 13,01% by September and was due to fall to a low of 10,37% in October.

The downward trend in inflation was halted by a rise in the oil price, to over US$40 a barrel, ahead of the Gulf War. In the event, the war lasted only a few weeks and oil prices fell with the outbreak in January 1991. But the effect on expectations remained and was quickly compounded by other developments.

One was the distortion which technical changes produced in money supply figures; at their face value they indicated a leap in inflation prospects. The other was the anti-VAT campaign that gathered momentum over 1991.

The role of expectations was illustrated in the rising cost of food — ahead of a changeover to VAT which was to be levied on a much wider range of food than GST. Food inflation rose from 15,4% in January 1991 to 19,7% in September. This preceded the six percentage point rise in food inflation in October — the month VAT was introduced. It can be explained only by pre-emptive rises imposed by producers and retailers and the receptive mood of consumers.

Hopefully everyone concerned will have learnt a valuable lesson. Government bungled the introduction of VAT through inadequate packaging. But now, says Brown, there appears to be better co-ordination among government departments and more sensitivity to a wide range of lobbies, particularly black consumers, to whom transport costs are an important component of expenditure. Hence the careful phasing in (see box below) of increases to meet under-recoveries.

But more pressure may come if the oil price does not fall. A further increase in fuel prices — possibly announced in next year's Budget — will then become unavoidable because of the squeeze on revenue collections.

Azar Jammine, of Econometrix, says: "The spinoff effect will add more to that, especially if the increases apply to diesel which affects transport and production costs." Diesel's direct weighting in the CPI is small (0,03%), but has a strong influence on the producer price index.

Another variable relates to potential changes in VAT legislation. Theoretically, a zero-rating of a wider range of foodstuffs could offset the impact of higher rates on other goods. But, says Jammine, there is no guarantee food retailers will lower prices accordingly, if at all.

But economists remain optimistic about inflation over coming months. Sanlam economist Johan Louw says other positive disinflationary factors will come into play, particularly lower interest rates which would ease the burden on mortgage payers, for instance. Says Louw: "We expect inflation of 11%-12% next year, with fuel prices preventing it going lower." ■

Ten measures to ensure an efficient taxation system

BDay 16/10/92.

MARIUS VAN BLERCK

(320)

THERE is no shortage of suggestions to reform the taxation system. This is a healthy sign — one of the characteristics of democracy is citizens' expressions of concern that public monies be raised efficiently and spent judiciously.

A taxation system should operate efficiently. It should extract as much revenue as is necessary for the state without adversely affecting economic growth. Here follow 10 measures which fit into this conceptual framework:

☐ *Corporate and individual tax rates* should not exceed 45% (and should preferably be set at 40%), and this should be guaranteed by statute for a substantial period — a decade or longer. This will protect taxpayers from the arbitrary variations in the tax rates experienced over the past few decades which have sapped the confidence of both corporate and individual investors.

These should be the actual tax rates on productive earnings and not be artificially boosted by double taxation, as with our previous system of taxing dividends. Our effective corporate income tax rate is extremely high by international standards (see table).

The effective individual income tax rate must be reduced principally by reforming the progressive tax system which, through fiscal drag, taxes by stealth in inflationary times. There should by only three or four tax brackets, culminating in the maximum rate at the R150 000 income level, and these bracket levels should be adjusted annually by at least 80% of the inflation rate;

☐ *The tax base*, expanded with the elimination of wide-ranging tax incentives, and the introduction of sales tax and VAT, must remain broad. Attempts to reintroduce broadly based tax incentives should be resisted as these will inevitably lead to higher tax rates. Instead, tax incentives should be used sparingly and intelligently to boost carefully targeted areas of economic activity.

It is tempting to propose the introduction of capital gains tax as a method of expanding the tax base. This would deserve support if it enabled government significantly to cut income tax rates. However, overseas evidence suggests the yield of capital gains tax is insignificant and is outweighed by its complexity;

☐ *VAT* is here to stay, but it needs to be reformed. It must be used more efficiently to generate revenues, while being more sensitive to the needs of lower income groups. This can easily be achieved through a split-rate system which taxes most transactions at a standard 15% and applies a 5% rate to a wide range of carefully identified essentials.

The list of items to which a reduced VAT rate should apply, according to the European Parliament, includes food products (except alcoholic products); water distribution; pharmaceutical products; intra-community transport; books, newspapers and magazines; admission to events, theatres, circuses, fairs, concerts, zoos, cinemas, exhibits, libraries, and access to television; works of authors, composers, artists, and copyright fees; agricultural raw materials; stays in hotels; rental of camp sites; admission to sports events; use of sport facilities; social activities and charitable works; funeral services and cremation; medical care; and cleaning of public roads and rubbish pick-up.

This list could form a useful basis for SA, but the local list should not unduly benefit higher-income groups. Such a system would generate up to 40% more in tax revenue than the current VAT system;

☐ In effect, SA already has *capital transfer tax* in the form of the combination of estate duty and donations tax. The temptation to abolish these taxes should be resisted and the possibility of a moderate increase in the rate (say from 15% to 20%) should be considered. Capital transfer tax has a role in making a small contribution to the fiscus at minimal cost;

☐ *Social security taxes* make a substantial contribution in OECD countries (see table). In common with most developing countries, SA's level of social security taxes is low. It is surprising that there seems to have been no major study in SA of this important area. These taxes must inevitably play a greater role as the local economy develops, but it would be foolish to venture into this area without careful evaluation;

☐ *Taxes must be cost-effective* — they must yield substantial revenues in relation to their costs of collection. This is a prime argument not only against some proposed new taxes such as a capital gains tax, but also against existing ones such as regional services levies. The latter a good example of an inefficient t additionally burdened by an absur ly low threshold and an excessi paper flow. Another is the marke able securities tax;

☐ *Incentives* to encourage shar holding by employees in their con panies have been introduced in number of countries in the pa decade. These are sometimes suppl mented by incentives to the gener public to invest in smaller con panies. Relatively minor incentive will encourage employers to launc wide-ranging employee share-par ticipation schemes;

☐ *Potential foreign investors* woul be attracted if a substantial degre of certainty were introduced throug some form of investment code. Thi code should deal with a wide range o general investment concerns (suc as the repatriation of earnings and capital) and tax matters, including guarantees in relation to maximum tax rates.

Provisions against double taxation should be improved. Our non-residents' witholding tax system should be investigated, and a uniform low-rate withholding tax — at a rate possibly as low as 5% — introduced.

The inevitable negotiation of double tax agreements and the revision of existing agreements should be conducted within the scope of a clear framework;

☐ A commission should be appointed to investigate improvements in *tax administration*; and

☐ Finally, there exist very few methods of voluntary taxation, and of these *the lottery* is by far the most effective. It is incomprehensible that we have no national lottery. One with the surplus devoted exclusively, say, to health and education, would be a resounding success.

These 10 suggested steps all fit within the conceptual framework's overriding objective of creating an efficient taxation system. The implementation of these steps would have positive results for all of SA's peoples, especially if they are coupled with a similar framework applied to government expenditure.

☐ This is an edited version of an article in the September edition of the SA Tax Review. Van Blerck is Anglo American group tax consult-

SOURCES OF TAX — GENERAL GOVERNMENT

	TAX SOURCE					
	Personal income	Corporate income	Social security	Goods & services	Other	Total
PERCENTAGE OF GDP						
OECD countries						
1980	11,4	2,6	8,2	10,6	2,1	34,9
1985	11,4	2,9	8,9	11,4	2,3	36,9
1989	11,4	2,9	9,0	11,7	3,4	38,4
SA						
1980	3,7	9,1	0,3	5,8	2,4	21,3
1985	7,1	6,4	0,3	8,5	2,4	24,6
1989	8,3	5,7	0,5	10,1	3,1	27,7
PERCENTAGE OF TOTAL TAXATION						
OECD countries						
1980	32,3	7,5	23,3	30,3	6,6	100
1985	30,6	7,9	23,5	31,1	6,9	100
1989	29,4	7,8	23,2	30,5	9,1	100
SA						
1980	17,2	42,9	1,2	27,3	11,4	100
1985	28,7	25,9	1,2	34,5	9,7	100
1989	29,8	20,5	1,7	36,5	11,4	100

SOURCE: M C van Blerck — SA Tax Review, Sep

ARG 16/10/92
(320)

Little hope of corporate, personal tax concessions

Government's '92 budget deficit pushed by pressures from inflation

MICHAEL MORRIS, Political Correspondent

THERE is little hope of a drop in personal and corporate tax next year, the South African Chamber of Business (Sacob) has warned.

It says that the government's deficit this financial year is likely to exceed the budgeted 4,5 percent, partly as a result of the upward pressure of inflation on state spending and its downward influence on revenue.

"This trend undermines hopes of reductions in South Africa's corporate and individual income tax rates," Sacob notes in its annual report for 1992.

The chamber believes that one of the factors that might impede the lowering of rates is the cost of various tax incentives designed to encourage growth in certain sectors of the economy.

"Without in any way criticising such incentives, one can stress the desirability of cost-benefit analysis to ensure that the targeted economic benefits do not fall short of the costs of the incentives to taxpayers and the economy," the report says.

Sacob also says that the lack of certainty in South Africa's tax system "impedes business planning and decisions".

"The past year provided various instances of uncertainty and vacilation, such as the leave pay problem, last minute changes in respect of VAT, and successive changes in the exclusion, for PAYE purposes, of private company directors' remuneration.

"A plea is being made for greater certainty and consistency."

The chamber also notes that the large number of outstanding company income tax assessments is a "problem needing serious attention."

Land tax 'could net R500m'

[redacted] **GRETA STEYN** (320)

BDay 16/10/92

A GOVERNMENT committee has proposed a land tax that could yield R500m in revenue and a mineral levy that could raise R400m for local government, according to a confidential report.

The report was drawn up by the Committee of Investigation into Intergovernmental Fiscal Relations, which was chaired by Finance director-general Gerhard Croeser. The proposals were circulated among the Codesa parties to promote the idea of devolving revenue and spending power to lower levels of government.

Croeser said yesterday the report was a discussion document and not formal government policy. He said the report highlighted the problem of concentrating spending and taxation power in the hands of central government.

"We believe a large number of functions can be performed more efficiently at the lower levels of government. That is why ways must be found to raise revenue at the lower tiers," he said. [redacted]

New sources of taxation at the local and regional level would need to be investigated, the report said. A "limited tax on agricultural land" could be used to finance road infrastructure in rural areas.

Property taxes would have to be overhauled urgently and a levy on property taxes could accompany a land tax. Property taxes were the most important source of tax revenue for local government.

On the mineral levy, the report argued that mining activities represented the gradual depletion of natural resources. Revenue raised could be used to finance the environmental and infrastructural costs resulting from mining activities. This revenue would probably have to replace

☐ To Page 2

Land tax

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[redacted]

☐ From Page 1

government's existing mining leases.

The report said the new taxes should not increase the total tax burden in the economy. "Any new taxes introduced at the regional and local level should therefore be accompanied by a reduction in the central government's tax burden. This will help to ensure that any expenditure saving by the central government from the devolution of functions is not simply gobbled up by new central government expenditures."

According to the report, it was possible to reduce central government spending as a percentage of total government spending to about 40% from the present 60%. This would be the same percentage as local government expenditure, with the middle tier of government spending radically less.

Strong local government would, however, have to be accompanied by mechanisms to ensure fiscal responsibility and accountability. There would also have to be a joint tax collection body that would raise revenue that would be shared.

The committee was appointed by Cabinet about two years ago with representatives from the state departments involved in regional and local government and constitutional planning.

TAXING PENSIONERS 320

The last exaction

FM 16/10/92

Over the past 20 years the advantage in disposable incomes in Western society has passed from the young to the elderly. Partly this is the outcome of demographics but a major cause has been the perceived need of caring societies to encourage citizens to make provision for their old age.

More latterly, this trend gathered pace as it became clear that governments were unable to provide out of the public purse the social benefits to which the elderly aspired or to which society believed growing infirmity entitled them.

The elderly can become very expensive. An American economist sympathetic to the provision of social sustenance for the elderly has calculated that close to 80% of medical expenditure on individuals in the US is spent in the last six months of their lives.

Therefore, if only to keep the burden of the aged on the fiscus at manageable levels, it is prudent to encourage as many people as possible to make provision for their old age. Those in the twilight of their years are also the most vulnerable to the bullying and coercive administrations that all governments of the Left have spawned.

So to be both prudent and to avoid callousness, those who are prepared to forgo instant consumption for future security should be given every encouragement, regardless of whether they save through pension or provident funds or some other means.

Any taxation policy that aims to soak the rich is destructive of the economy as a whole and all those who share in it. But to regard pensioners, because of their relative affluence compared to the young, as the "rich" to be "soaked" to finance houses for those capable of being economically active, is financially absurd, morally wrong and callous in the extreme. ■

THE JACOBS REPORT

Stumbling over the playing fields

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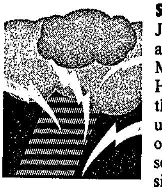
A far-reaching examination of institutional cash flows has provoked anxiety

FM 16|10|92



Spare a thought for Japie Jacobs, special adviser to Finance Minister Derek Keys. He stands aghast at the row he has stoked up over the limitation of tax benefits on some pension provisions and the taxation of some pension benefits. His own support for the proposition — if it can be called support — is limited and tentative.

Jacobs is not a man of circumspection or tact. He is candid to the point of bluntness. And he has addressed pension provisions — a matter charged with the vested interest of all save the exceedingly wealthy — with the political finesse of a Blue Bull at a gate.

He has not learnt the lessons of Financial Institutions Registrar Wynand Louw, who tried to urge what was sensible legislation on pensions transferability — and instead ended up by sparking a retrogresssive fashion for provident funds. Nor the lesson of vanished Finance Minister Barend du Plessis, who thought that the innate economic logic of Value Added Tax (VAT) would ensure its smooth introduction. Need we mention Lady Thatcher and her poll tax?

The unfortunate political fact is that if you open the door to taxing pensions, however slightly, the chances are that any government strapped for cash will push it to the ultimate.

Jacobs is disturbed by the way his report on overhauling the financial services industry has been received. With reason — for it seems much of the published comment so far has emanated from those who have not read the report, let alone considered it. Jacobs says he is much more interested in whether the tax base can be broadened and made more equitable.

He is persuaded, however, that there should be some limitation (or capping) of the pension benefits created by State incentives to saving. That view has sympathy among the Life Offices Association (LOA), provided State pension schemes are administered and regulated in the same way as private funds.

There can be little doubt that Jacobs was set a curious task by his previous Minister, who extended his investigation into equitable competition (or lack of it) between competing financial institutions for institutionalised savings to include the examination of a pensions tax within the context of reforming financial services. Neither he nor State Actuary Piet Robbertse back the idea of the Australian-type pension tax.

There seems little likelihood of so sensitive an issue going to parliament without the support of extra-parliamentary groups. Jacobs says Cosatu, for example, has not responded to letters he sent inviting suggestions, though unofficially he believes the union movement may support an examination of the tax flow from retirement schemes.

In his report, Jacobs makes his reservations about pensions tax clear: "Since the matter is very complex in its practical scope and consequences, it requires further discussion before a final decision is taken. In the light of the sensitivity of the matter and the possibility of incorrect perceptions arising, the matter has to be dealt with in a circumspect way and discussions should involve as many interested parties as possible."

The trouble is, the variant of the Australian model discussed in his report provides for portions of contributions to be caught in the tax net. It is discussed at length in words which indicate some degree of approval — so Jacobs cannot simply shrug off the flak he has taken in the last week.

Rudman

The Australian variant would have employers paying tax on 20% of their contributions to pension funds and employees paying tax on one-third of their own contributions. That happens to hit at the heart of tax law, which says that expenditure is fully deductible if used to produce income.

Newspapers have been inundated with faxes from life assurers protesting about aspects of the pensions tax. The two major life offices supported the examination of the Australian variant because they felt that if there had to be an improved tax flow, this model was better than most. Jacobs used as a sounding board George Rudman of Sanlam and Old Mutual's chief actuary, Theo Hartwig.

Jacobs also interacted with the Mouton Committee, which has been studying pension proposals for three years; it was decided any tax options should come not from Mouton but from Jacobs. The secretary of the Mouton Committee is an Old Mutual GM.

Yet one of the first criticisms of Jacobs came from Garth Griffin, who heads Old Mutual's employee benefits division: "The Jacobs Report's suggestions to tax pension fund contributions could sow the seeds of the destruction of SA's retirement system." He warned that the suggestions would lead quickly to a reduction of pension fund contributions and the contractual savings capacity of the country would be irreparably harmed.

Though Griffin acknowledges the report contained suggestions — not nascent legislation — "they are serious enough to raise alarm about the potential harm they could do to the industry in the event of the government adopting them."

Rudman went on a different tack, stating forcibly that members of retirement funds need have no fear of a "new tax assault" and added that such fears are the result of a wrong interpretation of the report. Rudman also draws attention to some key phrases in the report which expressly caution against incorrect perceptions and states that the views expressed in that chapter of the report were divergent, not necessarily a consensus.

To lay the pensions ghost, before examining the true value of the committee's research, it's helpful to recall the following sequence of events:

☐ In 1987, the banks and building societies became vociferous about the diversion of savings from their sector to the contractual areas offered by the life assurers;

☐ Two years ago, Jacobs was asked to investigate and report on the so-called "level playing fields" between financial institutions and assess whether the life assurers had any unfair legislative benefits;

☐ In an addendum to the Budget in 1991, Jacobs found that, broadly, there was no evidence that existing legislative provision favoured the flow of funds to assurers. Rather, the culprit was inflation, which made discretionary (bank/building society) saving unattractive;

☐ The scope of the Jacobs' investigation broadened, necessarily. It became impossible to deal with one sector without considering the interests of others and also those of the fiscus. Among the Acts of parliament which needed review were the Insurance Act of 1943, the Income Tax Act, the Harmful Business Practices Act, the Companies Act and several others with overlapping and contradictory intentions. These, according to Jacobs, were so constructed that it was possible for an operator of financial services to arbitrage them — to select which Act was most suitable for his particular operation.

There have also been, for the past two years, two separate regulatory bodies, one for deposit-taking institutions, the other controlling insurers and unit trusts (the FSB);

☐ Barend Du Plessis had for some years been eyeing the pensions industry as a potential source of funds for the fiscus. He argued that the fiscus drew little benefit from the

Continued on page 24

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Continued from page 20

industry because employer/employee contributions were tax-deductible; the build-up of capital in the fund was not taxed; the one-third commutation of up to R120 000 was not taxed; and the tax on most annuities arising from the two-thirds remainder was almost invisible;

☐ In his 1992 Budget, Du Plessis suggested that a way to tax the flow of pension contributions should be found, without harming the retirement industry; and

☐ There was some official scurrying to find out how pensions were taxed elsewhere in the world. Robbertse, who, as State Actuary, has to be concerned with the viability of funds, convened a meeting which involved the life assurers and the Actuarial Society. The options considered were numerous and only the Australian variant made any sort of economic sense, though it did not draw general support.

Hartwig

The attitude of the life offices and the Retirement Institute was, in general, that a tax flow should be created — but there was no unanimity about methodology. The ANC and Cosatu were not invited to that meeting.

From there, things seem to have gone downhill, with no official contact with extra-parliamentary groups and the inclusion in the Jacobs Report of a "recommendation" which was surgically implanted rather than allowed to mature naturally. If one takes the suggestion seriously, it involves taxing a proportion of the amounts employer and employee contribute to retirement funds.

Some industry sources argue that if such a tax were introduced, it would merely accelerate the cash flow into government's coffers, rather than government waiting for the tiny amounts it gleans from people on pension.

Another view is that a pensions tax-flow would be counter-productive. The natural reaction of members would be to demand compensatory rises in their salaries and in the contributions made by their employers. And if Griffin's assessment is correct and the suggestion contains seeds of destruction for the retirement industry, there will eventually be a further burden on the State in the form of minimal benefits for the destitute.

Nor would it be a wise move to introduce the tax only in pension funds and retirement annuities, which are seen as retirement plans for the privileged. If tax provisions were not also applied to provident funds — seen as the favoured savings vehicle of the black trade unions — pension funds could simply convert their status. Jacobs insists any tax should be applied equally to all retirement funding.

Jacobs is patently irritated that the focus on the pensions issue has diverted attention from the true substance of the report. Chapters in the report deal at length with the need to stop arbitraging between Acts, by introducing a Financial Services Regulation Board — possibly replacing or merging the DTI office and the FSB — and creating suitable amendments to the Companies Act so that it becomes clear where all principals, agents and intermediaries are licensed.

The issues of risk management and of principal/agent relationships are explored in depth. "It's got a lot of consumer protection built in," Jacobs asserts.

In places, Jacobs refers back to the initial debate: whether the playing fields between financial services organisations are level. He seems to conclude that they are as level as legislators can make them — but the ideal playing surface is an impossible dream.

He also deals at length with the abolition of the sixth schedule of the Income Tax Act and the introduction of the four-fund approach for money committed as contractual savings to the life offices and retirement industry. The two matters are in some ways seen to be linked. By removing the sixth schedule, the life offices will have freedom to offer more products which are only savings-linked and which do not need to contain a minimal amount of life cover.

Hand in hand goes a proposal that the amount of tax paid by life offices on behalf of the policyholders for whom they are trustees, goes from the marginal rate of 43% to 30%. That comes as a slight surprise because most of the vociferous life office spokesmen had been hoping, at best, for the rate to drop to 32%. Jacobs says many formulae were submitted and he is by no means certain the 30% level he mentions will be the final result.

In the case of the four funds, these would comprise one, taxed at company rates, for a life office's free reserves or shareholders' funds; a tax-free fund for retirement savings (assuming the debate on that never again surfaces); a fund for life policyholders' money where income accruals are taxed at the presumed 30% rate; and a different fund for policies owned by companies or other forms of businesses, taxed at the full company rate. By introducing the fourth fund, the fiscus rids itself of the nagging problem that businessmen can arbitrage by investing in policies at the presumed 30% tax rate money which would otherwise attract company tax.

Jacobs also examined the question of capital gains tax on the life offices' unrealised assets. He says at this stage he is firmly against it, not least because of its negative effect on capital formation.

Overall, the committee has produced a thoughtful insight into the financial services sector. Its views will not please everyone and it is possible not every recommendation or suggestion will pass into law, though Jacobs says some preliminary drafting has occurred where there is unlikely to be much resistance. ■

DU TOIT ON TAX

We need medicine not witchcraft

FM 16/10/92

Pierre du Toit is senior tax partner with Arthur Andersen & Associates

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The provision allowing for a safe haven for disposal of listed shares (S9B of the Income Tax Act) was generally welcomed at its birth. For one thing it was hoped that, by allowing for greater certainty as to the tax treatment of share transactions, the sluggish activity on our stock exchange may be improved.

However, the first round required a share to have been held for 10 years before one could elect capital treatment. This period was so long as potentially to have the opposite effect, or at best to be irrelevant, and the required holding period has since been reduced to five years. (There is a strong rumour it is again going to be reduced — to two years.)

But the provision had a greater defect than the period. Interpretation of its ambiguity and internal grammatical conflict required a mental athleticism which drove many a taxpayer to intellectual anabolic steroids. For example, for the provision to be rational the word share(s) has to be read at times as referring to an individual share (certificate number xyz), at times as referring to a counter (eg De Beers or Rembrandt) and at times as implying a taxpayer's entire shareholding.

One of the major contentions that arose from this was whether a taxpayer's election for capital treatment of a share binds him as regards all his other shares for all time, which is the way the directorate sees the matter. It is understood that the directorate is about to resolve this problem through a practice note.

Two issues arise. First, the way to fix inadequate legislation is not through practice notes but through proper amendments; that is the difference between witchcraft and medicine. And, while we're at it, other ambiguities may be fixed, including the degree of retrospectivity of the re-election, following the reduction of the qualifying period from 10 to five years.

Secondly, consideration must again be given to the principle of universal and infinite application of the election — it is ludicrous that the holding company of a massive conglomerate, by selling one share of R1, must be bound in respect of all other shares for all time, regardless of the fact that these may be worth billions.

The worst part of this is that it either denies the reality of one entity or taxpayer legitimately holding both investment and speculative shares, or introduces artificiality in the realisation patterns of those holdings. The understandable fear that taxpayers may base their elections on whether their shares have achieved gains or losses can largely be met by requiring the S9B election to be made at the time a share is acquired — a sort of "put your money where your mouth is" at the front end.

Meanwhile all share disposals must be carefully considered in the light of these developments. At the same time, groups should consider that even now they do have one counter weapon at least; separate companies within a group can elect independently. Thanks to our outdated system of non-group tax, some control can still be engineered, without witchcraft.

Land tax plan to yield R500m for local govt

(320) CT 16/10/92

From GRETA STEYN

JOHANNESBURG. — A government committee has proposed a land tax that could yield R500m in revenue and a mineral levy that could raise R400m for local government, according to a confidential report.

The report was drawn up by the Committee of Investigation into Intergovernmental Fiscal Relations, which was chaired by Finance director general Gerhard Croeser. The proposals were circulated among the Codesa parties to promote the idea of devolving revenue and spending power to lower levels of government.

Croeser said yesterday the report was a discussion document and not formal government policy. He said the report highlighted the problem of concentrating spending and taxation power in the hands of central government.

"We believe a large number of functions can be performed more efficiently at the lower levels of government. That is why ways must be found to raise revenue at the lower tiers," he said.

New sources of taxation at the local and regional level would need to be investigated, the report said. A "limited tax on agricultural land" could be used to finance road infrastructure in rural areas.

Property taxes would have to be overhauled urgently and a levy on property taxes could accompany a land tax. Property taxes were the most important source of tax revenue for local government.

On the mineral levy, the report argued that mining activities represented the gradual depletion of natural resources. Revenue raised could be used to finance the environmental and infrastructural costs resulting from mining activities. This revenue would probably have to replace central government's existing mining leases.

The report said the new taxes should not increase the total tax burden in the economy. "Any new taxes introduced at the regional and local level should therefore be accompanied by a reduction in the central government's tax burden. This will help to ensure that any expenditure saving by the central government from the devolution of functions is not simply gobbled up by new central government expenditures."

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JOHANNESBURG. — A government committee has proposed a land tax that could yield R500m in revenue and a mineral levy that could raise R400m for local government, according to a confidential report.

The report was drawn up by the Committee of Investigation into Intergovernmental Fiscal Relations, which was chaired by Finance director-general Gerhard Croeser. The proposals were circulated among the Codesa parties to promote the idea of devolving revenue and spending power to lower levels of government.

Croeser said yesterday the report was a discussion document and not formal government policy. He said the report highlighted the problem of concentrating spending and taxation power in the hands of central government.

"We believe a large number of functions can be performed more efficiently at the lower levels of government. That is why ways must be found to raise revenue at the lower tiers," he said.

New sources of taxation at the local and regional level would need to be investigated, the report said. A "limited tax on agricultural land" could be used to finance road infrastructure in rural areas.

Property taxes would have to be overhauled urgently and a levy on property taxes could accompany a land tax. Property taxes were the most important source of tax revenue for local government.

On the mineral levy, the report argued that mining activities represented the gradual depletion of natural resources. Revenue raised could be used to finance the environmental and infrastructural costs resulting from mining activities. This revenue would probably have to replace central government's existing mining leases.

The report said the new taxes should not increase the total tax burden in the economy. "Any new taxes introduced at the regional and local level should therefore be accompanied by a reduction in the central government's tax burden. This will help to ensure that any expenditure saving by the central government from the devolution of functions is not simply gobbled up by new central government expenditures."

According to the report, it was possible to reduce central government spending as a percentage of total government spending to about 40% from the current 60%."

[illegible] Cape chaos — Page 3

Govt cuts may swell taxes

CT 17/10/92 ③②⓪

By AUDREY D'ANGELO
Business Editor

TAXPAYERS may have to foot the bill for generous pensions and "golden handshakes" when 30 000 public sector jobs are cut next year.

Actuaries believe that the cost of cutting the jobs is likely to be passed on to the public in the next Budget.

"Extra money to pay off the public servants could be raised through the Budget in ways that do not have to be accounted for," a Southern Life actuary said last night.

In the short term, taxpayers may have to dig deeper into their pockets — but actuaries say huge savings will be effected by reducing the size of the civil service.

In theory the cost of early retirement benefits could be met by R40 billion built up by the Public Investment Commission (PIC) from government and public servants' contributions to the state pension funds, costing the taxpayer nothing.

However, the actuaries say that taking the money from the PIC's funds would leave a shortfall for public servants retiring in years to come.

State pension funds are already in deficit.

Actuaries say that lump sums paid to retiring public servants are not taxed.

"The cost of retrenching or early retirement will depend on the packages offered," a senior Sanlam executive said.

"If the benefit is more than has been accumulated in the retirement fund on the individual's behalf, the difference will have to be found from somewhere — the taxpayer."

The French coach is concerne

VAT set to rise: Foods may be 'zero'

CT 18/10/92 320

Own Correspondent

JOHANNESBURG. — Finance Minister Mr Derek Keys hinted yesterday that the government would raise the VAT rate next year but would soften the blow with relief on basic foodstuffs.

Asked in an interview in Pretoria whether there was a chance of the VAT rate being raised, he said: "There has to be. That is why I pointed out that I was in negotiations with the VAT committee on the definition of basic foodstuffs. There is only one reason why one would be doing that."

Inside:

GRAVE CONCERN AT PRICE HIKES

See PAGE 3

Asked whether that meant basic foodstuffs would be zero-rated, Mr Keys said he did not want to say too much about it, "but I am quite happy with the way the negotiations are going".

The Cosatu-led VAT Co-ordinating Committee has asked the government to zero-rate basic foods. Economists believe that a VAT rate of at least 12% is inevitable given the government's revenue crisis.

⊙ See Page 10

Guide to better investment mood

320

B/DAY 20/10/92

GRETA STEYN

THE Trade and Industry Department would recommend that Section 37E of the Income Tax Act — which provides incentives to invest — remain in force longer if government was unable to lower the company tax rate next year, a spokesman said yesterday.

He was commenting on the policy implications of a discussion document on industrial and trade policy drawn up by department director-general Stef Naude.

The document has been given to Finance Minister Derek Keys as input for his economic model, due for release next month.

The report noted the following factors were needed for improving the investment climate: lowering of corporate tax rate, combating inflation, improving savings, maintaining exchange rate stability, lifting import surcharges, stabilising labour costs and providing incentives.

Naude's spokesman said lowering company tax rates would be the preferred option, but if this was not affordable for fiscal reasons, 37E would have to be retained beyond its expiry date of September next year.

The translation of the discussion document into policy would depend on factors such as the affordability of incentives, the ability to train and retrain the labour force, technological capacity and the links between different aspects such as improved competitiveness and tariff reform.

He said the General Export Incentive Scheme (GEIS) would be revised once GATT negotiations were complete and government could be certain it could keep GEIS going after 1995. The report said a revised GEIS might be made applicable to industries due for tariff reform.

On GATT, the report said a reclassification of SA as a developing country had become essential. GATT placed an obligation on developed countries to grant trade preferences to developing countries. "In terms of existing criteria, SA should experience little difficulty with a reclassification of its economic status."

The report noted preferential interest rates could be used to support other incentives for manufactured exports. Large minerals beneficiation projects that could qualify were under investigation.

Also under investigation was the extension of the export marketing assistance scheme to ease entry into new markets. On export markets, the report said the department was considering a trade agreement with Japan and would soon conclude a trade agreement with Israel.

The report noted SA would have to look at alternatives to the present customs union agreement. The "massive" and growing payments to SA's partners had rendered the agreement unaffordable. In the 1991/1992 fiscal year R2,5bn was paid to these countries, which grew to R3bn this year. SA retained 43% of the pool to which it contributed more than 90%. The second problem with the union was the diverging industrial policies regarding protection and differences in the levels of industrial development.

Also under consideration were the merits of export processing zones.

BUSINESS DAY, Tuesday, October 20 1992 3

Cosatu postpones and offers to drop anti-PAYE campaign

(320)

BDay 20/10/92

DIRK HARTFORD

COSATU has postponed its anti-PAYE campaign and will drop it altogether if government "practically implements agreements to submit itself to the democratic process".

The campaign was due to begin next month.

The trade federation has also decided to conditionally re-enter the restructured National Manpower Commission (NMC).

But it will continue with rolling mass action through campaigns focusing on:

☐ Full worker rights for farm, domestic, public sector and homeland workers, including the right to strike;

☐ Free political activity in the homelands and the democratisation of the SABC;

☐ High food prices, removal of VAT on basic foods and opposition to an increase in VAT;

☐ Action against retrenchments and violence.

Cosatu will meet Manpower Minister Leon Wessels early in November and he will "be expected to give a satisfactory response on outstanding issues".

Cosatu feels government has taken a political decision to block its attempts to negotiate agreements on the labour market and economic forum.

The fact that agreements reached on rights for farm and domestic workers have not yet been implemented has angered Cosatu. The federation has also been angered by government's "unilateral attempts" to implement new legislation for public sector workers.

Cosatu's decisions, made at the weekend by its central executive committee, must be seen in the context of its strategic perspective of the "shifting challenges facing the trade union movement during the transition to democracy".

The postponing of the anti-PAYE campaign, for example, has been linked to the record of understanding between government and the ANC. But it also removes government's major obstacle to supporting the formation of the national economic forum.

Sources said government was not keen on a formally structured forum with its plenary sessions and statements of intent. Government would prefer a looser and more informal forum for economic discussion.

Cosatu will not accept this and wants the forums it participates in to have the power to deliver.

It is adopting a carrot-and-stick approach, reserving the right to take action, while trying to engage in negotiated solutions.

The federation has also announced that a number of new unions had been affiliated to Cosatu conditionally on the understanding they merged with existing Cosatu unions in the same sector.

Increase will allow zero-rating of basic food, says Finance chief

VAT set to be 13% next year

(320) ARG 21/10/92

The Argus Correspondent

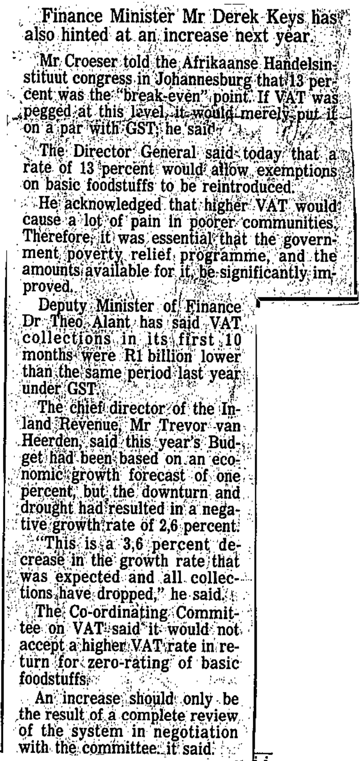
PRETORIA. — An increase in VAT next year to at least 13 percent, and possibly 15 percent, is now virtually certain.

Fears of an increase, which will probably be announced in the budget next March, follow a statement yesterday by Department of Finance Director General Mr Gerhard Croeser that VAT should be an "absolute minimum" of 13 percent.

ANC spokesman Ms Gill Marcus said Mr Croeser's remarks showed the government had not learned anything about the hardships caused by VAT.

"His proposals are uncaring and irresponsible. VAT should under no circumstances be increased."

The PAC's Ms Patricia de Lillie said: "We want votes, not VAT. We must stop financing apartheid structures."



Finance Minister Mr Derek Keys has also hinted at an increase next year.

Mr Croeser told the Afrikaanse Handelsinstituut congress in Johannesburg that 13 percent was the "break-even" point. If VAT was pegged at this level, it would merely put it on a par with GST, he said.

The Director General said today that a rate of 13 percent would allow exemptions on basic foodstuffs to be reintroduced.

He acknowledged that higher VAT would cause a lot of pain in poorer communities. Therefore, it was essential that the government poverty relief programme, and the amounts available for it, be significantly improved.

Deputy Minister of Finance Dr Theo Alant has said VAT collections in its first 10 months were R1 billion lower than the same period last year under GST.

The chief director of the Inland Revenue, Mr Trevor van Heerden, said this year's Budget had been based on an economic growth forecast of one percent, but the downturn and drought had resulted in a negative growth rate of 2,6 percent.

"This is a 3,6 percent decrease in the growth rate that was expected and all collections have dropped," he said.

The Co-ordinating Committee on VAT said it would not accept a higher VAT rate in return for zero-rating of basic foodstuffs.

An increase should only be the result of a complete review of the system in negotiation with the committee, it said.

Poverty relief 'must be revamped'

Raise VAT rate to 13%, Croeser urges

B/Day 21/10/92

320

GRETA STEYN

THE VAT rate should be raised to an "absolute minimum" of 13%, and there had been speculation that it could be lifted to 15%, Finance director-general Gerhard Croeser said yesterday.

He said 13% was "breakeven", and noted if VAT was pegged at this level it would merely be putting it on a par with GST.

Speaking at the Afrikaanse Handelsinstituut conference in Johannesburg, Croeser emphasised that the effects of a tax increase on disadvantaged communities would have to be addressed. The problem with raising the VAT rate was that there was no adequate poverty safety net.

"Our poverty aid programme has failed. We shall have to work at putting a proper system in place," he said.

The Cosatu-led VAT Co-Ordinating Committee (VCC) said yesterday any increase in the VAT rate should come about only after a complete reconsideration of the VAT system in negotiation with the VCC and other major economic stakeholders. An increase in VAT could not be traded off against zero-rating of some foods.

The VCC statement was in response to Finance Minister Derek Keys who last week indicated a zero-rating of foods could accompany an increase in the VAT rate in next year's Budget.

"The VCC is not prepared to wait for next year's Budget to see zero-rating of foods. This must take place now. The poverty relief programme to protect the poor against the effects of VAT is now universally recognised to be a disaster."

The VCC was arranging a date to discuss zero-rating and related issues with Keys.

The committee had proposed that a list of basic foods be zero-rated, including fresh vegetables, fruit, eggs, white meat and fish. It accused government of relying on "ad hoc measures without negotiation".

Croeser was asked why there was not a greater effort to involve groups such as Cosatu and the ANC in economic decision-making. He replied that efforts to do so had failed because these organisations did not want to be involved in formulating policies while the real power of decision-making still lay with government.

An "economic Codesa" was urgently needed to negotiate economic policies on an equal footing.

He believed a long-term economic restructuring plan would have to take account of the effects on disadvantaged communities.

Sapa reports that Old Mutual chief operating officer Gerhard van Niekerk told the conference SA's future economic success hinged on the degree the country could achieve an outward-looking economy and international competitiveness.

● Picture: Page 2

Case made for VAT of 13%

(32D)

CT 21/10/92

Own Correspondent

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Effects on poor the drawback

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An "economic Codesa" was urgently needed to negotiate economic policies on an equal footing. The present structure of the economic forum was not appropriate.

● National People's Party MP for Clare Estate, Natal, Mr Madanlall Mohanlall, has asked the Finance Ministry to consider zero-rating rice.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Members of pension funds: boardings

290. Mr B B GOODALL asked the Minister of Finance:

How many members of the (a) Government Service Pension Fund, (b) Associated Institutions Pension Fund, (c) Temporary Employees Pension Fund, (d) Associated Institutions Provident Fund, (e) Pension Fund for Persons in Authorities' Service and (f) Superannuation Fund for Persons in Authorities' Service (i) applied to be boarded and (ii) were boarded in 1989, 1990 and 1991, respectively? B728E

The MINISTER OF FINANCE:

(i) The members of the various pension funds apply through their respective employers. Only the applications which are successful are passed onto the Department of Finance. The number of members who applied to retire early is therefor unknown to the Department of Finance.

(ii) According to the latest pension records early retirements and the reasons therefor are set out in the annexure:

	(a) GSPF			(b) AIF			(c) TEPF			(e) PFAS			(f) SFAS		
	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991
Ill-health	48	55	97	7	1	11	9	19	41	1	3	6	—	1	—
Reorganization	66	102	115	—	—	—	5	3	11	—	1	—	—	1	—
Incapacity to carry out duties efficiently	2	8	9	—	—	—	—	—	—	1	1	2	—	—	—
Retirement—own request	—	2	8	—	—	—	—	—	—	—	—	—	—	—	—

No cases for the Assciated Institutions Provident Fund occurred and as far as the Associated Institutions Pension Fund is concerned, no cases where any gratuities were paid could be identified.

Total amount of personal income tax collected

324. Mr W U NEL asked the Minister of Finance:

(320)

What was the total amount of personal income tax collected in the 1990-91 and 1991-92 financial years, respectively, in (a) the Republic of South Africa, (b) the Orange Free State, (c) Bloemfontein, (d) Welkom, Virginia and Odendaalsrus, (e) Sasolburg, (f) Kroonstad and (g) Bethlehem from persons employed in (i) the (aa) agriculture, (bb) mining, (cc) manufacturing, (dd) construction, (ee) commerce, (ff) Government Service, (gg) transport and (hh) banks and financial services categories and (ii) other specified categories? B811E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in magisterial districts cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payments in areas other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued and as a result thereof the 1991-92 figures are not available at this stage.

At the time an answer was prepared to a similar question, No 372, asked by Mr J J Walsh in May 1991, 56 per cent of assessments for the 1989/90 tax year had been processed. The actual number of taxpayers and amounts assessed at that stage were for the purposes of the reply projected by that percentage to indicate what the position would be once all assessments had been raised.

It is now considered that these projections may, for a variety of reasons, not be within acceptable bounds of accuracy. The statistics furnished below accordingly relate only to taxpayers actually assessed to date, who represent 75 per cent of registered taxpayers in 1989/90 and 64 per cent in 1990/91.

(320)

PERSONAL INCOME TAX ASSESSED 1990-91

DISTRICTS

Sectors	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Agriculture	310 670 185	77 290 820	10 041 349	2 934 225	735 837	9 835 684	3 296 388
Mining	803 202 167	174 804 249	851 152	160 104 311	4 451 464	431 473	117 048
*Construction/ Manufacturing	1 741 669 510	60 408 388	8 504 225	5 054 001	37 613 925	1 901 760	938 301
Commerce	1 148 541 552	66 505 809	29 444 874	11 993 085	2 621 912	3 767 697	6 892 205
Government Services	1 910 548 939	119 254 877	67 507 785	13 664 420	4 365 288	9 406 700	4 293 711
Transport	407 894 157	27 425 139	15 651 958	1 063 868	763 575	5 452 986	2 279 138
Banks and Financial Services	581 375 740	24 783 206	12 789 096	3 779 241	714 531	1 491 620	1 439 232
Other	5 806 560 734	183 022 822	59 068 797	32 989 294	30 095 809	12 554 714	8 383 194

* No distinction between these two sectors can be made.

KEY TO DISTRICTS

(a) Republic of South Africa
(b) Orange Free State
(c) Bloemfontein
(d) Welkom, Virginia, Odendaalsrus
(e) Sasolburg
(f) Kroonstad
(g) Bethlehem

NOTE

Statistics in respect of taxpayers earning less than the applicable Standard Income Tax on Employees (SITE) limit are not available and therefore not reflected in the above figures.

Taxpayers: certain magisterial districts

330. Mr A E DE WET asked the Minister of Finance:

(320)

(a) How many taxpayers were there and (b) what total amount was collected in personal income tax in the magisterial districts of (i) Bloemfontein, (ii) Welkom, (iii) Kroonstad, (iv) Sasolburg and (v) Virginia in each of the eight income categories particulars of which have been furnished to the Minister's Department for the purpose of his reply, for the 1989-90 and 1990-91 tax years, respectively? B817E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in magisterial districts cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payments in areas other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued to taxpayers resident in the relevant magisterial districts.

At the time an answer was prepared to a similar question, No 372, asked by Mr J J Walsh in May 1991, 56 per cent of assessments

cont →

for the 1989/90 tax year had been processed. The actual number of taxpayers and amounts assessed at that stage were for the purposes of the reply projected by that percentage to indicate what the position would be once all assessments had been raised.

It is now considered that these projections may, for a variety of reasons, not be within acceptable bounds of accuracy. The statistics furnished below accordingly relate only to taxpayers actually assessed to date, who represent 75 per cent of registered taxpayers in 1989/90 and 64 per cent in 1990/91.

320

(i) BLOEMFONTEIN

TAXABLE INCOME GROUP	1989-90 NUMBER	TAX	1990-91 NUMBER	TAX
		R		R
12 001 — 20 000	1 693	2 040 260	1 304	1 483 909
20 001 — 30 000	3 196	10 975 210	2 052	5 567 073
30 001 — 40 000	4 277	30 120 069	2 026	11 475 524
40 001 — 50 000	3 548	37 929 747	5 735	33 716 099
50 001 — 60 000	1 809	26 765 239	2 678	34 867 667
60 001 — 80 000	1 701	34 831 568	2 376	44 218 650
80 001 — 100 000	588	17 146 105	817	22 289 168
100 001 +	875	55 480 753	884	52 005 074

(ii) WELKOM

TAXABLE INCOME GROUP	1989-90 NUMBER	TAX	1990-91 NUMBER	TAX
		R		R
12 001 — 20 000	576	693 601	319	399 873
20 001 — 30 000	1 061	3 725 724	535	1 610 527
30 001 — 40 000	2 078	15 490 774	692	4 112 139
40 001 — 50 000	2 484	27 039 087	1 926	18 514 726
50 001 — 60 000	1 903	28 323 490	2 032	26 719 298
60 001 — 80 000	1 666	34 027 788	2 584	48 414 858
80 001 — 100 000	546	16 149 290	831	22 633 145
100 001 +	561	34 694 312	748	39 196 150

(iii) KROONSTAD

TAXABLE INCOME GROUP	1989-90 NUMBER	TAX	1990-91 NUMBER	TAX
		R		R
12 001 — 20 000	409	508 172	284	388 010
20 001 — 30 000	909	3 140 184	455	1 270 369
30 001 — 40 000	1 178	8 171 791	515	2 997 287
40 001 — 50 000	750	7 983 855	932	8 411 933
50 001 — 60 000	387	5 668 338	561	7 182 439
60 001 — 80 000	279	5 745 668	442	8 046 878
80 001 — 100 000	113	3 355 297	135	3 670 541
100 001 +	201	13 905 465	188	13 210 114

(iv) SASOLBURG

320

TAXABLE INCOME GROUP	1989-90 NUMBER	TAX	1990-91 NUMBER	TAX
		R		R
12 001 — 20 000	265	327 161	172	208 491
20 001 — 30 000	630	2 120 567	324	933 073
30 001 — 40 000	1 134	8 348 239	330	1 915 414
40 001 — 50 000	1 851	20 190 148	978	9 508 980
50 001 — 60 000	1 150	16 950 780	1 483	19 411 445
60 001 — 80 000	682	13 768 489	1 654	30 393 829
80 001 — 100 000	150	4 353 598	406	10 855 928
100 001 +	114	6 304 007	179	7 999 164

(v) VIRGINIA

TAXABLE INCOME GROUP	1989-90 NUMBER	TAX	1990-91 NUMBER	TAX
		R		R
12 001 — 20 000	157	175 097	81	92 705
20 001 — 30 000	268	933 299	136	363 682
30 001 — 40 000	668	4 887 558	191	1 182 159
40 001 — 50 000	894	9 698 488	656	6 197 639
50 001 — 60 000	636	9 481 793	678	8 809 305
60 001 — 80 000	434	8 748 525	787	14 547 957
80 001 — 100 000	109	3 215 827	209	5 588 840
100 001 +	90	4 816 137	152	7 140 085

NOTES

Statistics in respect of taxpayers earning less than the applicable Standard Income Tax on Employees (SITE) limit are not available and therefore not reflected in these figures.

Taxpayers: Orange Free State

332. Mr A E DE WET asked the Minister of Finance:

What was the (a) number of taxpayers who were liable for personal income tax and (b) personal income tax collected per income category in the Orange Free State in the 1989-90 and 1990-91 financial years, respectively? B819E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in provinces cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payments in areas other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued to taxpayers resident in the relevant provinces.

The statistics also exclude taxpayers who, under the SITE system, do not furnish returns of income.

320

	1989-90	
	(a)	(b)
INCOME GROUP	NUMBER	AMOUNT OF TAX
0 — 12 000	1 421	698 951
12 001 — 20 000	3 421	3 967 198
20 001 — 30 000	5 856	19 354 473
30 001 — 40 000	7 860	55 582 174
40 001 — 50 000	7 389	78 953 456
50 001 — 60 000	4 783	70 313 379
60 001 — 80 000	3 885	78 332 267
80 001 — 100 000	1 342	38 771 465
100 000 +	1 739	108 883 176
TOTAL	37 696	454 856 539

Cont. →

320

1990-91

INCOME GROUP	(a) NUMBER	(b) AMOUNT OF TAX
0 — 12 000	576	624 339
12 001 — 20 000	2 033	2 532 314
20 001 — 30 000	3 523	9 518 696
30 001 — 40 000	3 651	20 598 730
40 001 — 50 000	6 501	60 385 670
50 001 — 60 000	5 601	72 416 806
60 001 — 80 000	5 983	110 667 218
80 001 — 100 000	1 913	51 238 995
100 000 +	1 947	119 983 841
TOTAL	31 728	447 966 609

The statistics furnished above accordingly relate only to taxpayers actually assessed to date, who represent 75 per cent of registered taxpayers in 1989/90 and 64 per cent in 1990/91.

Reserve Bank: communication with two persons

356. Mr K M ANDREW asked the Minister of Finance:

(1) Whether his predecessor and/or his Department communicated with the Reserve Bank in respect of (a) its (i) financial rand and (ii) other dealings with two persons, whose names have been furnished to the Minister's Department for the purpose of his reply, and (b) any business (i) owned, (ii) controlled or (iii) managed by one or both of the above-mentioned persons; if so,

(2) (a) when, (b) why, (c) what was the nature of the communication, (d) what was the response of the Reserve Bank and (e) what are the names of (i) the two persons and (ii) each of the businesses involved?

B854E

The MINISTER OF FINANCE:

(1) (a) (i) Yes; (ii) No.

(b) Yes.

(2) (a) 20 October 1989 and 27 February 1990.

(b) On both occasions the director of the companies involved approached my predecessor to expedite an application submitted to the Reserve Bank for an investment in South Africa through the medium of Financial Rand.

(c) These representations were duly submitted to the Reserve Bank with the request that they be considered. At no time was there any question of favourable treatment to be given to the applications.

(d) The response of the Reserve Bank on both occasions was positive.

(e) (i) Mr S Shpilman and Mr E Rechter.

(ii) W Ungar & Sons (1989) (Pty) Ltd and its holding company, Sesom Investment Holdings (Pty) Ltd.

Reserve Bank: agreements entered into with two persons

357. Mr K M ANDREW asked the Minister of Finance:

(1) Whether the Reserve Bank has entered into any agreements with (a) two persons, whose names have been furnished to the Minister's Department for the purpose of his reply, and (b) any business owned, controlled or managed by one or both of these persons; if so, (i) what agreements, (ii) when were they entered into and (iii) what are the names of the (aa) persons and (bb) businesses concerned;

(2) whether these agreements have been adhere to by both parties; if not, (a) to which agreements and (b) in what respects has there not been adherence.

B855E

The MINISTER OF FINANCE:

(1) (a) No; (b) No;

(2) Falls away.

NOTE:

In response to applications submitted to the Exchange Control Department of the Reserve Bank through these persons' South African bankers, authority was granted during 1989 and 1990 for an investment totalling R48 423 184 through the medium of financial rand firstly to form a holding company (Sesom Investment Holdings (Pty) Limited) to acquire a jewellery manufacturing company (W Ungar and Sons 1989 (Pty) Limited), and subsequently for the purchase by it of additional operating assets. Conditions stipulated at the time of approval encompassed a minimum 15% value to be added to the raw material and the receipt of export proceeds of the final product within 90 days. This period was later extended to 180 days. The company has more recently had difficulty in meeting these criteria and these aspects have been addressed by the Exchange Control authorities through the bankers of the local company.

Land owned by Department: Natal region

359. Mr P C CRONJÉ asked the Minister of Regional and Land Affairs:

(1) Whether he will furnish particulars of the land, other than land for domestic purposes such as government buildings, owned by his Department in the Natal region; if not, why not; if so, (a) (i) what is the name of each farm or piece of land so owned, (ii) in which district is it situated and (iii) what, in hectares, is the extent of each and (b) what are his Department's plans for the land in question;

(2) whether any discussions and negotiations have taken place and/or decisions have been made in regard to transferring the ownership of any of this land to the self-governing territory of KwaZulu; if so, (a) which pieces of land are involved and (b) what steps have been taken in regard to each such piece;

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

B857E

The MINISTER OF REGIONAL AND LAND AFFAIRS:

(1)-(3) The Central Government is negotiating with the Government of KwaZulu regarding various properties which were owned by the former South African Development Trust, but decisions in that respect have not yet been made. A summarized memorandum of information with regard to question 1(a)(i), 1(a)(ii) and 1(a)(iii) is included for your disposal.

SCHEDULE

1.1 ALFRED DISTRICT (7 436 ha)
- — Alfred Native Location No 8 No 15848
  Alfred Native Location No 9 No 15849
  Alfred Native Location No 10 No 15850
  Tom Fynn's Location No 4865
- — Junction/Nortonsloop Area
- — Izingolweni 3613 (sub 3 and 4)
  Lot AB Umbelline 6995
  The Gorge 10302
  Ebenezer 3784
- — Gundrift Area

1.2 BABANANGO DISTRICT (4 761 ha)
- — Babanango West Area

1.3 BERGVILLE DISTRICT (4 761 ha)
- — Bergville Properties

1.4 CAMPERDOWN DISTRICT (1 009 ha)
- — Kafirdrift 906
  Riet Vallei 851

1.5 DUNDEE DISTRICT (15 784 ha)

1.6 ESHOWE DISTRICT (3 101 ha)
- — Gingindglovu/Amatikulu Area
- — Emtumeni Mission Glebe 15837 (Sub 2)
  Lot 62 Amatikulu 13212 (Sub 1)
  Lot 67 Amatikulu 13213 (Sub 1)

1.7 ESTCOURT DISTRICT (13 209 ha)
- — Estcourt Farms (12 747 ha)
- — Kwazondi 14314
  Pumalanga 14313
  Hatting 1222

1.8 HLABISA DISTRICT (2 545 ha)
- — Mtolo 14390 (Remainder)
  Somkele Townlands
  Hlabisa Townlands

1.9 IMPENDLE DISTRICT (22 385 ha)
- — Impendle Farms — Lot GR 24 (Remainder)
- — Impendle Townlands

1.10 INANDA DISTRICT (1 969 ha)
- — Groeneberg 844
  Oakford 828
  Piezang Rivier 805
  Riet Rivier 842
- — Roode Krans 828 (Sub 306/1)

1.11 INGWAVUMA AND UBOMBO DISTRICTS (184 963 ha) the Correctional Services Act. They will be released, after a process of identification, before 15 November 1992, in terms of legislation which the Government will present to Parliament during the forthcoming short session in October. The proposed legislation will deal equitably with all those prisoners who qualify and whose release can make a contribution to reconciliation. Certain prisoners in this category will however, within days, be released on parole on certain conditions. In such cases the parole conditions will be cancelled in the event of Parliament passing the above-mentioned legislation.

In addition to the above-mentioned cases, The Government will submit further legislation to Parliament to enable it to address the cases of persons who have committed similar offences, but who have not yet been charged or sentenced, in keeping with the Government's position that they should be dealt with on the same basis.

The Government has, in this regard, been guided by the following considerations:

1. All prisoners and offenders who fall in this category should be treated on the same basis, regardless of their political affiliation.
2. The Government's action in releasing these prisoners does not signify condonement of the crimes which they committed—many of which were atrocious and morally inexcusable.
3. However, the government has, throughout, accepted that national reconciliation and a comprehensive political settlement, will require that the slate should be cleaned with regard to all persons who have committed crimes with a political motivation. Only on this basis can the book finally be closed on the conflict and bitterness of the past.
4. Whatever steps are taken should be taken properly and in accordance with the law. In this regard it has consistently been the Government's view that special legislation would be required for the release of certain categories of prisoners and that the use of the State President's powers *inter alia* that of pardon in terms of section 6(3)(d) of the Constitution would not be appropriate in such cases."

I quote from the Record of Understanding between the State President and the President of the ANC dated 26 September 1992:

> "(c) The two parties are agreed that all prisoners whose imprisonment is related to political conflict of the past and whose release can make a contribution to reconciliation should be released. The Government and the ANC agreed that the release of prisoners, namely, those who according to the ANC fall within the guidelines defining political offences, but according to the Government do not, and who have committed offences with a political motive on or before 8 October 1990 shall be carried out in stages (as reflected in a separate document: Implementation Programme: Release of prisoners) and be completed before 15 November 1992. To this end the parties have commenced a process of identification. It is the Government's position that all who have committed similar offences but who have not been charged and sentenced should be dealt with on the same basis. On this question no understanding could be reached as yet and it was agreed that the matter will receive further attention.
>
> As the process of identification proceeds, releases shall be effected in the above-mentioned staged manner. Should it be found that the current executive powers of the State do not enable it to give effect to specific releases arising from the above identification the necessary legislation shall be enacted."

It must be emphasised that the Government indicated from the outset that it prefers to obtain authorisation from Parliament for what is clearly an extraordinary action.

The evaluation and possible release of prisoners who committed crimes with a political motivation in terms of the decision by the Government on 26 September 1992, is conducted by a joint committee. Information which was submitted to this committee included information which also served before the Consulting Body and the Indemnity Committee and the principle of confidentiality which was applied there are now also being applied. Therefor, it is not considered advisable to provide the information as requested by the Honourable Member.

087 telephone services: total amounts paid

373. Mr W U NEL asked the Minister of Posts and Telecommunications:

(1) Whether he will furnish particulars in respect of the total amounts that have been paid by Telkom to service providers of 087 premium rate telephone line services in respect of moneys due to such service providers for the use of their facilities by telephone subscribers; if not, why not; if so, what amounts were so paid in each specified month since the inception of these services;

(2) whether Telkom (a) has requested or (b) has been furnished by service providers with (i) percentage or (ii) monetary breakdowns in respect of the monetary value of charges for the various categories of services; if so, (aa) what are these categories of services and (bb) what are the relevant particulars; if not,

(3) whether Telkom will require such breakdowns before considering any continuation of the premium rate service beyond the expiry date of the initial trial period on 31 December 1992; if not, why not; of so, what steps does he intend taking in this regard?

B871E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

(1) No. Telkom SA entered into a contract with each individual Service Provider and income accruable to these Service Providers for calls made to their specific services by telephone subscribers, is treated as confidential information and cannot be divulged without their permission. The total income paid to Service Providers is however not regarded in the same light and according to the latest available information such income totals R230 137 940 for the period 15 October 1991 to 30 August 1992.

(2) (a) No

(b) No

(i) Falls away (aa) Falls away

(ii) Falls away (bb) Falls away

(3) Telkom will not require financial breakdowns of the categories of services from the various Service Providers as Telkom is aware of the call patterns made to the different categories and of the services that are causing concern. Telkom will take steps to ensure that only information services that will not cause a public outcry or are not damaging to the company's image will be permitted when consideration is given to the possible continuation of a premium rate type telephone service.

Income tax assessments in arrears

374. Mr D H M GIBSON asked the Minister of Finance:

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(1) How many income tax assessments are in arrears in respect of each tax year from 1983 up to and including 1991;

(2) whether any objections remain to be dealt with in terms of section 81(4) of the Income Tax Act, No 58 of 1962; if so, (a) how many and (b) (i) when and (ii) in respect of which tax year was each such objection lodged;

(3) (a) how many cases were pending before the income tax special court as at the latest specified date for which figures are available and (b) to which tax years do they relate;

(4) when is it anticipated that the backlog of (a) assessments, (b) objections and (c) cases will be eliminated?

B872E

The MINISTER OF FINANCE:

(1) The number of returns of income received and for which assessments must still be issued, are as follows:

1983 — 300
1984 — 509
1985 — 1 030
1986 — 2 169
1987 — 4 700
1988 — 10 189
1989 — 21 105
1990 — 48 223
1991 — 133 078

In addition to the above-mentioned cases there are cases where the income tax

contin →

returns have not been submitted. These cases are followed up on a continuous basis except where extension has been granted.

320

(2) Yes.

(a) The records of objections are kept on a decentralized basis at the 33 offices of receivers of revenue and the details of the number of objections which have not been dealt with are at present not available. The information will be furnished as soon as it is available.

(b) (i) Every case must be considered on its own merits and is dealt with as soon as all the relevant facts are available.

(ii) As mentioned in (2)(a) above, this information is at present not available and will be furnished as soon as it is available.

(3) (a) 197.

(b) 1980 — 3
1981 — 12
1982 — 18
1983 — 29
1984 — 41
1985 — 63
1986 — 68
1987 — 83
1988 — 62
1989 — 35
1990 — 15
1991 — 2

(4) (a) The assessing of cases is a continuous process and Inland Revenue strives to ensure that assessments are issued within four months of receipt of the return of income. Cases of salaried persons are normally dealt with in a shorter period while the more involved cases like companies, of necessity, take longer.

(b) Objections are dealt with on a continuous basis as and when all the relevant facts are available. Every case is considered on its own merits and there is not a standard period for dealing with them.

(c) Cases are brought before the court as and when court days are available. Special additional sittings of the Special Court have been held for some time in order to erase the backlog. It is expected that the backlog will be erased within a year.

An important measure which has been introduced to speed up the hearing of appeal cases is the Special Board which will hear smaller cases in a more informal manner.

Bilharzia

376. Mr R J LORIMER asked the Minister of National Health:

(a) How many cases of bilharzia were reported in each province during the latest specified 12-month or other period for which information is available and (b) (i) what is it estimated is the incidence of this desease in South Africa at present and (ii) what action is being taken by her Department in this connection?

B874E

The MINISTER OF NATIONAL HEALTH:

(a) Bilharzia is not a notifiable medical condition, therefore no information is available on the number of cases on South Africa and

(b) (i) no estimate can be given since surveys of infections have not been undertaken and

(ii) the prevention of bilharzia is integrated in the primary health care programme which includes the following measures:

- Education of the population at risk with regard to the transmission cycles, distribution, symptoms and prevention of bilharzia.
- Distribution of brochures on bilharzia.
- Provision of clean, uninfested water for human consumption.
- Provision of effective sanitation facilities to prevent the infestation of water sources.
- Diagnosis and treatment of bilharzia patients.

Mossgas: cost per litre/subsidy

377. Mr G C ENGEL asked the Minister of Mineral and Energy Affairs:

(1) (a) What is the estimated cost per litre of refined petrol derived from gas produced by Mossgas and (b) in respect of what date is this estimate furnished;

(2) how many litres of fuel is it estimated will be produced by Mossgas in each of the next three years;

(3) whether it is anticipated that the subsidy in respect of Mossgas fuel will be based on the difference between the Mossgas production cost and the cost of imported fuel; if not, on what basis will the subsidy be calculated;

(4) what, in terms of the existing rand/dollar exchange rate, is the estimated subsidy in respect of Mossgas fuel in each of the next three years?

B875E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) (a) The cost to refine petrol from gas is company confidential information and cannot be divulged. It can, however, be noted that, from a pure operating perspective (i.e. excluding servicing or capital cost), Mossgas refining costs compare extremely favourable with any conventional crude refinery.

(b) Falls away.

(2) Mossgas will be building up towards design capacity during 1993, but thereafter production should be of the order of 1 600- 1 700 megalitres of refined product per annum.

(3) No; with a view to promoting investment in the manufacture of liquid fuels from indigenous resources and to encourage greater involvement by the private sector in such industries, Government has ruled that the current protection mechanism, whereby the prices that manufacturers of liquid fuels from indigenous resources will receive, will at least be the same as the equivalent product price that is deduced from a crude oil price of $23 per barrel. As long as Engen is a participant in Mossgas, the company will qualify for the same protection as Sasol.

(4) The protection calculation is a function of both oil price and rand/dollar exchange rate. The current Mossgas assumption for these parameters indicates the estimated protection to be:

1993 — R70,25 million
1994 — R50,16 million
1995 — Nil

i.e a total of R120,41.

Note that in terms of the current protection mechanism this amount is repayable when the oil price exceeds $28,70 per barrel.

Under the same oil price scenario, but a stronger rand, (i.e. the current exchange rate) the above support figures will be reduced.

Increase in price of refined fuel

378. Mr G C ENGEL asked the Minister of Mineral and Energy Affairs:

(1) Whether there has been an increase of approximately 14,5 cents in the price of refined fuel since the Budget Speech on 18 March 1992; if not, what is the position in this regard; if so,

(2) whether he will furnish an analysis of the cost pressures that led to this increase; if not, why not; if so, what are the relevant particulars?

B876E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) No, but since 18 March 1992, the retail prices of petrol (all octanes), and the wholesale prices of diesel and illuminating paraffin were increased as follows:

Date of increase	Increase (c/l) Petrol	Diesel	IP
21 March 1992	9,0	7,0	0,9
10 October 1992	7,0	—	3,0
TOTAL INCREASE	16,0	7,0	3,9

The general fuel price increase on 21 March 1992 was necessitated by:

BUSINESS DAY, Thursday, October 22 1992 3

Leave VAT rate, cut back your spending, govt told

GOVERNMENT should not try to make up the shortfall in VAT revenue by increasing its rate but must slash state spending instead, economists say. (320)

They were reacting to Finance director-general Gerhard Croeser saying on Tuesday that government would be forced to increase VAT to at least 13%.

Econometrix economist Tony Twine said instead of attempting to raise VAT revenues by 30% of the current take, government would at least do better by trimming its expenditure by an equivalent amount.

Ironically, he said government's revenue could fall even further if it increased the VAT rate. Consumers would cut back on their spending. [redacted]

Standard Bank chief economist Nico Czypionka said it was more imperative for government to cut spending. [redacted] [redacted]

"Our calculations show that to keep on an even keel, they would have to reduce expenditure by 5%. But, I'm not sure they have the guts to do that."

Czypionka said this inefficiency as well as the duplication of apartheid government departments needed to be rooted out.

Finance Minister Derek Keys has said the number of public servants would be reduced by about 30 000 next year as part of his attempt to cut government spending by 3%. — Sapa.

BDAY 22/10/92

Keys meets major players

320 **DIRK HARTFORD**

WHETHER the proposed national economic forum gets off the ground or not depends on today's critical meeting between Finance Minister Derek Keys and delegations from labour and business.

It is the first tripartite meeting since government blocked plans in September to launch the forum because of Cosatu's promotion of a PAYE boycott and mass action. BDay. 22/10/92.

Today's meeting is between the proposed forum's process committee and Keys and his advisers. Sacob director-general Raymond Parsons, Chamber of Mines president Bobby Godsell and Cosatu general secretary Jay Naidoo are part of the process committee.

Naidoo said the meeting — which would address issues blocking the formation of the forum — was critical.

"It will determine whether co-operation or confrontation is on the agenda in the medium term. We want constructive co-operation and we hope that is where the meeting will take us," he said.

Although he rejected the link between Cosatu's anti-PAYE campaign and government's refusal to endorse launching the forum, Naidoo said the postponement of the boycott should make agreement easier.

Business sources also described the meeting as critical. It was imperative the forum got off the ground as soon as possi-

☐ To Page 2

Keys

BDay 22/10/92. 320

☐ From Page 1

ble on the basis of pursuing economic growth.

If the forum failed to get the go-ahead, it was possible business could discuss proceeding with bilateral discussions with the trade unions on issues the forum was meant to address.

Cosatu is pushing for the full participation of government as it believes this is the only way to get the talks to "deliver".

Keys had said that once parties to the forum were committed to speedy economic growth, to not taking action that harmed each other and to obeying the law, government would be ready to participate.

He said yesterday issues that needed to be addressed included:

☐ Effectively using the unemployed in communities;

☐ Making it easier for the unemployed to get work in the formal sector;

☐ On-the-job training for workers;

☐ Ways to minimise unrealistic expectations;

☐ The reintroduction of normal commercial relations between financial institutions and house buyers;

☐ The stopping of other boycott actions; and

☐ The raising of agricultural productivity on high potential land.

Keys said other issues that could be addressed were agricultural exports, tourism, financing of big and small business, achieving national consensus on investment and long-term growth and promoting an entrepreneurial climate.

Keys said the formation of the forum would create confidence and be an important step forwards.

He warned, however, that it would take a great deal of negotiation to get there.

‘VAT increase will be fought’

(320)

RECENT indications by Finance Minister Mr Derek Keys that he might increase Value Added Tax (VAT) by between 13 and 15 percent in the next budget has mobilised anti-VAT forces for yet another fight over this controversial tax.

The Co-ordinating Committee of Vat (VCC) this week said it was against any VAT increase — and would not be mollified by any attempt to soften the blow of higher VAT by zero-rating food. South

“An increase in the VAT rate cannot be traded off against zero-rating of some foods,” said VCC in a statement.

“It is not acceptable for the minister to treat VAT as a closed system. As long as the government allows and encourages corruption and mismanagement on a huge scale, and encourages bureaucrats and politicians and teachers and others to line their pockets as much as possible before the system changes, the VCC cannot consider trade-offs.” South

VCC repeated demands that:

- Basic foods be zero-rated. This should include fresh vegetables, fruit, eggs, white meat and fish 24/10 - 28/10/92
- Water, electricity, medicines and medical services be zero-rated
- Better provision for small businesses, which are experiencing several difficulties with the VAT system.

“The VCC is not prepared to wait for next year’s budget to see zero-rating of foods. This must take place now. The poverty relief programme, which the government claimed would protect the poor against the effects of VAT, is now universally recognised to be a disaster.”

Jacobs Report: Tax uncertainty 'already hitting pensions'

(320) CT 26/10/92

Business Editor

PEOPLE are already becoming reluctant to make private provision for pensions because of uncertainty about their tax situation, following the Jacobs Report, says Abri Meiring, Old Mutual manager, legal services.

Meiring says the taxation of retirement provision should be handled with great circumspection "especially in the SA context where there is no real social safety net and where private pension provision takes place within an established framework of tax rules which people use in a rational way to provide for their personal retirement needs.

"Against this background the proposal to allow only partial tax deductibility of contributions seems strange indeed.

"Presumably the logic is that one can legitimise the one-third tax free sum on retirement, death or withdrawal by allowing only two-thirds of the contribution input as a deduction.

"The immediate concern is that this will encourage the notion of a taxfree lump sum even on early withdrawal.

"We believe this raises fundamental policy issues such as the following:

- Is it appropriate to allow tax relief on lump sums while pensions/annuities are fully taxed?
- What is the justification for tax relief on early withdrawals given the current serious leakege?
- Will the reduced incentive value of partially tax deductible contributions lead to a reduction in retirement savings?
- Shall we see a switch from employers away from pension provision (which the report suggests could be 80% deductible) to increased remuneration (100% deductible?)
- Could it be there is a more sinister motive behind the curtailment of employer contribution deductibility — after all the State, as the largest employer in thge country, will not be affected at all as it does not pay tax?
- How will a retirement annuity funded by a partially deductible contribution compare with a unit trust investment funded by after-tax money?
- Where do provident funds fit into the picture considering that employer contributions are currently tax deductible and member contributions not?
- Will vested rights be protected insofar as existing contractual arrangements are concerned, this ensuring full tax deductibility at current levels?

Meiring says the irony is that all these questions are the subject of the Mouton Committee's investigation into retirement provision.

"The crucial question is why the Jacobs Committee deemed it appropriate to deal in such an a hoc manner with this sensitive matter while th Mouton Committee is still sitting."

He believes their suggestions are just idea "best seen as further input to the Mouton Commi tee.

But "unfortunately the uncertainty created b the comments of the Jacobs Committee is now fait accompli."

Financial advisers are having to cope with th difficulty when trying to convince clients that pr vate pension provision is a No 1 priority.

CT 29/10/92

Tax change 'to hit aged'

THE implementation of the Jacobs Committee recommendation that only two-thirds of an individual's pension fund contribution be tax-deductible had serious implications for retired people, the South African Council for the Aged said yesterday.

It was "perturbed" that an additional tax burden would discourage people from making financial provision for retirement and would result in a larger number of people not being able to retire independently, SACA director, Mr S C A Eckley, said in a statement.

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New taxes predicted under a future govt

B/DAY 29/10/92

320

HILARY GUSH

SEVERAL new taxes — including taxes on capital gains, transfer pricing and land — could be expected under a future government, Price Waterhouse Meyernel tax manager Pieter Malan said yesterday.

Speaking at a corporate financial officers' conference in Johannesburg, Malan forecast an increase in the VAT rate, "probably disguised in the form of a multi-rate tax", and the introduction of a minimum tax on companies.

Another area where tax legislation could be expected was in the control of transfer pricing, he said.

"Transfer pricing is a wonderful way to manipulate taxes payable by multinational companies. Apart from exchange control regulation and the general anti-avoidance provisions in the Income Tax Act, there is no legislation in SA to control transfer pricing."

Malan said a capital gains tax was unavoidable, and even though preparation of enabling legislation would be a lengthy and complicated process, it did not mean the tax could not be introduced suddenly and without warning.

He said such a tax would be fair, equitable and "politically justifiable to the majority of the people".

"Why should only income of a revenue nature be taxed, while income of a capital nature is spared, especially in a country where the vast majority do not have capital assets due to their extreme poverty?"

Malan said the range of assets subject to a capital gains tax would be "as wide as possible and will include personal rights". Indexing — to allow for inflation — would probably be available, while provision would be made for the deduction of capital losses from capital gains.

Although the introduction of a land tax was not being considered as a national tax, Malan said a form of land tax might be levied by regional authorities.

He warned of the many problems associated with the implementation of such a tax. "Just valuation criteria will have to be established and associated debts will have to be taken into account. The yield on agricultural land will naturally also have to be considered," he said.

VAT at 14% by next Budget — BER

220

CT 21/10/92

Business Editor

VAT is likely to be increased to 14% in the next Budget, fuelling inflation — and reducing expected growth in gross domestic product (GDP) by one percentage point — the authoritative Stellenbosch Bureau for Economic Research (BER) suggests.

In their short-term forecast for the SA economy, BER economists point out that the Government had accumulated a deficit before borrowing of R15,7bn by August.

"Should this trend continue during the remainder of the fiscal year, then the deficit will climb to more than 10% of gross domestic product (GDP).

"The reason for this is twofold — revenue is running way below budget whilst expenditure is again showing signs of outstripping the amount budgeted for.

"Only 25,6% of the R84,7bn of revenue which has been budgeted for has been raised, whilst 43,4% of the total expenditure budgeted for has already been spent.

"Government officials are going out of their way to explain that it would be wrong to project the figures of the first five months up to the end of the fiscal year. However the danger signs are there for all to observe."

The BER considers "it might have been preferable to finance the anticipated 1993/4 Budget solely by way of loans but the Government seems to be of the opinion that it needs to look at additional revenue sources."

The Government might minimise the political risk of raising VAT by agreeing to zero rate basic foodstuffs. But nothing could be done to minimise the inflationary impact of this.

The immediate effect of raising VAT would be to cause prices to increase. Instead of inflation increasing "at a relatively moderate pace of 11,5% during 1993", an effective 13,5% rise in VAT would cause inflation to average 13,8% for 1993.

"The sharpest increase is likely to occur in the second quarter. We suggest an annualised figure of 15% for that quarter."

Government's spending under attack

DURBAN — Speakers at the convention attacked the excessive levels of government spending yesterday.

Government's estimated expenditure (at all levels) of 30% of GDP came under fire during debate on motions on taxation, and fiscal and monetary policy.

Introducing the taxation motion, the Johannesburg Chamber of Commerce's Mike Cato said the country could no longer afford to waste its tax revenues on exorbitant and inefficient government spending.

A representative of the Border chamber, introducing the other motion, said the conflict between strict monetary policy and lax fiscal restraint was a prime cause of high inflation.

(320)

However, Finance Department director-general Gerhard Croeser attributed rising government expenditure to the poor performance of the economy.

Although he admitted high government spending was a problem, Croeser said a 4% to 5% real reduction in state expenditure could have severe consequences in an economy going through a long recession.

The motion on taxation, calling for slashed government spending, was passed unanimously.

BDAY 29/10/92

The motion on fiscal and monetary policy and its effects on the economy were referred to Sacob's economic committee for further analysis. — Sapa.

Media Statement

PAYE: The Importance of Correct and Updated Personal Particulars for the Deduction of Employees Tax

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It would appear that many employees are still not aware of the importance of furnishing details of their personal particulars on the prescribed IRP 2 form—**PAYE: Personal Particulars of Employee**—to their employers for purposes of the deduction of employees tax from their remuneration. This form (IRP 2) must be filled in and lodged with their employers on taking up employment and also when any change to these personal particulars occurs.

Employees tax on remuneration paid on a daily, weekly or monthly basis, as well as the final determination of SITE at the end of the tax year or tax period, is calculated and deducted by the employer in accordance with the particulars declared on the IRP 2 form.

An urgent appeal is therefore made to employees to firstly ensure that, on taking up employment, they submit an IRP 2 form to their employers. Employees who are presently in service, but failed to submit IRP 2 forms to their employers when they originally took up employment, are requested to now furnish their employers with such forms. The Income Tax Act determines that any employee who neglects to furnish his employer with an IRP 2 form must be taxed at the highest rate, viz at the rate applicable to an unmarried person in respect of a male and at the rate applicable to a married woman in respect of a female. If by the end of the tax year or tax period an IRP 2 form has not been furnished to the employer, the tax so deducted is final and such employee will not be entitled to a redetermination of his tax deductions.

Secondly, employees who had previously submitted their IRP 2 forms but whose personal circumstances have since changed, must submit amended IRP 2 forms to their employers in order that any changed circumstances can be taken into account in determining the amount of employees tax to be deducted.

To sum up, an IRP 2 form must be submitted by employees under the following circumstances:

- When an employee takes up employment with a specific employer for the first time.
- Where an employee failed to submit an IRP 2 form on taking up employment.

Mediaverklaring

LBS: Die Belangrikheid van Korrekte en Bygewerkte Persoonlike Besonderhede vir die Aftrekking van Werknemersbelasting

Dit wil voorkom asof baie werknemers steeds nie die belangrikheid besef van die verskaffing van besonderhede van hul persoonlike omstandighede aan hul werkgewers op voorgeskrewe vorm IRP 2—**LBS: Persoonlike Besonderhede van Werknemer**—vir doeleindes van die aftrekking van werknemersbelasting van besoldiging nie. Hierdie vorm (IRP 2) moet by diensaanvaarding en weer wanneer persoonlike besonderhede verander, aan die werkgewer verstrek word.

Werknemersbelasting op besoldiging betaal op 'n daaglikse, weeklikse of maandelikse grondslag, sowel as die finale vasstelling van SIBW aan die einde van 'n belastingjaar of -tydperk, word deur die werkgewer bereken en afgetrek in ooreenstemming met die inligting wat op die vorm IRP 2 voorsien word.

Daar word dus 'n ernstige beroep op werknemers gedoen om eerstens te verseker dat hulle met diensaanvaarding 'n vorm IRP 2 aan hul werkgewers verstrek. Die werknemers wat reeds in diens is, maar wat nie die vorm IRP 2 met diensaanvaarding aan hul werkgewers verstrek het nie, word versoek om hul werkgewers nou van die vorm te voorsien. Indien 'n vorm IRP 2 nie ingedien word nie, bepaal die Inkomstebelastingwet dat die werknemer belas moet word teen die hoogste skaal, naamlik teen die skaal van toepassing op 'n ongetroude persoon vir 'n man en teen die skaal van toepassing op 'n getroude vrou vir 'n vrou. Indien daar teen die einde van die belastingjaar of -tydperk nog nie 'n vorm IRP 2 ingedien is nie, is die belasting so afgetrek finaal en sodanige werknemer sal nie geregtig wees op 'n herberekening van belasting afgetrek nie.

Tweedens moet werknemers wat wel voorheen 'n vorm IRP 2 ingedien het maar wie se persoonlike omstandighede intussen verander het, 'n nuwe vorm IRP 2 by hul werkgewers indien sodat die veranderde omstandighede in ag geneem kan word by die vasstelling van die bedrag aan werknemersbelasting wat afgetrek moet word.

Opsommend moet vorms IRP 2 dus onder die volgende omstandighede ingedien word:

- Wanneer 'n werknemer vir die eerste keer by 'n spesifieke werkgewer diens aanvaar.
- Indien 'n werknemer nagelaat het om by diensaanvaarding 'n vorm IRP 2 in te dien.

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- Where one or more of the following personal particulars has changed since submission of the last IRP 2 form:
  - ☐ A change in the employee's marital status takes place,
  - ☐ an increase or decrease in the number of children in respect of whom the employee is entitled to a rebate,
  - ☐ on reaching the age of 63 or 65 years, and
  - ☐ a change in name.

Enquiries in this connection may be directed to any departmental Receiver of Revenue where IRP 2 forms are also obtainable if stocks are not available from employers.

Issued by: The Commissioner for Inland Revenue, Pretoria.

Contact person: Mr Des Goosen (012) 315-5762.

No. 3025 **30 October 1992**

13 PER CENT INTERNAL REGISTERED STOCK, 2009/10/11: CERTIFICATE No. 15847 FOR R288 200 ISSUED IN FAVOUR OF Dr LILY CELIA WOLPOWITZ

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

No. 3045 **30 October 1992**

16 PER CENT LOAN LEVY, 1994: CERTIFICATE No. 1698 FOR R47 200 ISSUED IN FAVOUR OF DOF MANUFACTURING (PTY) LTD

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

DEPARTMENT OF FOREIGN AFFAIRS

No. 3000 **30 October 1992**

RECOGNITION GRANTED AS CONSUL-GENERAL

It is hereby notified that Mr Ion Tudor Edu has, with effect from 25 September 1992, been granted recognition as Consul-General of Romania in Cape Town, with the Province of the Cape of Good Hope as his area of jurisdiction.

(72/52/2)

- Indien een of meer van die volgende persoonlike omstandighede verander het:
  - ☐ 'n Verandering in die werknemer se huwelikstatus plaasvind,
  - ☐ 'n vermeerdering of vermindering in die aantal kinders ten opsigte waarvan die werknemer op 'n korting geregtig is,
  - ☐ by bereiking van die ouderdom van 63 of 65 jaar, en
  - ☐ 'n naamsverandering.

Navrae in hierdie verband kan gerig word aan enige departementele Ontvanger van Inkomste waar voorrade van vorms IRP 2 ook verkry kan word indien voorraad nie by werkgewers beskikbaar is nie.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

Kontakpersoon: Mnr. Des Goosen (012) 315-5762.

No. 3025 **30 Oktober 1992**

13 PERSENT BINNELANDSE GEREGISTREERDE, EFFEKTE 2009/10/11: SERTIFIKAAT No. 15847 VIR R288 200 UITGEREIK TEN GUNSTE VAN "Dr LILY CELIA WOLPOWITZ"

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloor of verlê is, word hierby bekendgemaak dat tensy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

No. 3045 **30 Oktober 1992**

16 PERSENT LENINGSHEFFING, 1994: SERTIFIKAAT No. 1698 VIR R47 200 UITGEREIK TEN GUNSTE VAN "DOF MANUFACTURING (PTY) LTD"

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloor of verlê is, word hierby bekendgemaak dat tensy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

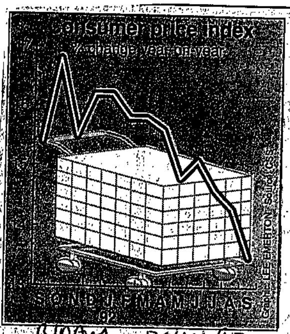
DEPARTEMENT VAN BUITELANDSE SAKE

No. 3000 **30 Oktober 1992**

ERKENNING VERLEEN AS KONSUL-GENERAAL

Hierby word bekendgemaak dat aan mnr. Ion Tudor Edu met ingang van 25 September 1992 erkenning verleen is as Konsul-generaal van Roemenië in Kaapstad, met die provinsie die Kaap die Goeie Hoop as sy regsgebied.

(72/52/2)



BDay 30/10/92

Cheaper bonds slow inflation

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GRETA STEYN

INFLATION, as measured by the increase in the CPI, fell further than expected to 13,5% in September from 14,3% in August, CSS figures released yesterday show.

The main reason was a reduction in housing costs because of the September mortgage rate cut. Housing makes up more than 20% of the CPI basket.

Food inflation moderated on an annual basis, with CSS reporting an annual rate of increase of 27,6% in September (28,5%).

Economists predicted inflation would fall by a further full percentage point in October when the introduction of VAT ceased to distort the figures.

Sanlam economist Johan Louw said the September figures had already benefited from the VAT factor as prices were raised substantially in September last year in expectation of VAT. CSS said inflation excluding VAT stood at 12%. A rise in the VAT rate and an increase in the fuel levy were expected next year and would exert upward pressure. Economists cautioned against too much excitement over the fall in inflation in September.

Although inflation was a key indicator for monetary policy, a fall in the growth of inflation could not be interpreted as a reason to cut interest rates on its own, they said. The month-on-month increase in the CPI was 0,7%. Had housing costs remained stable instead of falling, the rise in the CPI between August and September would have been 1% — an annualised 12,7%.

For the low, middle and high income groups, the respective inflation rates for September were 14,8%, 14,4% and 12,6%.

NEW HOPE FOR ECONOMIC FORUM

FM 30/10/92

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The national economic forum, including representatives of business, labour and government, could be launched this week. The Cabinet was due to discuss the matter on Wednesday.

Feeling in business circles is that government is now close to approving the forum, which, though only an advisory body, could take on effective powers of veto against unilateral policy decisions.

Recession strengthens the view that the Cabinet will give the go-ahead. Since it is all too evident that no economic stakeholder can, on its own, address economic malaise, the forum could play an important role. It will boost confidence among potential foreign investors, local businessmen and workers and be the first tripartite attempt to tackle economic issues.

Moves by business and organised labour — primarily Cosatu — to launch an economic forum resulted in their first formal meeting on January 21. They put together a draft agreement at the end of March.

However, the idea seemed scuppered when, late last month, government rejected the planned launch of the forum by November because of Cosatu's mass action plans — in particular, its planned tax boycott. It had a point; you can't conduct economic civil war while simultaneously seeking co-operative economic relations.

On October 22, Finance Minister Derek Keys launched into a long harangue against a Cosatu delegation (led by deputy general secretary Sam Shilowa) on this score. It was not clear whether this reflected lack of political skill or a deliberate attempt to sink the forum. Things did, however, calm down by the end of that critical meeting.

The forum will have two working groups. One will tackle immediate, short-term issues, such as poverty alleviation, retrenchments, VAT, tax policy and budget matters. Cosatu seems keen on this group. The other will examine longer-term, macro-economic issues, which business seems keener on.

A process committee will integrate the work of the two groups and decide on plenary meetings. It will also formulate guidelines for other parties to make submissions to the forum.

The Consultative Business Movement will serve as interim secretariat. If the forum gets the nod, it hopes to produce results within months, says a spokesman.

Taxes stay high

OLD MUTUAL economist Dave Mohr says a sustained deficit around 6,5 percent or more could have dangerous implications, tax cuts next year are unlikely, and certain taxes may well be raised. (320)

Finweek 30/10 - 5/11/92

BUSINESS BAROMETER

W/Mail 30/10-5/11/92

VAT likely to rise to 14 percent ...

THE Bureau for Economic Research (BER) predicts a four percentage point increase in the Value-Added Tax rate in next year's Budget. (320)

The BER suggests the political risk of raising VAT will be minimised by the zero-rating of basic foodstuffs, but its inflationary impact remains. It says the increase can raise at best R8,4-billion and more likely R6,4-billion.

Cosatu warns of second VAT strike

By Diane Coetzer

South 31/10-
4/11/92

(320)

MILLIONS of workers may again embark on a general strike if the government raises Value Added Tax from 10 to 15 percent next March.

Cosatu spokesperson Mr Neil Coleman said on Tuesday that the government had once more made a decision which would affect the lives of millions of people without any prior consultation with democratic organisations.

This was unacceptable to Cosatu and its affiliates, he added.

In a statement on October 20, the director general of the Department of Finance, Mr Gerhard Croeser, announced that VAT would be increased to at least 13 percent — and possibly 15 percent — when the budget was announced in March.

Croeser told the Afrikaanse Handelsinstituut Congress in Johannesburg that 13 percent was break-even point and would allow exemptions on basic foodstuffs to be reintroduced.

Poverty relief programmes would have to be significantly increased, he said.

Reacting to the announcement, Coleman said that if the increase went ahead, the government could expect the "same reaction" as that which took place November last year. At that time millions of people took part in a general strike to protest against the introduction of VAT

"Cosatu and its affiliates will oppose the raise as strongly as before."

Coleman said government's attempts to trade-off zero-rated foodstuffs against the increase was unacceptable. This was especially in view of the fact that the price of food had increased by 30 percent over the past year — an increase predicted by consumer organisations in September 1991.

He said the government should not give with one hand and take with another.

"Besides, we are not asking for foodstuffs alone to be zero-rated. We want a wide range of basic commodities — including clothing, food and medical supplies — to be given a differential rate, as happens in many other countries."

VAT could not be looked at in isolation.

Revenue was inextricably linked to expenditure, so the government's wasteful expenditure on apartheid structures and the pilfering of money through corruption had to be attended too.

The tax could not be applied in a "slap dash manner", Coleman added.

"There must be real negotiation on differential rates, and on what is regarded as a necessity or a luxury."

Referring to Croeser's statements on poverty relief, Coleman said it was "interesting that the government is admitting what we have been saying all along — that there is no poverty relief programme to speak of in this country".

"But we cannot wait for the government to correct this while people are starving.

"We need immediate zero-rating on food and an increase in pensions.

"If this is not forthcoming and the government goes ahead with its unilateral hike in VAT, it can expect the same opposition it faced in November last year," said Coleman.

Beware, child molester at large

By Edwina Booysen

POLICE are appealing to parents and teachers to warn children not to walk in isolated areas, after the discovery of a boy's body on Tuesday.

Jacobus Louw, 10, of Mitchells Plain, was found by children in the sand dunes at Mnandi Beach.

He had apparently been sexually molested and strangled with his socks.

Jacobus, a standard one pupil at the Beaconview Primary school, was last seen on Kapteinsklip station on Tuesday afternoon.

COMPANIES

Zero-rating 'could push up VAT'

HILARY GUSH 320

ZERO-rating of basic foodstuffs would reduce revenue by between R1bn and R1,5bn — implying the VAT rate would have to be raised sharply to compensate, Econometrix senior economist Azar Jammine said at the weekend. B/DAY

This pointed to a VAT rate increase on durable goods to between 15% and 20%.

The thrust of tax increases in the next fiscal year was bound to be on indirect taxes — particularly VAT. 2/11/92

As a one percentage point hike in the VAT rate would raise about R2bn in extra revenue, Jammine said the authorities would probably favour this form of tax increase to address the budget deficit.

A rise in the fuel levy could also be expected.

He cautioned that the effects a hike in VAT could have in dampening sales — and thus depressing VAT revenues — could not be quantified accurately.

If the tax was increased by three percentage points, as suggested by Finance director-general Gerhard Croeser, about R6bn in extra revenue could be collected.

Jammine pointed out that the R2bn which would be taken out of the economy would match the effect a one percentage point cut in interest rates would have in returning money to the system.

A one-point cut in interest rates was thus needed to neutralise the effect of a VAT rate hike of the same magnitude.

For every 10c/*l* increase in the petrol levy, the authorities could expect to collect an extra R1bn, Jammine said.

In comparison, additional excise duties on cigarettes, beer and soft drinks would pull in only another R200m to R400m.

As about 80% of goods and services in the CPI were subject to VAT, a one-point increase in the tax would have the potential to lift inflation by a once-off 0,8%.

Billions paid in too much tax?

(320) CT 4/11/92

Own Correspondent

JOHANNESBURG. — Too much tax — amounting to billions of rand — may have been paid into state coffers if an investigation into tax overpayment by Cosatu members is representative of all SITE payers.

This is because these tax payers provided incorrect information regarding their personal circumstances.

Mr David Heyman, chief executive of Workers Tax Consultants, says an estimated 850 000 Cosatu members have paid roughly R720 million too much in SITE tax since it was introduced in 1989.

No provision is made for rebates regarding SITE tax. Also, the onus is on employees to provide the correct information regarding their personal circumstances to their employers for tax deduction purposes, he said.

Everyone earning R50 000 or less annually is a SITE tax payer for the 1992 tax year.

Of the 4,6m salaried tax payers, 800 000 are taxed on a PAYE basis, which allows refunds, and 3,8m are SITE payers.

Mr Heyman said the main reasons for these problems are that workers — often illiterate — were not aware they had to fill in IRP2 forms and many did not know they had to advise their employers if they had children or were married.

Single mothers and illegitimate children, for example, qualify for a tax deduction, but employees often did not know this.

Also, employers had not properly informed employees of their obligations under the Income Tax Act and in many instances filled in the forms on behalf of their workers without the proper information, he said.

Mr Heyman claimed employers seemed to be reluctant to help solve the problem because obtaining the correct information posed a huge administrative problem.

However, Commissioner for Inland Revenue Mr Johan Hattingh said he was looking into the problem.

Mr Heyman said Mr Hattingh conceded that the situation was "morally wrong".

But Mr Hattingh pointed out — in a letter to Mr Heyman — that the entire SITE system was based on employees providing correct information "and to deviate from this would lead to a serious erosion of the system and jeopardise its existence".

● **ANC 'won't honour govt land deals' — Page 12**

PHOTO

Leaders urged to halt

SITE miscalculation uproar

Workers to seek millions in tax refunds

BIDAY 4/11/92

(320)

DIRK HARTFORD

MILLIONS of employees paying the flat-rate standard income tax on employees (SITE) could have overpaid billions of rands because they did not provide their employers with correct information about themselves.

A Cosatu investigation has shown that about 60% of its members had overpaid SITE, which is not recoverable. If the overpayments are representative of all 3,8-million employees paying SITE, the total could run into billions.

Workers earning less than the threshhold at which they have to submit tax returns are taxed at a flat rate of 25%. The payments, unlike PAYE deductions, are not refundable in the case of overpayment.

Workers Tax Consultants CE David Heyman said an estimated 850 000 workers in Cosatu had paid roughly R720m too much in SITE since it was introduced in 1989.

Overpayers have no legal grounds for claiming refunds as SITE makes no provision for rebates. And the legal onus is on employees to provide correct information on their personal circumstances to employers for tax deduction purposes.

However, Inland Revenue Commissioner Johan Hattingh said he was investigating the problem to see what could be done.

Heyman said Hattingh had conceded to him that the situation was "morally wrong". But Hattingh had pointed out — in a letter to Heyman — that the entire SITE system was based on employees providing correct information "and to deviate from this principle can and will lead to a serious erosion of the SITE system and jeopardise its very existence".

The peace secretariat has also been involved in trying to facilitate a solution to the problem. Secretariat spokesman Corrie Bezuidenhoudt said there would be more meetings, including between Cosatu and the Receiver.

A Cosatu spokesman said that whatever the legality of the issue, it was clearly morally wrong. Cosatu was determined that all workers who had overpaid should be compensated.

Heyman's company has been involved in a year-long investigation into SITE overpayments at 12 Cosatu affiliates representing 1,1-million workers.

He said overpayment occurred in most of the thousands of cases investigated.

So far, overpayments had been most marked in the SAP, Transnet, Telkom and Eskom, said Heyman.

In most instances employees had been taxed as single persons when they should

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Tax refunds

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have qualified as married, breadwinners, or parents.

Transnet claimed the Receiver had agreed that rebates could be paid for the 1991 and 1992 tax years. And in instances individual rebates had been paid when submitted to outlying Receiver offices.

A Transnet spokesman said the Receiver had given Transnet until end-Febuary to get its house in order and that refunds would be paid until then.

Transnet's male employees who did not fill in IRP2 forms were automatically taxed as single, while women were automatically taxed as married.

Hattingh said those SITE-paying individuals who had received rebates were given them "in error".

Heyman said the main cause of the pr
lem was that workers — often illiterate
were not aware they had to fill out IR
forms. Many did not know they had
advise employers if they had children
were married. Single mothers and illegi
imate children, for example, qualified f
tax deductions, but employees often d
not know this.

And employers had not properly i
formed employees of their obligations u
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be reluctant to help solve the problen
because obtaining the correct informatio
posed a huge administrative problem.

Billions windfall

(320)
CT 5/11/92

Overpaid SITE tax may be refunded

By AUDREY D'ANGELO
Business Editor

MILLIONS of families all over the country will find themselves better off if the government refunds billions of rands that have been overpaid in standard income tax on employees (SITE).

The extra money could give a badly needed boost to the economy, resulting in more jobs.

But it would increase the growing shortfall between revenue from taxes and government expenditure, and result in higher taxes later.

Cosatu, after an investigation, claims that about 60% of its members have overpaid an estimated R720 million since SITE was introduced in 1989.

In most cases they had been taxed as single people when in fact they had children to support.

If the overpayments are representative of all the 3,8 million employees paying SITE, the total could run into billions.

SITE was introduced as a flat-rate tax for workers below the threshold at which they have to fill in tax returns. To cut down on work for the Inland Revenue department it was stressed, at the time the tax was introduced, that no refunds could be made.

Inland Revenue Commissioner Mr John Hattingh was quoted yesterday as saying that the necessary adjustments could be made, possibly resulting in refunds, if people had mistakenly been taxed as single people in the current year because they had failed to give full information to their employers.

Mr Hattingh said that where the employee had given full information but the employer had made a mistake, the employee was entitled to refunds for past years.

Tax consultant Mr Colin Wolfsohn, a partner in Kessel Feinstein, said yesterday: "Thousands of people are over-paying tax, either because their employers have not kept up to date with current tax tables or because people do not give them full information.

"For instance, a man who marries a woman with two children is immediately entitled to pay tax as a married man with dependent children.

"Provision exists in law for refunds, even of SITE, if the employee tells his employer before the end of the tax year."

Mr Wolfsohn said the Department of Inland Revenue had been "very reasonable" about giving refunds in cases of overpayment.

ANC in call for extra tax measures

GRETA STEYN (320)

THE ANC yesterday called on government to implement a number of tax measures as soon as possible to alleviate the present revenue crisis. B/DAY 5/11/92

The organisation also called for fiscal discipline, saying fiscal policy had a role to play alongside monetary policy in combating inflation.

At a presentation for businessmen arranged by stockbrokers Senekal Mouton & Kitshoff in Johannesburg yesterday, ANC department of economic planning head Trevor Manuel said about R2,5bn could be raised by creatively exploring available tax instruments.

Taxing dividends would have added about R600m in the current fiscal year. "If this was found to be an impediment to investment, the move could be reconsidered. But the revenue base is small and that is a factor that has to be taken into account," he said.

A further area of concern was that all interest paid to nonresidents, including SA emigrants, was tax exempt. The inclusion of emigrants in the exemption was not necessary as the intention had been to encourage foreign investment in SA. Taxing emigrant earners of interest could add up to R400m.

Other sources of revenue were the tax-based film, livestock and plantation schemes. If Revenue immediately settled the cases pending on film tax schemes,

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Tax

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rather than waiting for the courts, as much as R650m could be raised at once.

The ANC had also become aware of the erosion of capital transfer tax, with the revenue from this source in effect not being collected. Government had let it slip "as a sop to the agricultural sector" in a political pay-off. However, a further R500m-R750m could be raised if the tax was collected properly.

On spending, Manuel said a democratic government would be under extreme pressure to spend excessively, but this would have to be resisted. Present spending levels were not too high.

A detailed analysis of current spending was needed to establish the efficiency of the way in which money was spent. As an example he mentioned health spending, where levels were adequate but infant mortality and life expectancy rates indicated money was not being spent correctly. It was necessary to look beyond figures to what the spending was achieving.

He criticised government for cutting spending on education while continuing to spend on homeland governments.

Manuel criticised the practice of financing consumption spending with loans, saying it was "the first problem" that had to be addressed. Government had violated a fundamental principle in allowing debt to rise to 45% of GDP as a result of current — not capital — spending.

PENSIONS (320) · FM 6/11/92

Jacobs lives

Pensions tax, discussed in the Japie Jacobs report last month, is very much a live issue. After the furore that followed the report from Jacobs, special economic adviser to the Finance Minister, there were some in the retirement industry who hoped the matter would be swept under a carpet. Yet at a meeting of the Tax Advisory Committee (TAC) last week, it was made clear that

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government's need for money is so pressing that the retirement industry cannot expect to escape.

(320)

But Jacobs's so-called proposal, a variant on a variant of an Australian model for a pensions tax, may not be the eventually favoured method. Discussions continue to take place among actuaries from the private sector and the TAC.

On Tuesday, State actuary Piet Robbertse discussed some of the options — in highly algebraic terms — at a closed meeting of the Actuarial Society of SA. Robbertse mentioned various tax schemes, ranging from the existing system where tax applies only on the withdrawal benefits, to a tax on the build-up of assets in a fund; alternatively making part of the contributions to a fund non-tax-de-

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ductible. The latter, which emerged in the Jacobs proposal, attacks the heart of tax practice, since employer contributions to pensions are obviously expended in the production of income.

Robbertse's address merely confirms that while the issue of a pensions tax is very much alive, there is still room for debate on the practicalities. Old Mutual, among others, has indicated it feels a method can be evolved which does not materially damage the retirement industry.

The oddity is that the debate has commenced without the publication of the Mouton Committee investigation into the retirement industry. This committee has been sitting on and off for four years and was charged with inspecting retirement programmes around the world and coming up with the most suitable answers for SA.

Its report is at last at the government printer and Finance Minister Derek Keys should get his copy within a few days. Jacobs indicated to the *FM* that Mouton had virtually handed to his own committee the task of establishing pension tax principles and Mouton would probably have little to say on the issue. But it's hard to see how the work of the two committees can be separated. When Keys decides to release the tome into which Mouton's work has grown, it may be possible to see the logic. ■

Row grows over SITE payments

(320)

BDAY 5/11/92

DIRK HARTFORD

WORKERS Tax Consultants CE David Heyman yesterday accused Inland Revenue commissioner Johan Hattingh of trying "to pull the wool over the public's eyes" by saying that overpayment of SITE in the present year could be refunded.

He said there was already provision for this in the law and the real problem was overpayment in previous years.

Heyman, whose company is investigating tens of thousands of SITE overpayments by Cosatu members, estimates that up to 850 000 workers could have overpaid R720m in previous years.

He said the law also provided for repayment in previous years if it could be shown the employee had provided the correct information but the employer made a mistake when submitting the employee's SITE tax. He believed it was in any event almost impossible to prove this.

"It is absolutely reprehensible that the commissioner uses provisions already in the law as solutions to the crisis of SITE tax overpayment," Heyman said.

However, Heyman argued that a precedent for repayment for previous years had been set. He said the commissioner had already given a directive to allow refunds to Transnet employees for the 1991 and

☐ To Page 2

SITE

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1992 tax years.

The commissioner could not be reached for comment last night.

However, a Transnet spokesman said the situation at Transnet had been complicated because the "unions discouraged our employees from filling in the forms" when they were first introduced.

Because few employees would fill in the form, Transnet registered every male employee as single and every female employee as married.

This meant the majority of workers were "being taxed too much".

She confirmed that the commissioner had agreed to allow the situation to be rectified and Transnet had been given to the end of Febuary to do this.

Meanwhile, Telkom has undertaken to try to process 67 000 forms by the end of the present tax year to make sure the personal information on its employees is correct, Heyman said.

All employers were reportedly sent a notice last month from the Finance Department reminding them of the importance of correct and updated personal particulars for tax deduction.

☐ SITE tax is not a flat rate tax of 25% — as was erroneously reported in Business Day yesterday. SITE tax, like other PAYE tax, is calculated on each individual's salary and is adjustable on a sliding scale. It is dependent on the marital status and number of children of the taxpayer.

● Comment: Page 12

Jacobs explains delays in pension fund report

B/DAY 6/11/92

[illegible]

320

LINDA ENSOR

CAPE TOWN — Special economic adviser Japie Jacobs said yesterday "the extreme delicacy" of the issue of taxing pension funds had led to repeated delays in finalising his report on the industry.

Speaking at the opening of Sanlam's financial advisory service in Bellville, Jacobs said suggestions on the taxation of pension funds, published last month, had been formulated a year ago but had been delayed owing to the fear of repercussions, including fears of labour unrest.

Jacobs said that while people should be encouraged by means of tax incentives to make their own provision for retirement, the question was how large the deductions for private pension funds should be.

"There exist various possibilities in terms of which the existing tax incentives for retirement provision can be reduced. It does not mean the total scrapping of them," Jacobs said.

Two considerations had to be borne in mind when investigating the taxation of pension funds, Jacobs said, namely the consequences on the competition between different categories of financial institutions in terms of the flow of funds; and the extent to which the fiscal authorities could afford the incentives.

The latter consideration was especially important in a country with an uneven income distribution, Jacobs said.

Cosatu on warpath over SITE payments

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DIRK HARTFORD

THE furore around overpayment of SITE by hundreds of thousands of employees grew yesterday as Cosatu warned of a "collision course" with government if overtaxed employees were not refunded.

Cosatu said in a statement that a combination of employer negligence and worker ignorance of tax laws had been deliberately exploited by the Receiver of Revenue to fleece low-paid workers on a large scale.

BDAY 6/11/92

A tax consultant claimed yesterday that in 95% of her cases, employee information provided for tax purposes was wrong.

The DP, which has called for an immediate investigation, and several trade unions, said it was unacceptable that employees had overpaid SITE.

Cosatu described the SITE deductions as a national scandal which would make the VAT conflict seem like a lovers' tiff if workers were not repaid.

Cosatu was investigating the legal liability of the receiver and employers. It said employers who failed to obtain a declaration from a worker and who deducted more tax than was necessary were probably in breach of their duty.

"Cosatu will ensure that all methods are investigated to secure compensation for workers who have been victims of legalised theft," the statement said.

Meanwhile Cape Town-based Tax Professionals' Lizelle Boshoff said she had successfully applied for refunds for thousands of SITE tax-payers at offices of the Receiver of Revenue in Cape Town, Witbank and Johannesburg.

It was not possible to get the Receiver to confirm this yesterday as offices in Witbank and Cape Town were already closed.

Workers Tax Consultants CE David Heyman said he, too, had had some success in getting rebates for SITE taxpayers at the Witbank office.

But Commissioner for Inland Revenue

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SITE

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☐ From Page 1

Johan Hattingh has said any rebates granted, other than for the current tax year, were "errors".

And Heyman said that even though there were already precedents — as at Transnet where the commissioner had given a directive that refunds be paid — the commissioner had refused further directives for refunds in other sectors.

Heyman said also that giving refunds to "single" people, where tax had been incorrectly levied, was not the solution to the problem.

"The vast majority of cases where employees have been overtaxed applies to married people, or people with children, who are ~~being~~ taxed as single.

"This is where the real problem lies," Heyman said.

Meanwhile DP finance spokesman Ken Andrew called for an immediate investigation into overpayments of SITE and for remedial action to be taken.

He said one step that could be taken was to require employers to get a statement from every employee on an annual basis to confirm issues like marital status and the number of dependents.

"We must recognise that taxation must not only be fair in theory, but in practice as well," he said.

Excess tax showdown threatens

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ARG 7|11|92

ALIDE DASNOIS
Business staff

THE SITE issue blew up into a full-scale row this week, with Cosatu warning of a collision with the government if millions of workers are not refunded excess tax paid.

Cosatu claims millions of low-paid workers have had excessive SITE (Standard Income Tax on Employees) deducted from their wages, and that its members alone are owed up to R1 billion and possibly more.

But, Inland Revenue Commissioner Mr Johan Hattingh is adamant: Only excess tax paid during the current year can be refunded.

According to Cosatu in a statement issued this week: "A combination of employer negligence and worker ignorance of tax laws has been deliberately exploited by the Receiver of Revenue to fleece low-paid workers on a large scale."

Under the SITE system introduced in 1989, employees earning less than R50 000 a year are not obliged to fill in annual income tax returns. Tax is deducted by employers on the basis of information supplied by the employees themselves.

But, union spokesmen and tax experts point out that tax categories are not always clear to workers and the onus should be on employers to make sure the information entered is correct.

"It is possible that many people don't know in which category they are taxed", says Mr Jacques Marnewicke of Sanlam.

Income tax laws categorise taxpayers as single, married and married women. People with dependent children who qualify for rebates are automatically taxed as "married persons", married or not.

But, not all taxpayers know this. A union spokesman points out: "If an employer asks a single mother whether she is married, she'll say no.

"If nobody explains to her, how is she to know she's a married person in terms of the law?"

Mr Marnewicke agrees. "The categories could be very confusing."

"Another problem arises when people are taxed as single persons when, in fact, they are married under customary law. The Income Tax Act recognises customary law marriages, but not all employees — or employers — are aware of this," he says.

"Employers have at least a moral obligation to inform employees — particularly illiterate employees — of the implications."

If the employee does not fill in an IRP2 form, the employer must deduct tax from his or her wages at the maximum rate, applicable to an "unmarried person", in the case of men, and to a "married woman", in the case of women.

■ To page 3

Too much tax paid in error

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ARG 7|11|92

■ From page 1

And, while "married persons" only start paying tax when their income hits R12 500, the floor is set at R10 715 for "unmarried persons" and at R5 264 for "married women".

This means a woman who earns more than R12 500 a year who has been classified incorrectly as a "married woman" instead of an "unmarried person" might pay tax on R5 451.

A "married person" with two dependent children, earning R2 000 a month, can claim a primary rebate of R2 225, plus child rebates of R200, and will pay a total of R2 115 a year in tax. An "unmarried person" earning the same amount can claim only a primary rebate of R1 950 and will pay a total of R3 220 a year in tax.

And, a "married woman" — who is assumed to be supported by her husband — can claim an even smaller rebate of R900 and will pay R4 270 in tax on a salary of R24 000 a year.

Mr Hattingh admits that the current system is not entirely satisfactory: "But what's the alternative?

"How can we calculate taxes on any other basis than information supplied by the taxpayers themselves?"

He says employers were recently reminded of the importance of completing IRP 2 forms correctly.

He also says employers generally "go out of their way" to make sure employees provide the necessary information.

Although he says Inland Revenue is taking the SITE row seriously and is investigating claims of excess tax paid, he insists that refunds can be made only for the current year.

The law, says Mr Hattingh, excludes refunds of excess tax paid in previous years — even if the mistake arises from an employee's — or an employer's — ignorance of the tax regulations.

Stowaways in group of Angolan refugees

S/Times 8/11/92

By SHARON CHETTY

TWO stowaways, five cats and a dog were among the 301 international refugees airlifted from Angola on Friday.

The two Angolan stowaways were not part of the group the Department of Foreign Affairs had arranged passage for and will be sent back.

After two months of uncertainty since that country's elections and a week of intensive clashes between the Angolan government's MPLA forces and the rebel Unita movement, the refugees were visibly relieved when they got off the Safair Boeing and Hercules aircraft.

Visas

A beaming Mr Pik Botha was on hand to welcome the mainly business people and embassy staff on the two mercy flights.

They arrived with only essentials.

In addition to SA citizens, the refugee group comprised Angolan, Zambian, Namibian, Czechoslovakian, German, Bulgarian, Sri Lankan, Russian, Lebanese, Zairean, Portuguese, Israeli and Australian nationals.

Foreign Affairs spokesman Jacques Malan said they were in South Africa on seven-day visas.

Eight Czechoslovakian embassy staff were under siege in their office for five days during intensive shelling of Unita regional headquarters 100m away.

"We could not move. We were lucky that our telephone worked and we were able to contact the South African embassy for help," said Mr Paool Kosnac.

Lenasia businessman Don Ramsee went to Angola a month ago to set up a cafe with a friend in a town called Malanje.

Two weeks ago they were abducted by Unita soldiers, robbed of their belongings and made to live in the bush for five days.

Passports

Johannesburg food exporter Ali Haniff has visited Luanda every month for several years.

"The past week was my worst. For the first time I felt threatened in Luanda — the bush war finally reached the city," he said.

However, four Angolan-born SA embassy staff members who hold Portuguese passports said they would return home once things settled.

For Israeli businessman Moshe Samara, who also has permanent residency in South Africa, "not even a million dollars" would urge him to return to Angola.

ANGOLA LATEST

PRESIDENT FW DE KLERK has offered to host a peace summit between Angola's President Jose Eduardo dos Santos and Unita leader Jonas Savimbi, according to a UN bulletin.

A spokesman for the president said she could not confirm this.

Meanwhile, UN peacekeeping chief Marrack Goulding arrived in Luanda to try to get negotiations under way to prevent a resumption of civil war.

International aid officials said this weekend that Unita was gaining territory in fighting across Angola and warned of chaos and looting in the capital and provinces. Estimates put the death toll in clashes this week at 2 000.

WELCOME BACK ... Minister Pik Botha shakes hands with Sean Cleary as he arrived back with other refugees from Angola this week Picture: ANDY KATZ

State refuses to refund tax millions to workers

S/Times 8/11/92

(320)

By KURT SWART

THE government is refusing to pay back millions of rands in tax which had been overpaid by hundreds of thousands of low-paid workers over the past three years amid charges that it had benefited from "legalised theft".

On Friday the government signalled its determination to resist a Cosatu call to refund fully workers who had overpaid the Receiver of Revenue on SITE tax, when the Commissioner of Inland Revenue, Johan Hattingh, said: "As the law stands no refund can be made."

Mr Hattingh had announced on Wednesday that only workers who had overpaid Standard ~~Income Tax~~ on Employees (SITE) this year would be refunded.

Cosatu, however, has demanded that workers be refunded for every year they had been overtaxed since the system was introduced in 1989.

Uproar over the SITE overpayments followed a Cosatu investigation into the taxation system which revealed that 850 000 members had been overtaxed for three years.

The amount lost from workers' pay packets was estimated at R720-million, Cosatu claimed. Thousands of workers outside the Cosatu fold could also have been affected.

Ignorance

SITE was introduced to tax workers earning less than R50 000 a year, doing away with the need for employees in this category to submit tax return forms.

Employees were taxed on the basis of information they supplied to their employers. According to Cosatu, a combination of worker ignorance ~~of tax laws~~ and employer negligence resulted in the majority of workers who were married or had dependants being taxed as single people.

Cosatu maintained that the situation had been deliberately exploited by the Receiver of Revenue to pocket millions at the expense of the workers and warned it was on a "collision course" with the government if workers were not refunded.

The over-taxation was described as a national scandal by Cosatu, which announced that it was investigating the legal liability of employers and the Receiver of Revenue over the financial loss suffered by workers.

The Democratic Party joined in the condemnation of the overpayment, demanding an investigation and for workers to be compensated.

However, Mr Hattingh insisted that if a complete refund was to be made "the whole system would collapse".

"The employee must furnish full particulars with the employer. That is the law; otherwise the employer is obliged to deduct tax on single rates."

Mistake

Mr Hattingh said that if in the current year the information supplied by the employee was correctly adjusted by the employer, "in this instance a refund can be made".

"If the employer made a mistake a refund can be made. That is the law at the moment. But a refund cannot be made for previous years if the information supplied was not correct."

Mr Hattingh said he would have further meetings with representatives of employees to discuss the issue.

Tax chief: No SITE refunds

(320)

CT 9/11/92

Own Correspondent

JOHANNESBURG. — Employees cannot legally be refunded for SITE tax overpayments other than for those in the present tax year, according to Commissioner of Inland Revenue Mr Johan Hattingh.

Mr Hattingh, who was involved in drafting the SITE tax law, will meet Workers Tax Consultants chief executive Mr David Heyman tomorrow to discuss solutions to the overpayments made by hundreds of thousands of workers.

In a letter to Mr Heyman in September, Mr Hattingh said — "moral issues aside" — the legal provision that employees furnish correct information on IRP2 forms was "the very cornerstone on which the SITE system is based".

He said any deviation from this principle "can and will lead to a serious erosion of the SITE system and jeopardise its very existence".

Mr Heyman asked in a statement how it was possible for a senior government official to write a "morally wrong law" and get it passed by parliament.

He also pointed out that the commissioner — in a press statement in April 1990 — said employers were required to rectify overdeductions of SITE. If they failed to do so, "any taxpayer who does not have to submit a return may approach his Receiver of Revenue for a refund," he said.

Mr Heyman's tax team are handling numerous cases for state and parastatal employees. Also, overpayments have been uncovered by employees of a wide range of companies — including Woolworths, Checkers, AECI, SABC, Nampak, OK Bazaars, Wits University, Dorbyl and the Old Mutual.

Tax commissioner to discuss SITE issue

DIRK HARTFORD

INLAND Revenue commissioner Johan Hattingh will meet Workers' Tax Consultants CE David Heyman tomorrow to discuss possible solutions to overpayments of SITE tax affecting hundreds of thousands of workers.

BDay 9/11/92.

Hattingh, who was involved in drafting the SITE tax law, says as the law stands employees cannot be repaid for overpayments other than in the present tax year.

The overpayments arose when notification of changes in employees' marital status and numbers of children were not submitted.

In a letter to Heyman in September, Hattingh said that — "moral issues aside" — the legal provision that the employee furnish correct information on IRP2 forms was "the very cornerstone on which the SITE system is based".

He said any deviation from this principle "will lead to a serious erosion of the SITE system and jeopardise its very existence".

Heyman said that the commissioner — in an April 1990 statement — said employers were required to rectify over-deductions of SITE. If they failed to do so, "any taxpayer who does not have to submit a return may approach his Receiver of Revenue for a refund," he said.

Heyman asked in a statement how it was possible that a senior government official could write a "morally wrong law" and get it passed by Parliament.

Overpayments have been uncovered among employees of a wide range of companies — including Woolworths, Checkers, AECI, SABC, Nampak, OK Bazaars, Wits University, Dorbyl and Old Mutual.

Bank's Meijer urges lower income tax

(320)

CT10/11/92

By AUDREY D'ANGELO
Business Editor

INCOME tax should be lower as an incentive to work harder, and bracket creep should be eliminated by making allowance for inflation when setting tax rates, deputy Reserve Bank Governor Jaap Meijer said yesterday.

He also suggested compulsory loan levies, to postpone a rise in consumption expenditure, and the payment of "negative income tax" to the lowest-income workers instead of subsidising goods or services.

Speaking at the Stellenbosch Bureau for Economic Research conference at Somerset West, Meijer said:"Our governments now, and in the transitional stage of the new SA, will have to leave no doubt about their development-mindedness and about the development-orientated character of their fiscal policies.

"The objectives of these policies will have to be spelled out clearly and forcefully."

A greatly stepped up national savings and investment effort would have to be part of a programme for accelerated economic growth and development.

"To that extent future fiscal operations will have to encourage private saving and discourage both private and government expenditure."

This might strike a harsh note for those who expected the new SA to bring about a rapid and dramatic rise in their standard of living.

"Our fellow citizens may well be disinclined to practise patience, forbearance and continued doing-without unless significant future fruits of the development effort can be held out to them with some assurance as their due reward for doing so."

In present conditions, Meijer continued, the government must re-establish confidence in its ability to curb its expenditure, increase its revenues and reassert control over the size of budgetary deficits.

It was necessary for it to demonstrate its powers and competence on these scores "for a much.needed revival of business confidence and for the prevention of a return of self-fulfilling accelerating-inflation expectations.

"For the average, non-specialist, less than fully informed citizen an impression of budgets reputedly in danger of spinning out of control even in our present situation may well spell the beginning of doubts about the sustainability of a well-functioning new South African economy in a just and stable new South African society."

Meijer stressed that "a norm should again be established for the upper limit to the budgetary deficit."

It was accepted that in the light of the Exchequer's severely straitened circumstances in the present tax year and in 1993/94 "a norm determined for 1993/94 almost certainly should not be allowed to serve also as the norm for subsequent years."

Meijer said some redistribution of income and wealth, in addition to such major redistribution as was already taking place, would be unavoidable.

Such redistribution, which must be clearly visible and tangible, might well hold back the economic growth and development effort in its early stages at least.

Discussing tax policy Meijer said "the disincentive effect on work effort of our (inevitably quite heavy) relative tax burden should, of course, be minimised.

People with entrepreneurial or management skills, who might leave SA, would have to be "treated comparatively leniently" for tax purposes.

VAT was probably the best means of raising revenue and encouraging saving rather than spending.

"In the area of domestic consumption expenditure and saving, maximum neutrality of the tax system is not what we are looking for. The national savings effort must be boosted.

"For such purposes a broadly based tax such as VAT, (at least on all non-strictly essential consumer purchases) probably still has no readily available, full and equal substitute."

Meijer said due allowance should be made for inflation in the setting and resetting of all taxes and tax rates "which has not been done in the past."

Sowetan 11/11/92

Tax repayments probed

THE COMMISSIONER of Inland Revenue, Mr Johan Hattingh, is to investigate the possibilities of repaying overpayment of Site tax by millions of workers. (320)

Chief executive of Workers Tax Consultants Mr David Heyman, who had a meeting with Hattingh, said they would hold another consultation after a week.

Millions of families all over the country stand to benefit if the Government refunds millions of rands that have been overpaid in Site tax because they had failed to give full information about themselves. - *Sowetan Reporter*

BDAY 11/11/92

SITE rethink pledged

COMMISSIONER for Inland Revenue Johannes Hattingh has promised to reconsider his opinion on SITE over the next week, Workers' Tax Consultants CE David Heyman said yesterday.

Heyman said he would meet Hattingh again next week for further discussions on problems related to the overpayment of hundreds of millions of rands in SITE by Cosatu members. (320)

Call to substitute personal income tax

B/DAY 11/11/92.

LINDA ENSOR 320

CAPE TOWN — Personal income tax for those earning less than about R100 000 a year should be abolished, Seeff Trust MD Mike Flax told the Chartered Institute of Management Accountants (CIMA) last night.

Revenue lost to the fiscus could be replaced by indirect taxation through the restructuring of VAT and instruments such as duties and excises. This would include the informal sector which now fell outside the tax net.

"If all the billions collected by the government in personal income tax was left in the hands of the people who earned it, the economy would receive such a mammoth kickstart that we would never have to look back," Flax said.

VAT committee, Minister hold talks

DIRK HARTFORD

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FINANCE Minister Derek Keys had discussions with the VAT Co-ordinating Committee in Johannesburg yesterday.

Both parties issued a terse "no comment" afterwards, leading to speculation that no agreement was reached.

Government is believed to be willing to consider zero-rating basic foodstuffs, a central demand of the committee. But it is not prepared to zero-rate basic services such as medicine, water and electricity.

In return for zero-rating basic food, government wants the committee to agree to an overall increase in VAT. The committee is opposed to this.

The meeting — the first between Keys and the committee since June — was attended by representatives of the Finance and Trade and Industry departments and Inland Revenue commissioner Johan Hattingh. The committee's delegates included representatives from the Consumer Council, Housewives' League, SA Council of Churches, ANC and Cosatu.

B/DAY 13/11/92

COMPLETE RETIREMENT PLANNING

Time to make sure the last years are golden

S/Times (Buss) (5/11/92 ~~[illegible]~~ 320

RETIREMENT planning is all about determining your needs, financial and otherwise, after clocking out of the workplace for the last time and, more importantly, making provision to meet those needs.

Seems like a pretty straight-forward task and that's probably why so many South Africans plan inadequately or leave retirement planning until its too late.

The primary objective is to create wealth. Besides the need to target investments capable of protecting capital while providing an income, there are the issues of taxation, inflation and liquidity.

A Business Times SURVEY

THE end of the year is a time to look at one's personal finances and a review of retirement plans should be part of this.

SEAN VAN ZYL and BRUCE ALLEN report on issues to bear in mind, particularly in the light of recent changes in legislation and the implications of the Jacobs Committee report.

Providing for the future is complicated by the state of flux, recently exaggerated by the recommendations of the Jacobs Committee, in the retirement business.

Jacobs suggests reducing tax relief for members of retirement funds. If implemented, that would harm middle-class South Africans. A report by the International Monetary Fund describes them as one of the most heavily taxed in the world.

Some sources believe the tax changes could also result in a swing to other long-term investment options. If adopted, the recommendations would remove some of the incentive for employers to make provisions for staff members.

However, not all the Jacobs recommendations are bad news and the proposed abolition of the Sixth Schedule of the Income Tax Act, in particular, stands to have a positive impact.

Arnold Berns, managing director of Berns Block, says: "We all face a point in life where we're going to rely on an income which is earned for us and not by us. We need to build enough capital to generate income capable of maintaining proper living standards."

Given sufficient funds, a comprehensive retirement plan should, in theory, be structured so that the individual is at least able to maintain his or her standard of living.

Longer life expectancies and inflation make this difficult to achieve. But First National Trust's Frank Howell says that the earlier savings start the better.

"Only those who have the foresight to plan well in advance of their retirement, and the discipline to follow a structured savings and investments programme, will be financially secure in their retirement years."

But the creation and preservation of assets needs to be supported by careful estate planning. Without it, even the best retirement plan could prove insufficient should a spouse die without leaving a will and strategy which incorporates several investment variables.

Tax relief is on its way for some

320

S Times (BUSS) 15/11/92.

THERE is some good news for investors in life-assurance policies.

It looks as if the controversial Sixth Schedule of the Income Tax Act, which governs the taxation of life policies, will be scrapped next year. In addition, the so-called trustee principle is expected to be implemented at the same time.

BOOST

These measures will bring significant savings for policyholders because their funds will be taxed at an average rate instead of the maximum marginal one of 43%.

As things stand, life offices operate a taxed fund for ordinary business and an untaxed fund for pension, provident and retirement annuity fund business. This means that profits declared to policyholders are after tax if they come from the assurer's taxed fund.

Another problem is that policies said to be "non-standard" in terms of the Sixth Schedule are taxed for a second time.

Southern Life assistant general manager Nigel Scott puts it this way: "In terms of the trustee principle the life office, being custodian of policyholders' funds, pays tax on their behalf and it is considered pointless to subject the policy proceeds to further tax under the Sixth Schedule.

"However, as a life office's tax rate is set at the maximum marginal rate of 43%, it is unfair to apply this rate to policyholders who are in a lower tax bracket."

Bill Irwin, managing director of Taxcor Services, says this problem will be overcome by life companies implementing four funds for tax purposes.

Of concern to individuals, is the portfolio to be taxed at the average rate applicable to all policyholders. Given that marginal tax rates vary between 17% and 43%, the figure arrived at should be about 32%. That equates to a significant boost to your policy.

The departure of the Sixth Schedule means that the sorting of policies according to the categories "standard", "deemed standard" and "non-standard" will end.

In practical terms, the benefits payable on death, disability, maturity or surrender will be paid to the policyholder without being taxed in his or her hands.

SLOT

Tony Davey, deputy general manager at Southern Life, points out, however, that legislative amendments will not affect the position of policies typically taken out by an employer on the life of an employee "usually for the purposes of deferred compensation provision or keyman protection".

CHARACTERISTICS	PROPOSED NEW REGULATIONS	CURRENT SIXTH SCHEDULE
Minimum term	Five years	Ten years
Contractual premium increases	Limited to a maximum of 20% a year	Limited to the greater of 15% a year or CPI
Voluntary premium increases	Not allowed	Allowed but limited
Minimum premium paying term	Single premiums allowed	Ten years for a standard policy
Life cover	Not required	Minimum required
Taxation of benefits	Tax free	Tax free if policy standard or deemed standard
Limitations on ownership	Natural persons and corporate entities allowed	Only natural persons may own standard policies

Source: Southern Life

Proposed regulations also suggest a reduction in the minimum term of a policy, from 10 years to five years. That suggests life offices will move into the medium-term savings market — a slot which currently does not offer too much in the way of variety.

The requirement that endowment policies incorporate an element of life cover will also fall away.

In addition, companies and close corporations which are now unable to own a standard policy will once again have this investment option open to them.

Looking further ahead, it is probable that the repeal of the Sixth Schedule will increase the range of products on offer. The report of the Jacobs Committee says: "The Sixth Schedule unduly restricts product development in the life-insurance industry as a result of unintended consequences, which are not in the interests of either consumers or the industry."

COMPLETE RETIREMENT PLANNING

Life offices call for calm on tax

S/Times [BUSS] 15/11/92 ~~300~~ (320)

A Business Times SURVEY

THE partial taxation of retirement fund contributions recently put forward by the Jacobs Committee could, if implemented, throw the R20-billion a year retirement business on its head, say sources.

The Jacobs Committee's recommendation that 20% of an employer's contribution and 33% of an employee's deduction of salary to a pension fund should be taxed upfront is expected to lead to significant decline in retirement provision, particularly with regard to pension funds and retirement annuities (RAs).

In turn this could likely bring a heavier social security burden for a new government in years to come.

The life-assurance business has also questioned why the Jacobs report was released ahead of the findings of the Mouton Commission which was appointed before it to investigate a suitable system of retirement provision in SA.

SERIOUS

Sources say there had been no hint from the Mouton Commission of the surprise tax recommendations by Jacobs. The Mouton Commission is still involved with its task, the release of its findings uncertain.

The Life Offices Association (LOA), which is discussing the tax recommendations with the authorities, stresses that Jacobs has only made recommendations.

The LOA says people should not over-react to the report.

However, a source close to the Financial Services Board (FSB), which oversees the life offices, says the Jacobs recommendations are being taken "very seriously" by the Government. An announcement that the recommendations will be made law could be made in the Budget speech in March.

The source confirms suspicions that the recommended tax's main purpose is to raise new revenue for the State in the short term. He says the message sent to the life offices by the Government was "find us another means of raising tax or the Jacobs Committee's recommendations will be pushed forward".

The life business could be seen to be playing down the significance of the Jacobs recommendations to prevent a premature upheaval in the market, particularly in view of the annual salary negotiations at the end of the year.

The suggested tax on retirement contributions is expected to generate up to R5-billion a year.

Fedlife assistant general manager, corporate legal services, Paul Sieberhagen says that R5-billion from retirement contributions would mean at least R5-billion less available for retirement provision.

"In our current market where only one in every 10 people retires with adequate funds, the last thing we need is a disincentive to save."

However, LOA director Jurie Wessels says the recommendations are not entirely negative.

"By taxing a third of an employee's contribution upfront, the authorities concede that a third of the end benefit, regardless of the amount concerned, should be paid out tax free."

POSITIVE

Mr Wessels warns that the inflationary tax would still apply to the other two-thirds of the benefit.

Mr Sieberhagen says that taxing of contributions would reduce the capital available for investment and its future compound growth.

"This would more than offset any gain made by avoiding a later tax on a third of benefits."

Old Mutual manager, legal services, Abri Meiring warns that should a tax on retirement contributions be accepted, there would be no guarantee that a future government would honour this and not tax the end benefit as well.

Mr Meiring also questions whether the reduced tax incentive would discourage retirement funding by employees. Companies would be more inclined to pay staff members higher salaries, which are a 100% tax deductible, instead of contributing to the pension scheme on which they would have to pay tax of 20% of their contribution.

Southern Life deputy general manager, legal and tax services, Tony Davey says the tax could also result in employees and employee organisations exerting pressure to increase salaries to the detriment of retirement funding.

Liberty Life vice-chairman Dorian Wharton-Hood says that although some of the suggestions in the Jacobs report are positive, such as the scrapping of the Sixth Schedule of the Income Tax Act, he hopes that the authorities will consult the life offices before the proposals are introduced.

"We are totally opposed to any proposal which could discourage people from saving for their old age."

Sanlam, which is generally in favour of the recommendations, also stresses the need for thorough consultation.

"Personal retirement provision is important and nothing should be done that could act as a disincentive," it says.

There is some confusion in the market about "capping" — it could apply to both benefits and contributions — which is mentioned in the report. The confusion also applies to whether the tax recommendations on pension funds would apply to provident funds.

Mr Wessels says these issues and others, such as whether the recommended tax would apply to both private and State pension funds, are being discussed with the authorities.

The FSB source says, however, that the retirement tax on contributions would probably apply only to pension funds.

POT

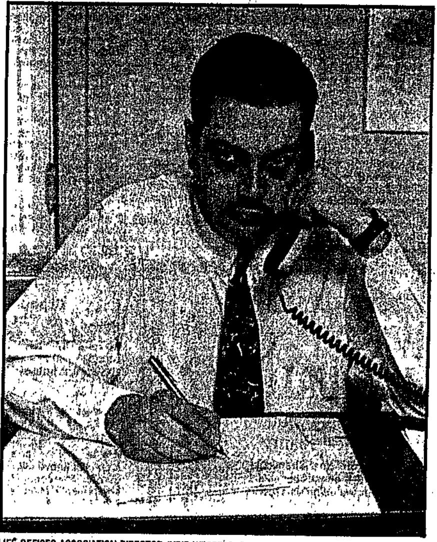
He says the Government would prefer not to "stir the pot" with trade unions which are largely in favour of provident funds.

It would also be difficult to enforce a tax on contributions to provident funds because, under existing legislation, full employee contributions are already taxed.

However, in most schemes, the employer pays the full contribution to the provident fund as part of the salary package — the employer's contribution is fully tax deductible.

If the Jacobs recommendations are implemented along these lines, the life offices expect a significant swing from pension to provident funds.

The tax move could also cause a move from retirement annuities to endowment policies and unit trusts, particularly with the freeing of tax and other product restrictions which would come about through the scrapping of the Sixth Schedule.



LIFE OFFICES ASSOCIATION DIRECTOR JURIE WESSELS: Recommendations are not entirely negative

Confidential govt memo asks for comment on pensions taxation

BDay 17/11/92

(320)

GRETA STEYN

GOVERNMENT has sent a confidential memo to a wide range of interest groups asking for urgent comment on alternative proposals to increase revenue from pensions taxation.

The Financial Services Board (FSB) has set a deadline of January 5 next year for written submissions on a possible new pensions tax dispensation — fuelling speculation that government wants to act by next year's Budget. The move to raise more revenue from pensions taxation is understood to be linked to the planned parity of state pensions.

The memo asks for a written response to five tax scenarios to be made to FSB chief actuary Piet Robbertse. The scenarios, described in detail in the memo, include suggestions other than those made by Finance special adviser Japie Jacobs last month.

The memo indicates that different ways are being considered to place a limit on the size of tax-free contributions to pensions. It requests suggestions on doing away with differences in taxation between pension funds, provident funds and retirement annuity funds to create a "unitary tax on retirement funds". A further request is for a response to the tax treatment of pension benefits.

The memo was sent to the major institutions and is also understood to have been sent to Cosatu, the ANC and organised commerce. The FSB declined to comment, while Jacobs said his report had indicated "certain recommendations or alternative suggestions" would need further research and investigation. "This is being done at the moment," he said.

Major players in the pensions industry confirmed they had received the memo, but declined to comment. A source said indications were the urgency reflected the need to raise revenue to finance the equalisation of state pensions for different races. A link between a new tax dispensation and the equalisation of pensions had been suggested by Jacobs, he said.

The five taxation scenarios include the Margo proposal to modify the present system of tax deductibility of pensions contributions by placing a "cap" on contributions. Margo also suggested no tax free allowance for benefits. The memo asks for suggestions on ways to phase in the Margo proposals.

Another scenario proposed in the memo suggests that employee contributions allowed to be tax deductible be limited to 7,5% of the salary, or about 50% of the total annual contribution. When employer and employee benefits are combined, the maximum tax deductible portion as a percentage of the total salary would be 12,5%, 17,5% or 22,5%. Benefits would then have a taxable and tax-free portion.

The Jacobs suggestion is also noted as

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Pensions

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the "one-third proposal" — Jacobs suggested a third of an employee's current pension contributions be taxed. He also suggested that 20% of an employer's contributions be taxed at the company tax rate. The memo notes that taxation of the employer's contributions could be at the average tax rate of a pension fund's members and not necessarily at the company tax rate.

The other two scenarios are for a retention of the status quo, or for original suggestions.

On the taxable portion of benefits, the memo suggests two approaches.

In terms of the "stick" approach, the member is given no choice but to take the taxable portion as a pension.

The "carrot" approach would give a choice between a lump sum, a pension, or a combination with the tax levied when payment is made and at the rate applicable to the member.

Tax breaks ahead for SA tourism

CT 17/11/92

(320)

From CHRIS BATEMAN

LONDON. — New tax incentives to expand and improve the tourism industry in South Africa were being considered by the government, the Minister for Information and Tourism, Dr Org Marais, said here yesterday.

Addressing the launch of the South African stand at the World Travel Market expo in Earls Court, Dr Marais said the tax incentives would be for new developments and refurbishments by industry members.

Another scheme in the pipeline was voluntary registration and grading for all establishments at which guests would pay a daily levy to Satour.

The money would be used by Satour to market tourism. The establishments would in turn receive a marketing and technical incentive package, plus access to Satours marketing platforms in SA and overseas.

Dr Marais said that in the first six months of this year, tourism to SA rose 14% over last year, with over 200 000 overseas arrivals.

With 1,7 million tourists expected by the year 2 000 conservation had become vital and the government supported programmes which enabled travellers to "personally assist" threatened environments and poverty-stricken communities. The Natal Parks Board was the first to benefit with R17,5m given by the Industrial Development Corporation to re-develop its hutted camp at Hluhluwe Game Reserve.

The IDC had reserves of R600m for similar financing, he said.

Urgent govt memo on pensions taxation

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CT 17/11/92.

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Sowetan 18/11/92

Site tax refunds

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THE Government may refund hundreds of thousands of blacks who were overcharged on Site tax.

Commissioner of Inland Revenue Mr Johann Hattingh said arrangements could be made, possibly resulting in refunds, if people had mistakenly been taxed as single persons this year because they had failed to give full information to their employers.

This emerged after a meeting between Hattingh and the chief executive of the Workers Tax Consultants (Pty) Ltd, Mr David Heyman, in Pretoria last week.

According to workers consultants, about 60 percent of workers have overpaid an estimated R720 million since Site tax was introduced in 1989.

VAT provides a boost to 1992 used car sales

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EDWARD WEST

VAT has boosted used car registrations, but not enough to beat the recession and lift 1992's retail trade sales above 1991's 285 024 units.

Motor Industries Federation president Errol Richardson forecast 280 000 sales by dealers this year. He said although VAT and the introduction of a longer instalment payment period had helped, used car sales by dealers in 1992 would be much the same as 1991.

Central Statistical Service (CSS) figures showed used car registrations six months after the introduction of VAT in September 1991 averaged 46 374 a month. This was 27,4% higher than the monthly average of 36 398 for the six months prior to VAT.

The average monthly ratio of used to new cars sold climbed to 3,07:1 in the six months after VAT, from 2,15:1 in the six months prior to VAT.

However, Richardson said the CSS's vehicle registration figures were contaminated by the great number of vehicles moving from one dealership to another.

B/DAY 18/11/92

Naamsa spokesmen pointed out that about 50% of used vehicle registrations consisted of those sold privately. Used vehicles sold through dealers attract VAT (on the value added portion) equivalent to about 1,8% of the selling price. VAT on new vehicles is 10%. Used vehicles sold privately do not attract VAT.

Econometrix forecasts that trading revenue for the motor industry will climb a marginal 6,1% to R37,74bn in 1992, compared with R35,57bn in 1991. Trading revenue in 1993 is forecast at R45,35bn.

New trust deed expected to 'level the playing fields'

B/DAY 18/11/92

PETER GALLI

THE "playing fields" for property unit trusts and property loan stock companies will be levelled by year-end, enabling the trusts to issue units for acquisition in the same way loan stock companies do, says Frankel, Max Pollak, Vinderine property analyst John Rayner.

"This change will be incorporated in a new standardised trust deed, and will enable property unit trusts to compete with other purchasers without delays caused by a three-month rights issue exercise," he says.

The delays had often resulted in excellent opportunities being lost and would reduce the need for frequent rights issues, which are normally done at a discount to market price.

These issues also distort distribution growth patterns, particularly when the cash raised is not invested immediately and interest rates are higher than property yields.

A different type of property ownership has also evolved, and this technical change will need to be incorporated into the Unit Trust Control Act.

This is scheduled to be presented to Parliament during the 1993 session and "will enable property unit trusts to invest in undivided shares in property, sectional title units and leasehold property without having to obtain special prior permission", Rayner says.

Institutional investors are the major players in the property unit trusts and property loan stock markets, and their exposure has grown to 90,4% from 89,7% to the detriment of the private investor, whose stake has fallen to 9,6% from 10,3%.

The combined capitalisation of the property trust sector and the property loan stock sector is R6,2bn.

The institutional market is also finding it increasingly difficult to locate well-tenanted investment grade properties at an acceptable yield for their portfolios.

"As a result, we expect demand for both property trusts and property loan stock companies to be underpinned by continued allocation of at least 10% — R3bn to R3,5bn — of the institution's net annual cash flow to direct and indirect property," he says.

In addition, the privatisation of state pension funds, such as Transnet, will add increased demand for private investment grade properties.

The dilemma of listed property vehicles is that they are influenced by two distinct markets: the physical market and the equity market.

The listed property vehicles did not react positively to the 1% cut in the prime lending rate on April 1 and have only recently started to display a positive reaction to the additional 1% cut on July 6.

Interest rates are expected to fall further over the next 18 months and a re-rating of both sectors towards the 10% historical level is expected. "This would imply a total nominal return of more than 20% for both sectors over this period," he says.

Dairy Mall up for sale

PETER GALLI

SUBSTANTIAL interest has been shown in Pretoria's R18m Dairy Mall shopping centre, which will be sold by auction on November 26 unless it is sold by private treaty before then.

Auctioneer Hugh Denny of Pam Golding Properties says the agency is talking to four prospective buyers, one of whom already has an 80% bond in place from a major financial institution.

"However, many buyers prefer to wait for the auction to see if they can get the property at a better price. We are hoping for about R18m, but any offers will be submitted," he says.

The centre has a projected net annual rental of more than R3m and is strategically positioned close to the M1 and the Pretoria main railway station.

"The 2,17ha complex includes eight buildings in good condition, covering 14 403m², and a vacant area zoned for a service station, which has rights for a further 2 000m².

"There is vast potential for further development or redevelopment, and sectional title plans have been drawn up," he says.

A detailed proposal from an oil company for the service station is also on offer, which allows for a 25-year lease and a substantial interest-free loan to the developer.

'Claim back transfer fees'

ANDREW KRUMM

CONFUSION at some Receiver of Revenue offices has led to certain property purchasers paying too much tax, says Howard Bilbrough, a partner in legal firm Cliffe Dekker and Todd.

2320

Bilbrough said unwary buyers who paid transfer duty on any property purchased between September 1991 and March 1992 should claim it back.

The problem arose when the Finance Department announced in August 1991 that both transfer duty and VAT (at reduced rates) would be levied on property sales during the VAT transition period from October 1991 to March 1992.

But when the VAT Act was amended in November 1991 — retrospective to the end of September — transfer duty legislation remained unchanged, and the public uninformed.

Bilbrough said the unchanged legislation meant that where the Receiver levied VAT, it could not claim transfer duty.

"Unfortunately certain local revenue offices failed to grasp this fact, which was set out in an unpublicised internal directive," he said. B/DAY 18/11/92

As a result, a number of local offices had overtaxed property buyers who were unaware of the "concessionary atmosphere" during the VAT transition period, he said.

"If you paid transfer duty on any sale concluded between the end of September 1991 and March this year, you should not have done so, and can claim it back," Bilbrough said.

Verster due at inquest

~~252~~ ~~264~~ 254 ~~257~~

SUSAN RUSSELL

FORMER CCB "managing director" Col Joe Verster is due to testify at the Webster inquest in the Rand Supreme Court today — two weeks after a warrant was issued for his arrest when he failed to appear to give evidence.

Judge M Stegmann issued a warrant for Verster's arrest after he defied a subpoena and went overseas to "wind up outstanding CCB matters".

Verster was to have testified on October 30. Instead his counsel Jurie Wessels brought an application for his client to be allowed to testify in camera to protect his identity.

The judge granted the application, but ordered Verster to appear at the inquest on Monday, November 2.

BIDAM

When the court reconvened, however, the judge was told that Verster had gone abroad. Wessels submitted an affidavit in which Verster apologised for his non-appearance, but said he had been forced to travel overseas to finalise CCB matters.

19/11/92

Verster also stated that he did intend to testify at the inquest and took full responsibility for his non-appearance.

In addition to allowing him to testify in camera, the judge also ordered that no photographs, sketches or physical descriptions of Verster be published.

Probe into covert activities was 'deliberately misled'

BIDAM 19/11/92 ~~252~~ 252 ~~227~~ ~~254~~

BILLY PADDOCK

THE Kahn advisory committee set up by President F W de Klerk last year to investigate state covert operations was misled by senior security force officers, who prevented it from fully investigating all activities.

Prof Ellison Kahn was appointed to head the committee by De Klerk in July 1991, after initial reports of the Inkathagate funding scandal. His investigation was confidential, with a report going only to the President, who was to decide what would be made public.

In an interview yesterday, Kahn said all the covert projects exposed in the past few months, such as project Echo and the Ferdi Barnard plan to undermine the ANC, were "news to me". Because his brief meant he had to delve into sensitive and highly secret areas, he had to rely on heads of departments and other "high-ranking officials" to supply him with the necessary information and documents.

"I did not have free rein to go where I pleased and dig around.

"Such an investigation would have taken me years and was impractical," Kahn said.

The investigation, therefore, was largely in the control of, and dependent on, the openness of the high ranking officials who determined which material Kahn could have access to.

This meant that De Klerk also, as head of government, was kept in the dark deliberately.

Kahn said that because his report was confidential and submitted directly to De Klerk, it was up to the President to reveal what he saw fit.

He said De Klerk did issue a statement accepting the recommendations, and that these had been put into effect. "Therefore, if the committee had known of these projects at the time, they would have been stopped," Kahn said.

De Klerk, in announcing the investigation, said no state covert operations aimed at political opponents would be tolerated, and he instructed Kahn to evaluate all special projects and special funds and make recommendations about which were legitimate. The rest were to be scrapped.

In December, he said the advisory committee on special secret projects had found that all continuing government covert projects met the requirements he had laid down in July.

The committee investigated and evaluated projects to ensure these did not advance or prejudice political parties, were in the broad national interest and were playing a positive role in promoting peace.

The committee reviewed secret projects of the SADF, SAP and the National Intelligence Service and was satisfied that these departments had to continue with covert activities, he said.

Inland Revenue to investigate computer claim

BIDAM 19/11/92 320

ADRIAN HADLAND

THE Inland Revenue Commissioner announced an investigation yesterday into whether illegal access had been gained to its computer system by Military Intelligence operatives.

The investigation stems from comments made by Judge Richard Goldstone this week that a task team headed by MI agent Ferdi Barnard had used the computer system as part of a plan to discredit the ANC.

After a raid by Goldstone commission members on a secret MI operations centre last week, it was disclosed that Barnard's team "had the ability to obtain access" to Revenue office computers as well as those of the SAP criminal bureau.

"Every step will be taken to establish whether an offence has been committed and, if so, the necessary legal and disciplinary action will be taken," commissioner Hannes Hattingh said.

The impression had been created that Inland Revenue had given its approval to the use of its computer system by Barnard's team, Hattingh said. "I wish to deny this emphatically. Inland Revenue has always placed great store on the confidentiality of records of taxpayers."

With the exception of the auditor-general and the Customs and Excise Commissioner "no information concerning taxpayers' records is supplied to any Minister of state, state department, organ of government or commission of inquiry".

Keys plans direct tax cuts

(320)
ECT 20/11/92

Aim to create more jobs

From GRETA STEYN

JOHANNESBURG. — Finance Minister Derek Keys plans to reduce direct taxes once government spending has been cut as part of his economic model for SA, according to an interview with him in the RSA Policy Review.

In it Keys provides some clues on the model, due for release in the next two weeks. He said: "I believe every effort should be made to reduce the comparatively high direct income tax burden. However, progress in this area will depend on the ability to create fiscal scope by way of a reduction in government spending on the one hand, and an increase in the contribution of indirect tax on the other." He indicated next year's Budget would implement specific tax reform measures.

Speculation is that a lower company tax rate and a higher VAT rate and fuel levy will form part of tax reform measures.

Cornerstone

On the possibility of introducing wealth taxes, Keys said wealth and land taxes had "unfortunate consequences" such as capital flight and disincentives to save. Experience in other countries indicated additional wealth taxes would not provide the scope for meaningful reductions in company and income tax rates.

The "cornerstone" principle for growth was sufficient and effective investment in capital goods, and the mobilisation of internal and external resources for investment. The other principles were investment in labour to provide skills and promote employment, macroeconomic stability, "responsible" trade liberalisation and the promotion of competition.

He said the creation of new employment was one of the main objectives of the economic model. On unemployment resulting from public sector cutbacks, he was emphatic that the "economic sacrifice" of not cutting back outweighed the "political sacrifice" of taking action.

"We have been investing ever-increasing amounts of the national income in areas that yield no investment return, at the expense of fixed investment which generates growth and new job opportunities."

On SA's financial resources, he said it was important that contractual savings be invested not only in existing assets, but also to finance new ventures increasing the capacity of the economy.

IMF

Keys said the SA Customs Union had become expensive and was no longer an appropriate instrument for economic co-operation. It was too early to say whether SA would become part of any treaty signed by the Southern African Development Community, but its predecessor, the SADCC, had never been attractive.

Asked about SA's failure to join the Swiss constituency in the IMF, Keys said SA had been unable to muster "the required internal consensus" to obtain representation. But the country would still be welcome to join in two years' time.

'More fiscal discipline not higher taxes'

320

CT 20/11/92

By MAGGIE ROWLEY
Deputy Business Editor

THE government had to resist raising taxes next year and concentrate on curbing state expenditure if the weak performance of the economy in 1992 was not to be repeated, says Brian Kantor, head of the UCT School of Economics.

In an interview following a presentation organised by Investec, Kantor said raising tax rates would be counterproductive and would result in a further reduction of revenues.

Instead, fiscal policy would have to address state expenditure with salary increases for the public sector being kept in check.

Kantor said the weakness in the economy had more to do with unexpectedly tough monetary policy than anything else.

Inflationary expectations had continued with business and the trade unions failing to react soon enough to the single-minded determination of Reserve Bank govenrmeor Chris Stals to bring down the inflation rate.

Business, he said, would have to plan as if inflation was going to be 5% next year and not build in 10% inflation cost increases.

"Unless they do so their business will come under extreme pressure," he warned.

This week's cut 1% in the bank rate to 17,25% was "very late and very little". The market had anticipated the bank rate having dropped by at least a further percentage point by now.

The market had expected two further cuts by this stage.

But it was a clear signal from Stals to the government that it could not expect assistance from the Reserve Bank if it does not keep state expenditure under firmer control.

This week's drop in the bankers' acceptance rate (BA) to a four-year low of 11,9% in response to the drop in the bank rate suggested interest rates could come down further if the economy and inflation started coming right.

Kantor said strict monetary policy should see inflation down to 12% by the end of the year with a further 3% reduction to 9% by the end of 1993.

[redacted]

Taxpayers urged to protest

Staff Reporter

WIDESPREAD corruption in government departments has caused a credibility crisis between the government and its citizens, who have a right to know how their taxes are spent and who should protest at signs of abuse of their money.

This was said last night by Professor Johan Heyns, vice-moderator of the Ned Geref Kerk and professor in dogmatics and ethics at Pretoria University.

In an interview from his home in Pretoria, Prof Heyns said: "Due to various accusations of corruption continuously being made against the government — which are denied but later found to hold truth — a critical credibility crisis has arisen between the government and its citizens.

"Christians are not entitled to withhold the paying of taxes, but as taxpayers they are surely entitled to know exactly how their money is used.

"They should also protest at signs of misappropriation and may hold those responsible for misspending their taxes accountable for their misdeeds", said Prof Heyns.

"We cannot we trust leaders leading such poor moral existences, and who adhere to unacceptable moral norms" he said. CT 20/11/92 (320)

Keys plans to reduce direct taxes once govt spending has been cut

BDM 20/11/92

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BUSINESS DAY, Friday, November 20 1992

Tax income 'drained by public service bill'

(320)

BDAY 20/11/92

GERALD REILLY

PRETORIA — Government's tax income in the first six months of the current financial year will be just about enough to meet the year's total pay bill for the country's 1-million public servants, informed calculations predict.

Inland revenue sources said in the six months to September income and company tax collections amounted to R29,764bn — income tax R21,517bn, GST R35m, and VAT R7,897bn.

Calculated on Central Statistical Service figures in the second quarter of the year, 365 000 workers in central government departments earned R2,8bn, own affairs departments R1,7bn, 230 000 provincial workers R1,5bn and officials in the six homelands R1,2bn.

On the basis of the official figures and taking into account the 10% increase in public servants' earnings from July, government's wage and salary bill for the year for the 1-million workers will amount to about R30bn.

This is slightly less than half of the Finance Minister's tax expectation for the entire financial year — R50,484bn for income and company tax and R21,019bn for VAT and GST residue — a total of R71,503bn.

However, collections are expected to be significantly less than Budget expectations, the sources said.

Economists say the figures underscore the urgency for government to cut back sharply on administrative costs, particularly wages, salaries and benefits.

There is also an obvious need for a cut in the costs of homeland bureaucracies.

A great opportunity, they said, had been created by the decision to do away with own affairs departments and fuse them with general affairs to eliminate duplication and overlapping functions.

So far, however, there were no indications that moves had been made in that direction.

The De Meyer commission report on mismanagement of funds and corruption in Lebowa showed that 2,6-million official hours were wasted in the homeland because of early work stoppages and unlisted public holidays.

It was also stressed by the commission that if officials worked for a minimum of 40 hours a week, 1 500 public service posts could be abolished.

Economists said the report indicated the enormous scope for substantial savings in public spending in SA and the homelands.

Keys gives hint of income tax reduction

(320)

ARG 20/11/92

Business Staff

FINANCE Minister Mr Derek Keys says every effort will be made to reduce income tax.

In an interview published in the latest edition of RSA Policy Review, Mr Keys outlines his thinking on economic issues ahead of next week's release of the long-awaited economic restructuring plan.

But, he says, reductions in income tax will depend on success in cutting government spending and on higher revenues from indirect taxes.

Government policy, says Mr Keys, should alleviate poverty, uplift less developed communities, ensure equal opportunities and create new jobs.

He says economic restructuring will not succeed amid violence, political instability and further setbacks in negotiations.

The private sector will also have to fulfil its role as the main engine for growth, he says.

Asked whether his plan to cut real government spending next year by three percent will lead to higher unemployment, Mr Keys says: "We simply have no choice."

Tax incentive bid for tourism industry

B/Day 23/11.92

320

STEPHANE BOTHMA

AN investigation into the possibility of greater tax incentives for companies engaged in promoting SA as a tourist destination is under way.

SA Tourism Liaison Council chairman Rupert Lawlor said the council commissioned a probe by business advisory firm Arthur Andersen and Associates.

Lawlor said a greater understanding was needed of what the industry was doing internationally to promote SA as a destination and that recommendations should be prepared on tax incentives to assist those tourism-related companies involved in marketing exercises abroad.

"After all, if tourism is to fulfil predictions that it will be the number one revenue generator in SA by the year 2000, tangible encouragement must be given," he said.

Two incentive schemes were already in place — the general export incentive scheme (GEIS) and the Export Marketing Allowance (EMA).

"GEIS only applies to 'qualifying claimants' who are manufacturers who export directly or manufacturers who export goods using agents or export trading houses," he said.

Exports that qualified for GEIS were goods which had undergone a production process in SA and which had not been specifically excluded.

Lawlor said EMA involved limited assitance offered to certain export initiatives which did not involve the manufacture and sale of goods.

Four schemes were available under EMA. These were primary export marketing research which compensated exporters for marketing costs incurred in establishing export markets; outward selling trade missions aimed at employers or organisations who travelled abroad to initiate and conclude contracts; travel expenses assistance for inward buying trade missions comprising potential importers of SA goods; and exhibition assistance which encouraged the introduction of products to foreign markets.

He hoped a combination of both schemes could be negotiated in order to recognise and encourage innovation and development in the industry.

On completion of the investigation, proposals would be put to the Trade and Industry Department requesting either a special tax incentive or that money be set aside.

The tourism liaison council was formed to encourage growth in SA tourism and to facilitate effective communication between the tourism industry and statutory bodies.

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Workers' tax relief urged

CT 26/11/92

JOHANNESBURG. — A group of domestic employers yesterday urged that legislation concerning domestic workers allow for tax relief on wages, food and accommodation.

In the next session of Parliament, the government intends introducing the legislation that will for the first time recognise the rights of farmworkers and domestic employees.

Ms Claire Read, chairwoman of the Domestic Employers' Association, said the organisation would discuss the issue with the Minister of Manpower, Mr Leon Wessels.

She said hours, wages and other conditions of employment should be given only as guidelines.

It should only be made law after "employees and employers are aware of, and fully understand, their rights and responsibilities," she said. — Sapa

Up fuel tax, urges minister

(320)

CT 26/11/92

PRETORIA. — There should be a relative increase in indirect taxation — including the taxing of fuel — as part of healthy tax reforms to promote economic growth, deputy Finance Minister Dr Theo Alant said yesterday

He said direct taxation currently accounted for 60% of state income, while it should be closer to 40%.

Delivering a lecture at the University of Pretoria on the economic prospects for a democratic South Africa, he said a discussion document would be released soon, outlining a new economic restructuring strategy.

The strategy would centre on the use of "productive investment" and a more effective application of capital and labour resources to achieve long-term economic growth.

Dr Alant said the government would like to see a decrease in public sector spending from 21% of GDP to 16% during the next four or five years. There should also be an increase in total fixed investments, from 16% to 26%, during the same period.

This was the level that, according to the International Monetary Fund, was necessary to achieve an economic growth rate of three to four percent.

The goal of adequate living standards for all could not be quickly met.

"The only way it could ultimately be reached would be through the economic empowerment of the individual, whereby he or she would be placed in a position to pursue self-actualisation through the market process." — Sapa

CP: Govt to blame for squatters

THE greatest single factor contributing to squatting was the government's total lack of purpose and insight, Mr C M Oosthuysen told the President's Council yesterday.

Speaking in debate on the council's urbanisation report, CP nominee Mr Oosthuysen said of all the council's reports, this document had taken the longest to produce and was full of "coulds" and "probablys".

He said the perception had been created that nothing could be done about squatting.

● South Africans had to stop making plans for urbanisation and use the work that had already been done, DP nominee Mr David Gant said.

"What we need now is a government that has the will, the guts, the vision, the foresight and the national interest at heart to get on with the job," he said. Some three million new dwelling units would be needed by the turn of the century, equivalent to the construction of more than 1 000 units a working day. — Sapa

STAR 26/11/92.

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Increase indirect tax — Alant

There should be a relative increase in indirect taxation — including tax on fuel — as part of healthy tax reforms to promote economic growth, Deputy Finance Minister Dr Theo Alant said yesterday.

Alant said direct taxation currently accounted for 60 percent of State income, while it should be closer to 40 percent.

Delivering a lecture at the University of Pretoria on the economic prospects for a democratic South Africa, he said a discussion document would be released shortly outlining a new economic restructuring strategy.

The strategy would centre on the use of "productive investment" and a more effective application of capital and labour resources, to achieve long-term economic growth.

Alant said the Government would like to see a decrease in public-sector spending from 21 percent of gross domestic product to 16 percent during the next four or five years.

There should also be an increase in total fixed investments, from 16 to 26 percent, during the same period.

This was the level that, according to the International Monetary Fund, was necessary to achieve an economic growth rate of three to four percent.

The goal of adequate living standards for all could not be met quickly.

"The only way it could ultimately be reached would be through the economic empowerment of the individual, whereby he or she would be placed in a position to pursue self-actualisation through the market process." — Sapa.

Tax reform 'is imperative for growth'

B/DAY 26/11/92

(320)

GERALD REILLY

PRETORIA — Tax reform as part of an overall effort to stimulate economic growth was imperative, Deputy Finance Minister Theo Alant said last night.

Delivering the Dirk de Vos memorial lecture at Pretoria University, Alant said the relative share of indirect tax — including tax on fuel — would have to be raised, as in other economically successful countries.

The Margo commission had recommended this and government supported it.

Currently, direct tax yielded 60% of state income; the figure should be closer to 40%.

Past efforts to reduce state spending as a percentage of GDP had led to cuts in fixed investment in infrastructure. Against this background virtually all jobs created in the formal sector in the past decade were in the public sector. The target was to shrink the level of consumption expenditure by government in favour of a much higher level of fixed investment in new productive capacity.

"We want to see a turnabout in the current direction of state spending."

The first requirement was a 21% decrease in expenditure in the public sector to about 16% of GDP during the next four or five years. The second was an increase of between 16% and 26% in total fixed investment — the level, according to the IMF, at which SA could realise a growth rate of 3%-4% a year.

It was obvious that it would take a number of years to achieve an adjustment of this magnitude, "but we must make a start, and the quicker the better".

A decrease in state expenditure would make a big contribution, but SA would also have to stabilise its internal circumstances — economic and social — before capital investment would flow from abroad.

A new economic restructuring strategy would be made known soon in the form of a discussion document.

Long-term growth through the strengthening and extension of the supply side of the economy had to be a target. Key elements in this were greater stability, higher savings, deregulation and greater international competitiveness.

A balance would have to be found between the demands of the economy and social justice in the year ahead, Alant said.

SA faced an enormous economic challenge — economic sources had to be mobilised for social spending and individuals and businessmen would have to be convinced to save and invest.

Photocopy pp 1-2, 7-8, 32-3,

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Vol. 329 PRETORIA, 27 NOVEMBER 1992 No. 14422

18 NOVEMBER 1992

PRESS STATEMENT

by the

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COMMISSIONER FOR INLAND REVENUE

In the press statement by the Honourable Mr Justice R. J. Goldstone, Chairman of the Commission of Inquiry regarding the Prevention of Public Violence and Intimidation, issued on 16 November 1992, it was stated that according to the files seized by the Commission, Mr Ferdi Barnard had submitted a suggested plan to Military Intelligence for a task force he was to lead. According to a report which was found in the files, it was claimed that the task force had the ability to obtain access to, amongst others, the computers of Inland Revenue and by implication the records of taxpayers.

The impression has subsequently been created that approval for the suggested task team's access to the records was given by Inland Revenue. I wish to deny this emphatically. Inland Revenue has always placed great store on the confidentiality of records of taxpayers. All persons employed by Inland Revenue have taken an oath of secrecy in terms of section 4 of the Income Tax Act and are subject to severe penalties should information regarding the affairs of taxpayers be disclosed, unless ordered by a competent court. It may be mentioned that Inland Revenue so highly regards the confidentiality of information contained in a taxpayer's record, that it contests all attempts to obtain information—even attempts through legal process.

18 NOVEMBER 1992

PERSVERKLARING

deur die

KOMMISSARIS VAN BINNELANDSE INKOMSTE

In die persverklaring deur Sy Edele Regter R. J. Goldstone, Voorsitter van die Kommissie van Ondersoek na die Voorkoming van Openbare Geweld en Intimidasie wat op 16 November 1992 vrygestel is, word dit vermeld dat volgens lêers waarop die Kommissie beslag gelê het, het mnr. Ferdi Barnard 'n voorgestelde plan aan Militêre Intelligensie voorgelê vir 'n taakgroep wat hy sou lei. Volgens 'n verslag wat in die lêers gevind is, is dit gestel dat die taakgroep die vermoë gehad het om toegang te kry tot, onder andere, die rekenaars van Binnelandse Inkomste en gevolglik die rekords van belastingbetalers.

Die indruk is vervolgens geskep dat goedkeuring vir die voorgenome taakgroep se toegang tot die rekords deur Binnelandse Inkomste verleen is. Ek ontken dit uitdruklik. Binnelandse Inkomste het deurgaans die grootste waarde op die konfidensialiteit van die rekords van belastingbetalers geheg. Alle persone in diens van Binnelandse Inkomste het 'n eed van geheimhouding ingevolge artikel 4 van die Inkomstebelastingwet afgelê en is aan swaar boetes onderworpe indien inligting aangaande belastingbetalers se sake openbaar gemaak sou word, tensy deur 'n bevoegde hof gelas sou word. Dit dien gemeld te word dat Binnelandse Inkomste die konfidensialiteit van inligting in 'n belastingbetaler se rekord so hoog ag dat dit alle pogings om inligting te bekom, teëstaan—selfs pogings deur middel van geregtelike stappe.

With the exception of the Auditor-General and the Commissioner for Customs and Excise in the execution of their duties, **no information** concerning taxpayers' records is supplied to any Minister of State, State Department, organ of Government or Commission of Enquiry. (320)

If any access has been obtained to records of taxpayers, this would have been by illegal means and every step will be taken to establish whether an offence has been committed and, if so, the necessary legal and disciplinary action will be taken.

Issued by: The Office of the Commissioner for Inland Revenue, Pretoria.

GOVERNMENT NOTICES

ADMINISTRATION: HOUSE OF ASSEMBLY

DEPARTMENT OF EDUCATION AND CULTURE

No. 3225 **27 November 1992**

EDUCATION AFFAIRS ACT (HOUSE OF ASSEMBLY), 1988 (ACT No. 70 OF 1988):

CLOSURE OF TWO SCHOOLS

It is hereby made known under section 15 of the Interpretation Act, 1957 (Act No. 33 of 1957), that the Minister of Education and Culture, Administration: House of Assembly, has, in terms of section 13 of the Education Affairs Act (House of Assembly), 1988 (Act No. 70 of 1988), approved the closure of the Cullinan Diamant School, Cullinan, and the Saamstap School, Howick, with effect from 1 January 1993.

DEPARTMENT OF EDUCATION AND CULTURE

No. 3226 **27 November 1992**

EDUCATION AFFAIRS ACT (HOUSE OF ASSEMBLY), 1988 (ACT No. 70 OF 1988)

CLOSURE OF TWO SCHOOLS

It is hereby made known under section 15 of the Interpretation Act, 1957 (Act No. 33 of 1957), that the Minister of Education and Culture, Administration: House of Assembly, has, in terms of section 13 of the Education Affairs Act (House of Assembly), 1988 (Act No. 70 of 1988), approved the closure of H. S. van der Walt High School, Paarl and Die Vlakte High School, Standerton, with effect from 1 February 1993.

DEPARTMENT OF FINANCE

No. 3213 **27 November 1992**

RATE OF INTEREST ON GOVERNMENT LOANS

It is hereby notified that the Minister of Finance and of Trade and Industry has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the

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Met die uitsondering van die Ouditeur-generaal en die Kommissaris van Doeane en Aksyns in die uitvoering van hulle pligte, word **geen inligting** uit belastingbetalers se rekords aan enige Staatsminister, Staatsdepartement, Staatsliggaam of Kommissie van Ondersoek verskaf nie.

Indien toegang tot die rekords van belastingbetalers wel verkry is, sou dit wederregtelik geskied het en daadwerklike stappe sal geneem word om vas te stel of 'n oortreding plaasgevind het en, indien wel, sal die nodige geregtelike en dissiplinêre stappe geneem word.

Uitgereik deur: Die Kantoor van die Kommissaris van Binnelandse Inkomste, Pretoria.

GOEWERMENTSKENNISGEWINGS

ADMINISTRASIE: VOLKSRAAD

DEPARTEMENT VAN ONDERWYS EN KULTUUR

No. 3225 **27 November 1992**

WET OP ONDERWYSAANGELEENTHEDE (VOLKSRAAD), 1988 (WET No. 70 VAN 1988):

SLUITING VAN TWEE SKOLE

Daar word hierby kragtens artikel 15 van die Interprestasiewet, 1957 (Wet No. 33 van 1957), bekendgemaak dat die Minister van Onderwys en Kultuur, Administrasie: Volksraad, die sluiting van die Cullinan Diamant-skool, Cullinan en die Saamstap-skool, Howick, met ingang van 1 Januarie 1993, kragtens artikel 13 van die Wet op Onderwysaangeleenthede (Volksraad), 1988 (Wet No. 70 van 1988), goedgekeur het.

DEPARTEMENT VAN ONDERWYS EN KULTUUR

No. 3226 **27 November 1992**

WET OP ONDERWYSAANGELEENTHEDE (VOLKSRAAD), 1988 (WET No. 70 VAN 1988)

SLUITING VAN TWEE SKOLE

Daar word hierby kragtens artikel 15 van die Interpretasiewet, 1957 (Wet No. 33 van 1957), bekendgemaak dat die Minister van Onderwys en Kultuur, Administrasie: Volksraad, die sluiting van Hoërskool H. S. van der Walt, Paarl en Hoërskool Die Vlakte, Standerton, met ingang van 1 Februarie 1993, kragtens artikel 13 van die Wet op Onderwysaangeleenthede (Volksraad), 1988 (Wet No. 70 van 1988), goedgekeur het.

DEPARTEMENT VAN FINANSIES

No. 3213 **27 November 1992**

RENTEKOERS VAN TOEPASSING OP STAATSLENINGS

Hierby word bekendgemaak dat die Minister van Finansies en van Handel en Nywerheid ingevolge artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975),

INCOME TAX FM 27/11/92

Forex losses (320)

Confusion over how to account for unrealised foreign exchange gains and losses, for tax purposes, has been reduced by a recent Income Tax Special Court decision.

The question before the court was whether the taxpayer was entitled to claim a deduction under Section 11(a) of the Income Tax Act, for unrealised foreign exchange losses. In terms of the wording of that subsection, did there exist "expenditure or losses" which had been "actually incurred?"

Deloitte & Touche tax manager Vernon Lawrence says the Commissioner did not dispute that there was an "expenditure or loss." But the Income Tax Act says taxpayers are entitled to deduct only expenditures and losses "actually incurred" — tax law is applied on the literal interpretation of the Act. The amount had not been actually incurred — because the losses were notional and conditional upon the exchange rates ruling on the date of repayment.

FM 27/11/92 (320)

The court rejected this viewpoint, holding that the losses were neither notional nor conditional, on these grounds:

☐ Losses incurred in respect of amounts borrowed for a revenue purpose are deductible under section 11(a);

☐ Foreign exchange losses which arise from a fluctuation in exchange rates fall within the meaning of expenditure and losses for purposes of that section;

☐ When an amount is owed in a foreign currency and the liability is not contingent, then the expenditure has been actually incurred; and

☐ Exchange rate fluctuations merely result in the amount of the liability being contingent, not in the liability itself being contingent.

Ernst & Young tax partner Ian MacKenzie says the latest decision is in line with a long series of Supreme Court and Appellate Division judgments starting with the Caltex case.

The latest decision does, however, take matters a step further, because previous cases merely considered how to account for the unrealised profit or loss at the end of the tax year during which the transaction itself was entered into (year 1).

The Special Court has now decided that the obligation must also be revalued at the end of each following tax year until the obligation falls due. Then the realised amount must be accounted for under 24B of the Income Tax Act.

That section provides that the taxpayer must account for any balance of any realised gain or loss on repayment of a foreign currency obligation, not already accounted for.

In other words, the profit or loss standing in the books at the end of the previous tax year would have to be adjusted to allow for further currency movements up to the date of repayment. ■

Tax hikes 'no way to reduce deficit'

(320)

HILARY GUSH

27/11/92

REDUCTION of the fiscal deficit should be achieved by cutting government consumption spending and not through tax hikes, AHI chief economist Nick Barnardt said yesterday.

Barnardt said the record government deficit, which threatened to exceed R23bn or 7% of GDP this year, was the single greatest threat to inflation in 1993.

"Ongoing recession and especially its lagged negative impact on tax revenues, implies that the government's real income at unchanged tax rates is set to fall still further in the next fiscal year. This would result in an even bigger fiscal deficit, even if state spending shows no increase in real terms."

He warned against taking dramatic steps — such as imposing large tax increases and slashing government spending — to correct the deficit in the short term, and proposed a three-year deficit reduction plan.

The aim would be to cut the deficit by two percentage points in each of the next three years. However even a modest reduction to 6% next year would require drastic tax and/or expenditure measures.

A smaller deficit could only be achieved through a reduction in government consumption spending, which depended on limited wage and salary increases and restrictions on government transfers to the homelands — which, in nominal terms, should not grow at all next year.

In light of disclosures of misappropriation of funds by certain homeland governments, he said it would be politically inopportune to raise tax rates now.

To slow the wage-price inflationary spiral, Barnardt called for an agreement of intent between business and labour.

"Ideally wage settlements should be somewhere between the anticipated guidelines for money supply growth of 5% - 8% for next year. This would limit the retrenchment process as well as government consumption spending," he said. If real spending was left unchanged from this year's levels a VAT rate hike to around 15% would be inevitable.

Deferred compensation packages are a viable option

STAR 28/11/92.

(3 20) STAR 28/11/92.

TO CLAIM tax benefits it is necessary to prove that these schemes are settled conditions of employment, writes Kessel Feinstein tax partner BERIC CROOME.

DEFERRED compensation schemes are again in the news because of a recent court case which dealt with the deduction of the lump sum paid when an employee retires.

Before dealing with the effect of the case on current deferred compensation schemes, it is necessary to summarise how these arrangements work.

It is customary for an employer to offer an employee the opportunity to take part in a deferred compensation scheme as part of a remuneration package.

The employer pays a premium on an insurance policy owned by the company, taken out on the life of the employee.

The scheme at this stage usually works quite well because the employee is not taxed on the amounts paid into the insurance policy as he has no right or title to that policy.

The employer, in turn, will seek to claim the premiums he pays under the provisions of section 11 (w) of the Income Tax Act.

As a result of the employer claiming the premiums paid, the proceeds received on the policy when it matures or when the employee dies are fully taxed in the employer's hands.

When the employee retires, the company pays out an amount, equivalent to the benefits of the policy, to the employee in terms of a service contract, and claims the payment as a deduction in terms of sections 11 (a) and 23 (g) of the Income Tax Act.

Where the employee receives payment under the policy within five years of retirement, the first R30 000, at present, is tax-free in terms of section 10 (1) (x) of the Act and any excess is taxed at the average rate of tax, as opposed to the marginal rate.

For the employee to obtain the benefit of the R30 000 being exempt from tax, he must retire at the age of 55 — or 50, if the employee is a woman.

Should the employee die before retirement date, the spouse would receive R30 000 tax-free.

In such a case, the estate is taxed on the excess amount at average rates.

For the employer to successfully claim the lump sum paid to an employee as a deduction for tax purposes, it is necessary for him to show that the payment of such gratuity is a settled condition of employment.

This is what arose in Income Tax Case No 1 506.

In that case, a deferred compensation arrangement was entered with a shareholder in what was essentially a one-man company.

The court did not allow the deduction because it took the view that the employee who was the controlling shareholder needed no inducement from the company to persuade him to remain in the company's employ.

The employee had no intention of retiring or leaving the company before retirement age.

The court therefore found that the purpose of the payment of the gratuity was not to secure the shareholder's services, but to provide him with a retirement benefit which he would not otherwise have had.

This decision is disturbing for small, family-managed companies because it discriminates against them, compared with executives in larger organisations.

What the court is saying is that if the employee has a large shareholding, this is enough to induce him to work for the company, and he does not need a retirement gratuity.

Many such deferred compensation schemes have been instituted in closely held companies.

In the light of this case, it might prove very difficult in such circumstances to justify the deduction of the proceeds of the policy paid out to the employee on retirement.

As a result, any deferred compensation schemes in place in such companies should be reviewed and careful consideration given to any deferred compensation arrangement about to be entered into by any company.

It is important that the deferred compensation arrangement is available to employees in general, ensuring it meets the requirements that it is a settled term of employment, enabling the employer to claim the deduction of the lump sum paid to the employee upon retirement or death.

The scheme is still attractive from an employee's point of view because the first R30 000 is tax-free and any excess is subject to tax at the average rate as opposed to his marginal rate.

These schemes should, therefore, always be considered as a viable part of the overall remuneration package payable to an employee.

Hope of moderate interest rate fall

(320)

S|Times|BUSS] 29|11|92

By ZILLA EFRAT

UNDERLYING inflationary pressures in the economy will probably show an accelerated decline in the next six to 12 months, says the Afrikaanse Handelsinstituut's inflation barometer.

Its fourth-quarter reading of 11,2% is down from 11,8% in the third, 11,9% in the second and 12,1% in the first quarter of this year.

AHI economist Nick Barnardt says this points to a moderate cut in interest rates next year.

He says that in the absence of major changes in factors like VAT, a consumer-price index rate of 11% in the second half of 1993 is a strong possibility. It would be the lowest since the first half of 1984.

Moves to counter the Government's growing deficit, however, could send inflation rates soaring again next year.

Mr Barnardt says the AHI's barometer combines 17 variables which, in one way or another, reflect underlying inflationary pressures. It provides useful guidelines for price, wage, Budget, investment and monetary policy decisions in the coming months.

The stongest positive contributions to lower inflation at present are low credit extension, the balance of payments surplus, single digit producer-price index inflation and subdued inflationary expectations.

The greatest threat, however, on the inflation front for 1993 is SA's large fiscal deficit. It could exceed R23-billion, or 7% of gross domestic product.

Other unfavourable factors include double-digit increases in wages, salaries and labour costs and the upward pressure on fuel prices.

Mr Barnardt says it will be virtually impossible to drastically reduce the fiscal deficit in a single year.

Any attempt would require such a large tax rise and spending cut that the recession would most probably degenerate into a full-scale depression.

The tax base would shrink further, resulting in an even larger decline in State revenue.

Mr Barnardt says the recession and its lagged negative impact on tax revenue imply that the State's real income at unchanged tax rates is due to fall further in the next fiscal year.

This will result in an even bigger fiscal deficit, even if State spending shows no increase in real terms.

Mr Barnardt says the only realistic solution would appear to be gradual deficit reduction through a three-year plan. Even a modest reduction to 6% of GDP next year would require drastic tax and expenditure measures.

Fruits

For example, if real spending were left unchanged, it would require a rise in the VAT rate from 10% to 15%. This would raise inflation by about four percentage points, resulting in a CPI inflation rate of about 15% by the end of 1993 as opposed to the prospect of 11% suggested by the barometer.

Mr Barnardt says this would once again deny the economy the opportunity of enjoying the fruits of a lower CPI inflation rate, even after suffering a recession of more than four years.

The AHI believes that the reduction of the fiscal deficit should be achieved as far as possible by limiting State consumption spending, and that tax increases should be avoided or kept to an absolute minimum.

Mr Barnardt says the Economic Forum could be the ideal place where the Government, labour and business could reach some agreement which would help to curb the price-wage spiral. This would result in a rapid decline in inflation.

De Beers to shed 20% of staff at SA mines

S|Times (BUSS] 29|11|92.

Business Times Reporter

DE BEERS is to lay off 22% of its workforce in South Africa as a result of the sharp decline in the international diamond market.

Industrial relations manager Steven Lenahan says that at least 3 000 hourly paid and managerial workers will be asked to leave unless some accept voluntary retirement. The current staff complement is 13 500.

Retrenchments are being discussed with the National Union of Mine Workers (NUM).

Discussions are also taking place with the Mine Workers Union of Namibia about possible retrenchment of some of the 6 000 workers at Consolidated Diamond Mines.

No lay-offs are planned for the 5 500 workers at the Jwaneng and Orapa mines in Botswana.

Mr Lenahan says that although the retrenchments are regretted, "it is a step that had to be taken to ensure the survival of operations".

The first cutbacks will be made at the Kimberley and Premier mines. Discussions are taking place at other mines.

The NUM was successful in negotiating a 10% wage increase on November 6, taking minimum pay to R959 a month.

The union initially asked for an "above-inflation" increase and an "agency shop" agreement in which all workers would contribute to a fund to help pay for collective bargaining.

Mr Lenahan says no agreement was reached on the agency matter, but it could be discussed in the future.

THE JSE WEEK

By TERRY BETTY

POSITIVE political sentiment helped the JSE end on a high note on Friday, with the indices showing a rise across the board — the all-share index rose 1,16%.

The gold index showed the most sparkle, rising 25 points or 3,08% on Friday, even though the gold price came off slightly. Analysts say the index lifted on the back of a weak rand which was trading just over R3,00 at the end of the week.

Political developments such as the ANC-IFP meeting, and the State President's intention to have minority rule voted out before April 1994, were responsible for the shine on the rest of the JSE indices.

It is also suggested the market is more upbeat because of the likelihood of a greater than expected drop in interest rates next year, and the prospect of a turnaround in the US economy.

Analysts say everything was extremely well bid, and all stock on offer was taken up easily. "But it would have been even better had most of our clients not been at the cricket."

It would seem ABSA results, due in about two weaks, are going to be better than expected, as the share price has started to firm. It has risen to R9,00 from at a low of R7,75 in mid-October.

Richemont, which reported disappointing results on Wednesday, lifted its share price as people were picking up scrip after going short ahead of results.

Victory for Afbank two

TWO former African Bank employees have won a small victory in their quest to recoup around R50-million forfeited to the SA Reserve Bank.

On Friday the Pretoria Supreme Court ruled that they could amend their claim for the return of this money, but the Bank was awarded costs.

The men — Alan Young and Henry Harper — were found guilty of fraud and foreign exchange contraventions in 1988 and sentenced to 14 years' jail.

The two men, released in a general amnesty last year, are taking legal steps to claim back a share of R100,4-million in profits they allege they made while working for Afbank from September 1985 to May 1986.

The Bank alleges that the profits were made by contravening exchange control regulations.

President should offer to pay tax — DP

Political Staff

PRESIDENT De Klerk should follow the example of Queen Elizabeth and Prince Charles and offer to pay taxes, says the Democratic Party.

The Queen and the heir to the throne made the offer last week in the wake of the controversy about the British taxpayer having to foot the multi-million pound bill for repairing fire-damaged Windsor Castle.

DP Johannesburg North MP Mr Peter Soal said the tradition of South African state presidents not paying taxes originated with the tradition of the British monarch not paying taxes.

The office of State President was created at the time of Republic — taking over from the Governor-General, who was the monarch's representative in South Africa.

"The traditions are linked. If the British monarch is now to pay taxes, so should the South African State President," said Mr Soal.

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He said his suggestion was not aimed at Mr De Klerk personally.

"If he needs more money, his pay should be increased.

"But the principle of the head-of-state being free of tax is not good." ARGT 30/11/92

Tax reforms are essential, says a Finance officia

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PORT ELIZABETH — A Finance Department official yesterday identified serious shortcomings in SA's direct taxation system and said tax reforms were essential. B/DAY

The Finance Department's unit for fiscal analysis's W Steyn said more than half of SA's economically active population was not part of the personal income tax system.

This meant that the growing contribution of personal income tax to total tax revenue was being carried by less than 15% of the population. 1/12/92

Steyn said it was estimated that about 30% of remuneration paid to SA employees was not being taxed. This meant there was not a just taxation structure.

Fiscal drag caused the authorities to rely increasingly on the large number of relatively low income bracket taxpayers.

The lower a person's level of income had been during the past decade, she said, the greater their tax increases would have been.

Conversely, there had been no increase, and even a decrease, in the tax burden of the relatively hig income groups.

Steyn said the interaction between inflation and the current tax structure was "advantageous to the government," but this was an undesirable situation in view of the fact that the tax burden should be shared according to each payer's means.

This constituted a shortcoming in the tax structure, and necessitated reform.

"The tax structure should be adjusted annually to compensate for inflation. This would ensure that the goals and principles of tax policy are observed."

In developing countries, indirect taxation accounted for 60% to 80% of total tax revenue. But in SA this tendency had been reversed, and direct taxation accounted for about 60% against the 40% provided by indirect taxation. — Sapa.

Major shift in taxation policy being forecast

STAR 1|12|92.

(320)

By Derek Tommey

Recent comments by Finance Minister Derek Keys and other officials have raised expectations that his first Budget, now only about 15 weeks away, will mark an important change in tax policy.

The officials have said the next Budget could place more emphasis on raising revenue by increasing indirect tax and less emphasis on personal income tax.

Some of the reasons for this possible policy shift were highlighted yesterday by Winona Steyn of the Department of Finance's Unit for Fiscal Analysis at a National Productivity Institute (NPI) seminar in Port Elizabeth.

The unit is engaged in research and is not responsible in any way for determining policy.

At the same time, it is obvious that its input must have a considerable bearing on the decisions of policy-makers.

She said there were serious shortcomings in SA's direct tax system and that reforms were essential.

One of these was that about 30 percent of the money paid to employees was not being taxed.

Another was that the bulk of personal income tax payments were being borne by people in the relatively lower income tax brackets.

Both these disclosures would seem good enough reasons to step up indirect tax in next year's Budget — provided income tax is lowered at the same time.

She said that half of the economically active population was not part of the prsonal income tax system.

"This means that the growing contribution of personal income tax to total tax revenue is being carried by less than 15 percent of the total population," she said.

This is not new. Figures for tax returns show that this imbalance has existed for many years and it has been accepted that until more people find work, the situation will continue.

More disconcerting is the revelation that about 30 percent of the money paid to employees is not being taxed.

This meant the tax system was not equitable, she said.

She also focused on the existence of fiscal drag, which tax experts have been criticising for many years.

She said fiscal drag had caused the authorities to rely on the large number of relatively lower income taxpayers, adding that the lower a person's level of income had been during the the past decade the greater that person's tax increases had been.

Conversely, she said, there had been no increase, and even a decrease, in the tax burden of the relatively higher income groups.

One tends to forget that the maximum rate of personal income tax has been reduced from 50 percent to 43 percent, while the level at which it applies has been steadily raised to its current R80 000.

The result is that people earning substantially above R80 000 have, in fact, being paying less tax.

Those earning less than R80 000 have probably suffered because fiscal drag has lifted them into higher tax brackets.

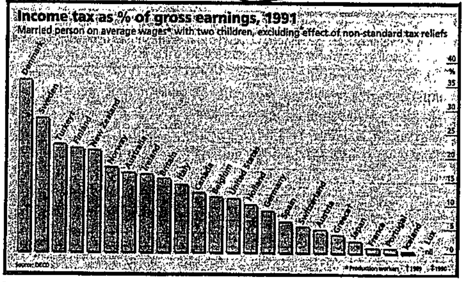
Steyn said that with the present tax system, inflation was advantageous to the Government.

But it was undesirable because the tax burden should be shared according to means and should be reformed.

Steyn compared the situation in SA with that in other developing countries.

In those countries, indirect tax accounted for 60 to 80 percent of tax revenues. In South Africa, indirect tax contributed only 40 percent of revenue and direct tax 60 percent.

In the light of her remarks it would seem pretty safe to forecast an increase in VAT in next year's Budget — and some reduction in income tax and certainly higher allowances for parents with children in Model C schools.



South Africans pay among the highest rates of income tax in the world, according to this table prepared by The Economist from OECD information. It is easy for a married man with two children to pay almost 25 percent of his income to the Receiver, thus putting South Africa in the same category as Finland and just below Sweden and Denmark — where tax rates are the highest in the world. But South Africans get far less back for their money than the people in those countries receive.

Tax relief on the way?

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ARG 1/12/92

Business Staff

RECENT comments by Finance Minister Derek Keys and other officials have raised expectations that his first Budget, now only about 15 weeks away, will mark an important change in tax policy.

The officials have said the next Budget could place more emphasis on raising revenue by increasing indirect tax and less emphasis on personal income tax.

Some of the reasons for this possible policy shift were highlighted yesterday by Winona Steyn of the Department of Finance's Unit for Fiscal Analysis at a National Productivity Institute (NPI) seminar in Port Elizabeth.

She said there were serious shortcomings in South Africa's direct tax system and that reforms were essential.

One of these was that about 30 percent of the money paid to employees was not being taxed.

Another was that the bulk of personal income tax payments were being borne by people in the relatively lower income tax brackets.

Both these disclosures would seem good enough reasons to step up indirect tax in next year's Budget — provided income tax is lowered at the same time.

She said that half of the economically active population was not part of the prsonal income tax system.

"This means that the growing contribution of personal income tax to total tax revenue is being carried by less than 15 percent of the total population," she said.

This is not new. Figures for tax returns show that this imbalance has existed for many years and it has been accepted that until more people find work, the situation will continue.

More disconcerting is the revelation that about 30 percent of the money paid to employees is not being taxed.

This meant the tax system was not equitable, she said.

She also focused on the existence of fiscal drag, which tax experts have been criticising for many years.

She said fiscal drag had caused the authorities to rely on the large number of relatively lower income taxpayers, adding that the lower a person's level of income had been during the the past decade the greater that person's tax increases had been.

Conversely, she said, there had been no increase, and even a decrease, in the tax burden of the relatively higher income groups.

One tends to forget that the maximum rate of personal income tax has been reduced from 50 percent to 43 percent, while the level at which it applies has been steadily raised to its current R80 000.

The result is that people earning substantially above R80 000 have, in fact, being paying less tax.

Those earning less than R80 000 have probably suffered because fiscal drag has lifted them into higher tax brackets.

Mrs Steyn said that with the present tax system, inflation was advantageous to the government.

But it was undesirable because the tax burden should be shared according to means and should be reformed.

In the light of her remarks it would seem pretty safe to forecast an increase in VAT in next year's Budget — and some reduction in income tax and certainly higher allowances for parents with children in Model C schools.

■ South Africa's budget deficit could reach a staggering eight percent by the end of the current fiscal year, requiring drastic measures to extricate the already depleted economy from falling into a debt trap.

Speaking at his last public engagement for 1992 last night, Finance Minister Derek Keys told top businessmen at a function in Johannesburg the rate of growth in the interest for financing the deficit was the highest of all the components of the budget, and that the deficit could surpass education in accounting for the largest portion of next year's Budget.

Matsheru Matsheru focuses on the growing controversy over SITE

Employers must educate taxpayers

STAR 2/12/92

(320)

IN 1989 when the Government introduced the Standard Income Tax on Employees (SITE), the stated motive was that administrative problems would be minimised as SITE employees would not be required to submit tax returns. The political consideration was the State's inability to secure satisfactory tax obedience; many blacks resisted submitting tax returns as they perceived the Government to be illegitimate.

Recent reports that many blacks have been overtaxed through the SITE system could mean that the Government may be facing another tax revolt. This follows massive demonstrations against the introduction of VAT last year. It seems that employees were taxed without their personal particulars being taken into consideration, resulting in millions extra being paid to the Receiver.

An investigation by Cosatu has found that 850 000 of their members had paid R720 million too much in tax since the introduction of SITE.

There is not an objection to paying tax per se but taxpayers are crying out for fair taxation. In other words, a tax system that recognises their economic circumstances.

The SITE controversy also comes at a time when black taxpayers perceive that the Government, amid scandals, is squandering their money.

The Government has argued that it is the responsibility of every individual employee to ensure that he or she provides the employer with correct personal particulars. If the information is incorrect, it is the fault of the employee, the Government argues.

Yet, when the SITE system was introduced, very little was done in terms of educating people. Even some employers are not fully conversant with the requirements of the system.

It seems as if the Government is saying: "We dont care whether the taxpayer is aware of his rights or if we collect more taxes because of their ignorance."

As SITE is practically administered by employers, they should take the responsibility of educating their employees about the system. The Government should encourage such programmes by making them tax-deductible because in the final analysis, legitimacy of the system can only lead to stability in commerce and industry. ☐

Matsheru Matsheru is an independent tax consultant.

Fund-hoppers get tax caution

(320)

Business Day Reporter

UNIT trust investors who switch between funds may be considered by the Receiver of Revenue as active share dealers and be liable for tax, says Syfrets tax specialist Dale Lippstreu.

Unit trusts are regarded as long-term investments by the Receiver; profit from the redemption of units are therefore not regarded as taxable income.

Share dealing, on the other hand, involves transactions for short-term gain and profit arising from such transactions are taxable as income.

Lippstreu gives the following guidelines to ensure unit trust investors do not fall foul of the Receiver:

☐ Do not jump in and out of unit trusts frequently;

☐ When switching between unit trusts, move your money in one go;

☐ Do not invest money earmarked for a known expense in the hope of making a profit in the interim.

13/10/93 M 3/12/92

GDM's dividend

BUSINESS Day yesterday incorrectly reported that GDM Finance would pay shareholders a dividend of R5,80 when in fact the interim dividend was 5,8c. We regret the error.

‘Hands off retirement funds’ warning

220

TOM HOOD ARG 3/12/92
Business Editor

DON'T meddle with retirement funds — this was the warning to the government today by Mr Mike Levett, chairman of a giant insurance company.

Accumulated retirement funds represent a national asset of great worth and any changes in tax treatment of these funds must not take away incentives for retirement provision, he said at Old Mutual's 147th annual meeting in Pinelands.

Mr Levett said tentative proposals in the recently published Jacobs Committee report to amend treatment of contributions to retirement funds had to be treated with extreme caution.

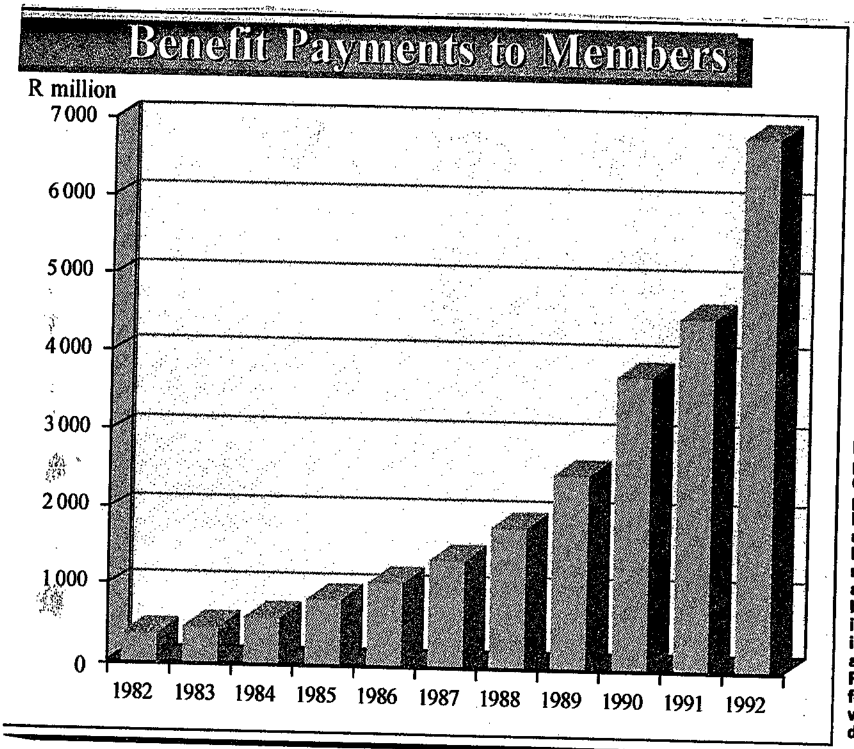
The committee proposed two months ago that two-thirds of an individual's contributions to a pension fund should be tax deductible.

Mr Levett said: “Any changes must not take away the incentive from individuals and employers to set aside money in advance for retirement through approved funds.

“Changes should also address the current preferential tax treatment of state funds relative to private sector funds.”

Mr Levett also said South Africa's potential was considerable and much could be done right now to begin reconstructuring of the economy.

“Given appropriate economic and political policies and a satisfactory resolution of the political impasse, the economy could recover quickly, moving back to sustained growth which would alleviate the worst poverty and materially aid the transition to successful democracy.”



During the past year, Old Mutual paid out R6 800 million in benefits to members and their beneficiaries. This is an average of R27 million for every working day.

Don't tax pension funds — Levett

(320) STAR 4/12/92

He said: "In South Africa, our propensity to save has dropped to an alarmingly low level. The suggested taxation of employer and employee contributions to pension funds would tend to make it more tax-efficient to increase cash payments and reduce contributions to pension schemes. In my view great care should be taken not to cause irreparable harm to the contractual savings capacity of the country."

Mr Levett said Old Mutual, however, welcomed the proposed abolition of the Sixth Schedule to the Income Tax Act as well as the introduction of the "four fund basis" for taxing life insurance business as published in the Jacobs Committee's report.

The scrapping of the Sixth Schedule would mean the end of very costly administrative systems for life insurers: it would also give them more freedom to develop new and simpler products. Both changes would be to the benefit of policyholders.

Low-cost housing

The report recommends a holistic approach to the regulation of financial services. Mr Levett said the concept was admirable but the application in practice would have to take proper account of business realities. Furthermore, regulation needed to be kept to a minimum and focused on matters such as the solvency of the institutions.

In his chairman's address last year, Mr Levett stressed that life insurers and pension funds were able to provide funds for socially desirable purposes such as low-cost housing, but always subject to the criteria of a market-related return and a commensurate level of security being met. The Jacobs Committee, in considering the socio-economic responsibilities of savings institutions, came to the same conclusion and emphasised that the needs of the members of retirement funds and life insurers had to come first.

There is no doubt about the great need for investment in projects that will create employment, provide housing and generally uplift the economically disadvantaged.

Bridge gap

According to Mr Levett, the projects that do come to hand unfortunately most often do not satisfy the criteria mentioned above and thus do not get the necessary support from financial institutions.

To bridge the gap, the Life Offices' Association of South Africa recently established an Investment Development Unit to facilitate the financial structuring of major socially desirable projects so that they fulfil the investment criteria of member offices.

"Old Mutual fully supports the LOA in this initiative and looks forward to participating in schemes that come to fruition," Mr Levett said.

Warning on taxing pensions

Cit 11/6/92

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Business Editor

BOTH Mike Levett, chairman of Old Mutual, and Joe Stegmann, chairman of Sasol, warned yesterday that taxing pension contributions would discourage saving and making private provision for retirement.

Discussing the Jacobs Committee report Levett said at Old Mutual's agm: "The tentative proposals to amend the treatment of contributions to retirement funds must be treated with extreme caution.

"The accumulated retirement funds represent a national asset of great value and imply that a significant proportion of the population will not need State assistance in old age."

Stegmann, speaking after Levett, said: "Every effort should be made to encourage people to make adequate provision for their retirement."

MARTIN WALBECK

IN MY OPINION

Creating a VAT nightmare

FM 4/12/92.

Martin Walbeck is tax manager of Ernst & Young

(320)

The notion of multiple or staggered rates of VAT appears to be gaining momentum. Those opposed to VAT in its current format — a flat 10% on all supplies other than a few which are either zero-rated or exempt — argue that it is necessary to introduce differentiated rates so that basic items are taxed at a lower rate than luxury products.

This concept is not new in VAT systems and has been used in other jurisdictions. In the Netherlands, for example, besides certain exempt transactions, VAT is levied at 0%, 6% and 18,5%.

Though it is accepted that there is merit in taxing the wealthier at a higher rate than the poor, strenuous objection should be made to the introduction of staggered rates in VAT for three reasons:

☐ Distortions in the economy — it goes without saying that businesses producing goods and services targeted for the highest VAT rate, say 20%, would suffer a decline in demand. This would, ultimately, lead to economic restrictions in these sectors and the laying off of employees. In this sense, rates of VAT do not promote equality;

☐ Definition problems — though the list of exempt and zero-rated transactions that form part of the VAT system is not extensive, those that are listed require definition to distinguish them from ordinary transactions subject to tax at 10%. The introduction of staggered rates will exacerbate the problems associated with definitions and undermine the intention to keep the system as simple as possible.

The problems associated with this issue can be highlighted by one example. In 1980 the UK VAT tribunal was called on to decide whether an object was a book. Some pages were narrative and others had coloured illustrations of girls and clothes designed to be cut out. The zero rate applied to a book and the standard rate applied if the item was held to be a modelmaking toy. The court decided the object was a book.

This illustrates the problems that can be created by introducing significant exceptions to a general rule; and

☐ Systems complications — many businesses barely cope with VAT at 10% and the zero rate.

The introduction of one or more rates of tax would simply create a systems nightmare and result in unnecessary complications, especially for small and medium-sized businesses which do not have the resources to handle sophisticated VAT treatments. Those advocating staggered VAT rates must carefully weigh up the disadvantages of such a move.

However desirable the intention to spread tax liability among those who can more easily afford it, the VAT system should not be used for this. A better solution would be to aim subsidies at needy individuals. After all, zero-rating foodstuffs helps the wealthy even more than the poor.

FM 4/12/92 (320)

SITE PROBLEMS

Blame where it's due

Employers have been unfairly blamed for overpayments of Site amounting to billions of rand. Union leaders are largely responsible because, as part of a campaign against Paye, they have persuaded workers to boycott documentation related to income tax.

Fisher Hoffman Stride tax partner Anthony Chait (who represents the SA Institute of Chartered Accountants on the Site Liaison Committee) says IRP2 forms provide information about marital status, dependants and fund contributions. If this is not available, the Income Tax Act compels the employer to assume men to be unmarried, with no dependants and under the age of 63. Women workers are assumed to be married.

Inaccuracy and failure to complete the form can seriously prejudice employees. A married man with four dependants earning R15 600 a year will pay R605 too much Site if treated as unmarried without children.

The employee may — any time before the end of the assessment year — correct or update information. The employer must then recalculate the tax liability for that year, using the new information. If correct information is not provided by financial year-end, neither the employer nor Revenue may refund overdeductions.

Cosatu assistant general secretary Sam Shilowa denies the organisation's campaign against Paye had anything to do with Site. He says neither Cosatu nor any of its affiliates urged members to boycott the IRP2 form. He points out the SA Railways and Harbours Union was able to force Transnet and the Receiver to make refunds to workers for Site overpayments — which he believes shows that at least some employers are responsible for overpayments.

Chait and Coopers Theron du Toit tax partner Koos van Wyk agree Site needs to be reformed. But *The Taxpayer* editor David Meyerowitz says it would be a step backward to abolish Site as it has operated successfully since 1963.

Van Wyk says the principle of Site (introduced in 1988) is sound — that lower income wage earners (earning under R50 000 a year and without other taxable income) must pay tax under a final deduction system run by their employers. This saves employees submitting tax returns, while Revenue is relieved of much of the cost of administration.

For the system to work effectively and be understood by taxpayers, say Chait and Van Wyk, Site should be based on a flat rate of tax up to the Site limit of R50 000. This would simplify the system for employers and employees.

In return for an end to child rebates, says Chait, the rates could be broadly reduced. Starting from the present minimum income at which tax is payable (R5 000 a year), the rate could be a flat 20% up to perhaps R30 000 or R40 000 a year.

Van Wyk says the Commissioner faces a serious dilemma. Not only does tax law prevent him repaying for past years, to do so would undermine Site's integrity and cause insurmountable administrative problems.

Chait says the committee — which includes representatives of major interested parties — is doing good work. One achievement is a change in the law permitting employers to send challenged IRP2 forms to Revenue so that they can be evaluated and, if necessary, amended.

Trevor van Heerden, chief director, tax policy development at the office of the Commissioner for Inland Revenue, says preliminary results of the investigation now being carried out do not support the claim that large overdeductions have been made. ■

Sowetan 4/12/92

(320)

Don't tax pension funds, says Levett

☐ Funds are a national asset

ACCUMULATED retirement funds represent a national asset of great worth to South Africa and any changes in tax treatment of these funds must not remove incentives for retirement provision, says Mike Levett, chairman of Old Mutual.

He urged that the tentative proposals by the Jacobs Committee to amend treatment of contributions to retirement funds should be treated with extreme caution. Any changes in tax treatment of these funds must not take away the incentives for individuals and employers to set aside money in advance for retirement through approved funds.

Changes should also address the current preferential tax treatment of retirements from State funds relative to private sector funds, particularly in respect of lump-sum payments.

Mr Joe Stegmann, chairman of Sasol, fully endorsed Mr Levett's note of caution on these proposals during his seconder's address at Old Mutual's annual general meeting yesterday. He added that every effort should be made to encourage people to make adequate financial provision for their retirement.

He said: "In South Africa, our propensity to save has dropped to an alarmingly low level. The suggested taxation of employer and employee contributions to pension funds would tend to make it more tax-efficient to increase cash payments and reduce contributions to pension schemes. In my view great care should be taken not to cause irreparable harm to the contractual savings capacity of the country."

Mr Levett said Old Mutual, however, welcomed the proposed abolition of the Sixth Schedule to the Income Tax Act as well as the introduction of the "four fund basis" for taxing life insurance business as published in the Jacobs Committee's report.

The scrapping of the Sixth Schedule would mean the end of very costly administrative systems for life insurers: it would also give them more freedom to develop new and simpler products. Both changes would be to the benefit of policyholders.

The report recommends a holistic approach to the regulation of financial services. Mr Levett said the concept was admirable but the application in practice would have to take proper account of business realities. Furthermore, regulation needed to be kept to a minimum and focused on matters such as the solvency of the institutions.

In his chairman's address last year, Mr Levett stressed that life insurers and pension funds were able to provide funds for socially desirable purposes such as low-cost housing, but always subject to the criteria of a market-related return and a commensurate level of security being met. The Jacobs Committee, in considering the socio-economic responsibilities of savings institutions, came to the same conclusion and emphasised that the needs of the members of retirement funds and life insurers had to come first.

Don't tax pension funds — Levett

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CT 4/12/92

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A TAXING TIME AT THE LOST CITY

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By KEVIN DAVIE

THE maximum rate of taxation of individuals in SA is reached at a much lower level than in many other countries, according to a new study on tax policy.

The study is part of the Sanlam, Frankel Kruger, Ernst & Young and HSRC sponsored Platform for Investment (PFI), which was unveiled last weekend at the Lost City at Sun City.

S/Times (Buss) 6/12/92

PFI includes a section on tax policy by Ernst & Young's Ian MacKenzie. Tax policy proposals draw on the work of a number of experts, including Tax Advisory Committee chairman Michael Katz, Professor Lieb Loots, Finance deputy director-general Estiaan Calitz, Professor Dennis Davis and SA Fiscal Think Tank chairman Marius van Blerck.

PFI concludes that SA's individual tax rates are on the high side compared with other countries. It says the tax payable on R150 000 shows that SA has a higher tax cost (35%) than the US, Germany, the Netherlands and Japan. Only Australia (36%) is higher.

PFI recommends that the maximum rate of individual tax should be reduced to 40% on a phased basis over the shortest possible time. The maxium rate should be reached at a level not less than R150 000, below which there should be no more than four other tax brackets.

It says that the Government should not rely on fiscal drag to increase tax revenues. Tax brackets should be adjusted annually to take inflation into account.

PFI says an annual wealth tax is not appropriate for SA because of administrative and cost problems.

It says a land tax should not be introduced to raise revenue, but that it might be an effective way of addressing land inequalities and encouraging the productive use of land.

PFI says international comparisons suggest room for an upward shift of the current rate of capital transfer tax of 15%.

The current threshold of R1-million, below which no estate duty is payable, should be increased to R1,5-million.

SA's tax system will need to be internationally competitive if SA is to encourage investment and international trade, says PFI.

It says corporate tax must be reduced, recommending a 40% corporate tax rate coupled with tax allowances for manufacturing plant and buildings, but says this will only just be acceptable. "A rate of 35% will be preferable."

PFI also stresses the need for special tax incentives for small and medium-sized businesses.

It says a multi-rated VAT system should be implemented, suggesting that some foodstuffs should be zero-rated. Medicines, medical services and electricity should have a 5% rate, standard items should be subject to 15% VAT and luxury goods 20%.

The study says the total tax burden should not exceed a realistic proportion of gross domestic product. It also calls for the inclusion of a taxpayer's bill of rights in the tax system.

VAT revenue lags far behind target

GERALD REILLY

PRETORIA — With government's revenue from VAT running at only R9,5bn after seven months, the target of R21bn for the full fiscal year is unlikely to be reached.

Economists expect the VAT shortfall to run to as much as R5bn. Some said yesterday government would have had to levy VAT at a rate of about 12,6% to have achieved the budgeted revenue target.

The breakdown of revenue figures showed individual and company tax totalled R25,4bn, against budget expectations of R50,5bn.

DP finance spokesman Brian Goodall said yesterday the gap between government's expected tax income and collections continued to widen, indicating a shortfall at the close of the financial year of several billion rands.

The figures highlighted that individuals and companies had been "squeezed to the limit" in direct taxation. Forcing more out of taxpayers could lead to a long-term paralysis of the economy, he said.

The only solution was to cut back ruthlessly on state spending.

Government had two major income raising options — an increase in VAT and in petrol tax — and both were almost certain to be raised in the Budget, if not before.

Either would increase inflationary pressure, but with the likely massive deficit before borrowing, government would probably ignore the risk, Goodall said.

(320)

8/12/92

B/DAY

The economic terrain must be levelled for take-off, argues **Stephen Meintjes**

(320)

Grounding high fliers to let labour and capital so

STAR 8/12/92

HOWEVER far, fast or high we want economic growth to fly, it will remain land-based. For no one has yet invented any means of creating wealth other than by applying labour and capital to land.

Yet, despite all the talk about levelling the economic playing field, it is astonishing how little thought is given to that end.

All that is needed is to replace taxation by site-value user charges — the players on the High Ground (best metropolitan sites and arable land) pay more than those on the Low Ground.

The advantages enjoyed by High Ground players are reflected y the prices they pay — for example, R5 000 sq/m for land in the ohannesburg CBD as against R50 er hectare in an arid region.

So the market is telling us that he best land is many times more roductive than the poorest.

Clearly not all can play on the igh Ground and no matter how kilfully the players on the Low Ground use their capital and apply their expertise, they will be outplayed.

In golf, where the terrain is the same for all players but it is accepted that skills differ, handicaps are used to give weaker players a chance to win.

So on the economic playground, one would think that the High Ground players would incur a "handicap".

On the contrary, due to the "oversight that caused all the trouble", it is the Low Ground players who are handicapped! Quite apart from the ruinous effect of VAT and petrol taxes on the ultra-poor millions eking out a subsistence in remote rural areas, formal economic activity there is also effectively penalised.

Even companies merely breaking even on the Low Ground — and hence paying no company tax — are not let off the hook.

In addition to VAT, hefty imposts are payable via PAYE, petrol levies and other indirect taxes.

As Ben Vosloo, MD of the Small Business Development Corporation, points out, small and medium-sized enterprises — many of whom are Low Ground players — actually pay taxes at much higher rates than High Ground corporations enjoying export, sponsorship, and other allowances.

No wonder there is little formal economic activity outside the metropolitan areas and there is an irresistible compulsion on the part of Low Ground players to flee to the High Ground, even if it means squatting there.

So what was the "oversight that caused all the trouble"?

Briefly it was the failure of governments since the Industrial Revolution to see that locational advantage is the one indisputable input in the process of creating wealth for which the state, by underwriting security of tenure, can take full credit.

That process consists simply of applying labour and capital on land. The primary claims on the resulting wealth are earnings, profit and rent, respectively.

Rent is the term used by economists to describe the additional output on better land compared with that on the least productive, given the same imput of labour and capital. It is the natural source of revenue.

By ignoring locational advantage, and taxing instead the fruits of labour and capital, governments penalise all who work and venture their capital. This attitude encourages underutilisation of land and natural resources.

So capital and labour fight like two dogs while the third, ownership of natural resources, walks off with the bone of unearned income.

Ironically, by socialising locational advantage via site-user charges, governments would, for the first time, create truly free and efficient markets in natural resources, thus ending what Winston Churchill called "the oldest monopoly in the world".

He inveighed against the curious system in which five percent of the human race can appropriate the face of the earth and charge the rest through the nose for the "privilege" of living and working on "their" planet.

Site-value user charges would end all that nonsense because owners of natural resources, who now understandably may prefer the leisurely wait for risk-free capital appreciation to the effort and risk of fully developing their property, would have a clear incentive to do so.

Those without the inclination or ability would dispose of their properties.

Moreover, the closer the annual user charge came to capturing the full locational advantage, the closer acquisition costs of land would tend to zero. Property prices would therefore reflect the value of improvements only.

Separate auction or tender mechanisms for the user charges would ensure that they accurately reflected the annual market value of the land. Such auctions would be held between sale and registration of property with bidders being obliged to furnish security to ensure the seller got his price if they won and the original purchaser failed to match their bid.

The effect on the economy would be electrifying. Market forces would immediately ensure the efficient use of all land and effect a rational redistribution.

Political pressures for arbitrary land redistribution would be satisfied and the massive alienation of black South Africans from the free enterprise system would end overnight.

The curse of inflation, in large part due to the claim on production by ownership of land for no equivalent input, would be dealt a mortal blow. □

Stephen Meintjies is an investment manager.

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GOVERNMENT NOTICES

DEPARTMENT OF FINANCE

No. R. 3352 **11 December 1992**

COMING INTO OPERATION OF SECTIONS 44 (1) (a), (b), (c) AND (e), 45 AND 53 OF THE INCOME TAX ACT, 1990 (ACT No. 101 OF 1990)

Under section 64 (2) of the Income Tax Act, 1990 (Act No. 101 of 1990), I, Derek Lyle Keys, Minister of Finance, hereby determine that sections 44 (1) (a), (b), (c) and (e), 45 and 53 of the said Act shall come into operation on **11 December 1992** and such sections shall apply to any remuneration which is paid or becomes payable by an employer to an employee on or after 1 March 1993.

D. L. KEYS,
Minister of Finance.

No. R. 3353 **11 December 1992**

AMENDMENT OF DEFINITION OF "OFFICIAL RATE OF INTEREST" IN PARAGRAPH 1 OF THE SEVENTH SCHEDULE TO THE INCOME TAX ACT, 1962

Under paragraph 20 (1) of the Seventh Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), I, Derek Lyle Keys, Minister of Finance, hereby amend paragraph 1 of the said Schedule with effect from **1 January 1993** by the substitution in the definition of "official rate of interest" for the expression "17 per cent" of the expression "15 per cent".

D. L. KEYS,
Minister of Finance.

GOEWERMENTSKENNISGEWINGS

DEPARTEMENT VAN FINANSIES

No. R. 3352 **11 Desember 1992**

INWERKINGTREDING VAN ARTIKELS 44 (1) (a), (b), (c) EN (e), 45 EN 53 VAN DIE INKOMSTEBELASTINGWET, 1990 (WET No. 101 VAN 1990)

Kragtens artikel 64 (2) van die Inkomstebelastingwet, 1990 (Wet No. 101 van 1990), bepaal ek, Derek Lyle Keys, Minister van Finansies, hierby **11 Desember 1992** as die datum waarop artikels 44 (1) (a), (b), (c) en (e), 45 en 53 van genoemde Wet in werking tree en genoemde artikels is van toepassing op enige besoldiging wat deur 'n werkgewer aan 'n werknemer betaal of verskuldig word op of na 1 Maart 1993.

D. L. KEYS,
Minister van Finansies.

No R. 3353 **11 Desember 1992**

WYSIGING VAN OMSKRYWING VAN "AMPTELIKE RENTEKOERS" IN PARAGRAAF 1 VAN DIE SEWENDE BYLAE BY DIE INKOMSTEBELASTINGWET, 1962

Kragtens paragraaf 20 (1) van die Sewende Bylae by die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), wysig ek, Derek Lyle Keys, Minister van Finansies, hierby die omskrywing van "amptelike rentekoers" in paragraaf 1 van genoemde Bylae met ingang van **1 Januarie 1993** deur die uitdrukking "17 persent" deur die uitdrukking "15 persent" te vervang.

D. L. KEYS,
Minister van Finansies.

11 DECEMBER 1992

PRESS STATEMENT

by the

COMMISSIONER FOR
INLAND REVENUE

INCOME TAX: REGARDING THE REDUCTION IN THE "OFFICIAL RATE OF INTEREST" FOR FRINGE BENEFIT TAXATION PURPOSES

A taxable benefit accrues to an employee if a loan is granted to him and either no interest is payable by him or interest is payable by him at a rate less than the official rate of interest. The cash equivalent of the value of the taxable benefit in these circumstances is the amount the employee would have paid on the loan during the year of assessment if he had been obliged to pay interest at the official rate less the amount of interest (if any) he actually incurred during the year. At present the official rate of interest as defined in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962, is 17 per cent.

It is hereby notified for general information that it will be recommended to Parliament that the official rate of interest be reduced from 17 per cent to 15 per cent with effect from 1 January 1993.

Issued by: The Commissioner for Inland Revenue
P.O. Box 402
PRETORIA
0001.

Enquiries: Mr B. Hechter.

Tel. (012) 315-5311.

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11 DESEMBER 1992

PERSVERKLARING

deur die

KOMMISSARIS VAN
BINNELANDSE INKOMSTE

INKOMSTEBELASTING: MET BETREKKING TOT DIE VERLAGING IN DIE "AMPTELIKE RENTEKOERS" VIR DIE DOELEINDES VAN BELASTING OP BYVOORDELE

'n Belasbare voordeel val 'n werknemer toe indien 'n lening aan hom toegestaan is en óf geen rente deur hom betaalbaar is nie óf rente daarop teen 'n koers laer as die amptelike rentekoers deur hom betaalbaar is. Die kontantekwivalent van die waarde van die belasbare voordeel is in hierdie omstandighede die bedrag aan rente wat die werknemer ten opsigte van die jaar van aanslag sou betaal het indien hy verplig sou wees om rente teen die amptelike rentekoers te betaal, min die bedrag aan rente (indien enige) wat hy werklik gedurende die jaar aangegaan het. Tans is die amptelike rentekoers soos in paragraaf 1 van die Sewende Bylae by die Inkomstebelastingwet, 1962, omskryf, 17 per sent.

Daar word hiermee vir algemene inligting bekendgemaak dat daar by die Parlement aanbeveel sal word dat die amptelike rentekoers met ingang van 1 Januarie 1993 vanaf 17 persent tot 15 persent verlaag word.

Uitgereik deur: Die Kommissaris van Binnelandse
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Posbus 402
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11 DECEMBER 1992

MEDIA STATEMENT

by the

COMMISSIONER FOR INLAND REVENUE

CONCERNING PAYE DEDUCTIONS:

INDEPENDENT CONTRACTORS AND LABOUR BROKERS

320

The Income Tax Act, 1990 (Act No. 101 of 1990), introduced certain amendments to the Fourth Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), relating to the deduction of employees tax (PAYE) from remuneration paid to any person who is a labour broker, or who renders services to or on behalf of a labour broker, or who is a person or class or category of person declared by the Minister of Finance to be an employee.

The 1990 Act provides, however, that the relevant amendments will only come into operation on a date to be announced by the Minister of Finance.

In terms of Government Notice No. R. 3352 of 11 December 1992 published in *Government Gazette* No. 14480 on 11 December 1992 the Minister of Finance has determined 11 December 1992 as the date on which the amendments will come into operation and that PAYE will become payable on remuneration paid to employees to whom the amendments apply with effect from 1 March 1993.

Provision has been made for a certificate of exemption from the deduction of PAYE to be issued to employees affected by the amendments subject to certain conditions being met.

A brochure explaining in detail which employees are affected by the amendments and what steps need to be taken to obtain a certificate of exemption has been prepared by Inland Revenue.

The brochure and application forms for the certificate may be obtained from any Receiver of Revenue.

Issued by: The Commissioner for Inland Revenue
P.O. Box 402
PRETORIA.

Enquiries: J. Hanssen.

Tel. (012) 315-5324.

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11 DESEMBER 1992

PERSVERKLARING

deur die

KOMMISSARIS VAN BINNELANDSE INKOMSTE

MET BETREKKING TOT LBS-AFTREKKINGS:

ONAFHANKLIKE KONTRAKTEURS EN ARBEIDSMAKELAARS

Ingevolge die Inkomstebelastingwet, 1990 (Wet No. 101 van 1990), is sekere wysigings tot die Vierde Bylae by die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), aangebring met betrekking tot die verhaling van werknemersbelasting (LBS) van besoldiging betaal aan 'n persoon wat 'n arbeidsmakelaar is, of 'n persoon wat dienste aan of ten behoewe van 'n arbeidsmakelaar lewer, of 'n persoon of klas of kategorie persoon wat deur die Minister van Finansies as 'n werknemer verklaar is.

Die 1990-Wet bepaal egter dat die betrokke wysigings eers in werking sal tree op 'n datum wat deur die Minister van Finansies aangekondig sal word.

Ingevolge Goewermentskennisgewing No. R. 3352 van 11 Desember 1992 wat in *Staatskoerant* No. 14480 op 11 Desember 1992 gepubliseer is, het die Minister van Finansies 11 Desember 1992 bepaal as die datum waarop die wetswysigings in werking sal tree en dat LBS verhaalbaar sal wees vanaf 1 Maart 1993 van besoldiging betaal aan werknemers ten opsigte van wie die wysigings van toepassing is.

Voorsiening is gemaak vir die uitreik van 'n vrystellingsertifikaat met betrekking tot die verhaling van LBS aan werknemers wat deur die wysigings geraak word onderhewig aan die nakoming van sekere vereistes.

'n Brosjure wat volle besonderhede bevat van watter werknemers deur die betrokke wysigings geraak word en watter stappe gedoen moet word om vir die vrystellingsertifikaat aansoek te doen is deur Binnelandse Inkomste opgestel.

Die brosjure en aansoekvorms vir die vrystellingsertifikaat is by enige Ontvanger van Inkomste verkrygbaar.

Uitgereik deur: Die Kommissaris van Binnelandse
Inkomste
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Govt 'may make retrenchments tax free'

320

DIRK HARTFORD

BDay 11/12/92

GOVERNMENT might soon announce tax exemptions on retrenchment packages for employees in the lower income bracket, according to sources.

It is understood that Finance Minister Derek Keys has agreed to a request from mining industry employers and unions to exempt some retrenchment packages.

Sources said the new deal would apply to workers in all sectors and would probably involve payouts of less than R50 000.

A spokesman for Keys, who is on leave until January, was not able to confirm or deny government approval for the scheme.

This year alone several hundred thousand workers have been retrenched in the manufacturing, building, mining and public sectors.

The gold mining industry alone has lost 150 000 jobs through retrenchment since 1987. And about 35 000 workers were retrenched in the metal industry this year — the same as last year.

Predictions are that this scale of retrenchments will continue next year if the economy does not turn around.

Keys unlocks Budget plan to hike VAT

S|Times (BUSS) 13/12/92.

By KEVIN DAVIE

320

FINANCE Minister Derek Keys has begun the spadework for his toughest political challenge yet — next year's Budget.

The VAT Co-ordinating Committee (VCC), which includes prominent members of Cosatu, has tentatively agreed on the need for an increase in the rate of VAT while extending the number of basic items which are exempt.

Mr Keys has also briefed the Economic Forum (EF), which consists of organised business and labour, on the severe challenges he faces in constructing his first Budget.

The VCC and EF were given the first estimates which the Government has produced for next year's Budget. Sources say the estimates are "extremely bleak", "really traumatic" and "pretty horrifying".

The shortfall between expenditure and revenue this year is likely to be more than 8% (about R26-billion) of GDP of R330-billion.

Sources suggest that Mr Keys will budget for not less than a 6% deficit next year, still well above the 3% and 4% yardsticks for prudent public finance recommended by the IMF and World Bank respectively.

Wider

A VCC source says the committee has agreed that there will need to be an increase in the rate of VAT so long as a wider range of basic items, such as foodstuffs, are exempt.

"There will be major mutterings, but the issue is fait accompli," says the source.

These sources and economists expect VAT to be increased from 10% to about 13,5%, but do not discount the possibility of a rate as high as 15%.

Many expect a VAT increase to be accompanied by a hike in fuel taxes (possibly early in the New Year) and increases in individual taxes by not adjusting tax brackets.

Mr Keys's keenness to involve non-parliamentary parties in drawing up the Budget contrasts with that of his predecessor, Barend du Plessis. It has been widely speculated that Mr du Plessis' abrupt departure from politics was caused by his being forced to back down on the VAT issue.

Says the VCC source: "Mr Keys is an entirely different Minister of Finance."

Mr Keys last week briefed the EF on the constraints he faces in the next Budget. The Forum was told that it would not be asked to support the hard decisions which the Government will have to take, but was offered the chance to respond to Mr Keys's presentation with its own suggestions.

"There was no attempt to co-opt the Forum," says an observer, "but rather to make the budgeting process more transparent."

The VCC has met Mr Keys three times this year and has submitted a list of items, including medical services and foodstuffs, which it would like to see zero-rated.

Mr Keys is understood to be looking at these proposals.

Economists agree that there is little possibility of reducing the budget deficit next year to 3% (about R11-billion) of GDP, but say that a medium-term programme will be needed to achieve this target.

Model

They say, too, that a higher-than-acceptable deficit next year should be linked to economic reform to arrest the downward economic spiral.

Mr Keys has announced that the Government is aiming to cut expenditure next year by at least 3% after taking inflation into account. This suggests that the Budget will increase from this year's R101-billion to about R110-billion.

Economists say there is enormous pressure to increase social spending, but that stiff tax hikes could push the fragile economy into a full-blown depression.

"Drastic tax hikes could push things from bad to worse," says Louis Geldenhuys, economist at Senekal Mouton and Kitshoff.

"It's a nightmare situation. There are vast demands for more social spending — for instance, to equalise pensions.

"We have a high-risk fiscal situation which could easily escalate, making the economy unstable with hyper-inflation."

Levels

Mr Geldenhuys says the solution is to accept a too-high deficit and try and grow the economy out of trouble.

He says that the high levels of Government spending must also be tackled.

While revenues are substantially down on Budget estimates because of the poor state of the economy, Government expenditure will increase by 18% this year. It has increased 16,5% on average during the past five years, says Mr Geldenhuys.

PUTTING HIS POIN

VAT 'has killed property'

320

By MAGGIE ROWLEY
Property Editor

THE introduction of VAT had all but killed the residential property market, says Peter Gardiner of Anglo American Property Services (Ampros).

He said demand for new houses had fallen overnight as affordability had been affected as a result of the extra 10% cost of new homes.

The crippling effect of VAT on the new home market had not been foreseen and the differential between new and existing homes was only now narrowing.

Coupled with the current "double dip depression", the effect on the property industry had been devastating and the loss of skilled artisans would be felt in years to come.

"Hundreds of vital people have left or are leaving the industry because of its perilous nature and they will not return. The cost of retraining people will ensure that a small house will cost close to R1m by the turn of the century," he said.

Ampros is currently marketing 14 projects countrywide of which 11 are residential developments including its 400-stand Welgedacht Country Estate in the northern suburbs.

Sales here had also been affected by the introduction of VAT shortly after its launch and to date sales had totalled about R3m, equal to about 27 stands.

"But interest is now picking up considerably as the development offers great value for money and has all the necessary ingredients to make it successful."

Gardiner said living styles of the future would have to take account of three factors which impact on daily lives, namely the threat to the natural environment, security of home and family and increasing pressure on open space and recreational opportunities.

All these factors, he said, were being addressed by Ampros in their developments.

"However in our enthusiasm to heed our market's environmental concerns, we have to be careful not to overcapitalise our product during this current recession."

He said the size of Ampros estate and business parks were designed to enable them to rationalise the considerable capital cost of the features necessary to create the attractive lifestyle and secure work or home environment.

The cost of maintaining this "utopia" was rationalised among the householders who paid a monthly levy of between R100 and R150 to the Homeowner Association in each estate.

Multiple-rate VAT system picks up flak

STAR 17/12/92 (320)

By Des Parker

DURBAN — A leading accountancy practice says a multi-rate VAT system could cause more problems than it solves.

In addition, it is doubtful whether it would do much to keep prices down, says Ernst & Young in its In Touch circular.

In the wake of a weekend press report that Finance Minister Derek Keys has won tacit support from opponents of VAT, including the Cosatu-based VAT Co-ordinating Committee (VCC), to increase the rate of the tax in the Budget next March, the accountants suggest the Government will opt for the political expedient of more than one rate.

"Our belief, which we believe is shared by Revenue, is that multiple rates pave the path to hell," say the authors.

"Of course, SA's VAT is already multi-rate," they say.

Nought percent and 10 percent already require the same systems in principle as would be required by rates of, say, nought percent, five percent and 15 percent.

"Clearly, using a lower rate tax for essentials and a higher or standard rate for other or luxury supplies is politically attractive."

The report suggests problems of definition will arise if the Government applies a lower rate to goods outside the reasonably well-tested definitions of basic foodstuffs.

More exemptions would, inevitably, make the legislation more complex; already the section of the VAT Act dealing with zero-rating runs to 31 pages and comprises 10 percent of the law.

Ernst & Young says one potential benefit of multi-rate VAT exists.

Raising the lower rate from zero to something of the order of five percent would enable the Minister to keep the higher rate at about 12 percent.

Sources and economists were quoted at the weekend as speculating VAT would go from 10 to 13,5 percent, with nobody ruling out a rate as high as 15 percent.

Sources close to the VCC and the Economic Forum, who have been widely briefed by Keys on budgetary constraints, say Keys faces a gap between revenue and expenditure this fiscal year in excess of eight percent of GDP, or about R26 billion of GDP of R330 billion.

He is expected in March to budget for not less than a six percent deficit, still well above the IMF and World Bank guidelines of three and four percent.

ARG 17/12/92 320 [illegible]

IMF against SA tax hikes

Business Staff

JOHANNESBURG.— The International Monetary Fund (IMF) has severely criticised the South African government's fiscal policy and has called on it to refrain from raising tax rates in the forthcoming Budget.

In the IMF's report on its annual "Article IV consultation", which assesses South Africa's economic performance, the fund also slates South Africa's trade and industrial policy.

The IMF says that in the medium-term, South Africa would have to find the right balance between policies directed at social improvement and those directed at promoting economic growth.

In order to achieve sustainable growth the IMF lays down certain economic "baseline" targets for the period 1993 to 2000 and assumes a yearly population growth rate of 2,5 percent.

These targets include average economic growth of 3,2 percent, employment growth of three percent, real wage increases of 0,5 percent a year and an average 23 percent ratio of fixed investment to gross domestic product (GDP).

Budgetary policies would be of crucial importance in the pursuit of these objectives and therefore the fund expresses "serious concern" about recent budgetary developments.

In particular the deficit before borrowing, which the IMF expects to rise to seven percent of GDP for the 1992-92 fiscal year, would place considerable pressure on future budgets given the interest costs of financing this deficit.

On the budget deficit itself the IMF says that the main focus of efforts to reduce the deficit "must lie in the area of pruning public expenditure".

"In this respect curbing public sector employment and pay increases would constitute an obvious line of attack."

The fund says that while even public spending on social programmes may need to be scaled back it comments that social backlogs should be met by moving rapidly towards equality of social spending between different race groups.

"At the same time consideration might be given to financing an increased volume of such services by increasing charges for those services provided to middle- and upper-income households," the IMF recommends.

It warns strongly against raising personal tax rates, however, as from an international perspective "tax rates in South Africa are relatively high".

Turning to trade and industrial policy the IMF calls for a more outward looking trade policy, which would allow the economy to develop more along the lines of "its comparitive advantage" and expose the "concentrated" domestic industrial structures to foreign competition.

As this would hold clear benefits for the South African consumer the IMF supports proposals that the import surcharge should be eliminated, import licences and formula duties be converted to transparent tariff equivalents and the general level of tariffs be reduced over a number of years.

On monetary policy the IMF supports the Reserve Bank's strict anti-inflationary measures but blames "unresponsive union wage demands" for the continued stubborness of high price increases.

Its assessment of South Africa's economic performance this year and in 1993 is very much in line with previous forecasts by the Reserve Bank — a two percent decline in GDP this year and a slight 1,5 percent improvement in 1993.

Reconstructing the nation with tax incentives

B/DAY 17/12/92 (320)

DALE LIPPSTREU

DURING the past decade income tax collections from individuals have soared by more than 1 000% — nearly 2,5 times the inflation rate. This is to say nothing of the tax take generated by GST and now VAT.

While differences in indirect taxes, social benefits and local taxes make meaningful comparisons between the levels of taxation in various countries very difficult, it is quite clear that the SA taxpayer is now among the most hard-pressed worldwide. Perhaps even more importantly, average SA tax rates have risen sharply at a time when they have been in a declining trend internationally.

The incentive to avoid taxes bears a direct relation to the level of the taxes themselves, with the result that there comes a point when the tax system itself is undermined. We are now very near this point.

If we are to succeed in reversing the trend of economic and political decline, we need new and imaginative solutions.

The proposal put forward by Linsey Madden in these columns recently — that the SA Defence Force be redeployed as a peace force and used in providing housing for the homeless — is one such idea. A further suggestion which may serve to complement Madden's is that the state should encourage individuals to fund national priorities voluntarily by creating tax incentives for doing so.

The taxation aspect is relatively simple and would entail no more than providing for the deduction in full of donations to specified foundations. The foundations themselves would be formed for the purposes of receiving the resultant cash flows and directing them towards specific national priorities. The most obvious of these would be national housing development and education. The foundations could either become directly involved in projects or channel funds to organisations working towards the same objectives.

The trustees could be drawn from the business sector, the judiciary, academia and, of course, persons in the community with experience in matters within the ambit of the foundation. This would serve to ensure that persons with proven competence (as opposed to political appointees) are charged with the crucial task of national development.

Consider the following advantages of such a system:

☐ Increased funding. At best (or worst depending on your perspective) the tax system delivers 43c in the rand. By comparison, a tax deductible donation results in at least R1 being received for each 43c of tax which is forgone. The donations system is thus nearly 2,5 times more efficient as a generator of revenue;

☐ Reduced costs. A donations system is relatively cheap to administer and the cash flows will accrue immediately. By comparison, tax systems are expensive to administer and tax collection is a protracted business.

On the disbursement side, administration of expenditure by the state is notoriously inefficient and expensive. Direct subsidies are also expensive to administer and are prone to abuse;

☐ Depoliticisation of development spending. If our development drive is to be successful, it must be kept as apolitical as possible. Removal of development from the political domain would go a long way towards this.

While politicians may be tempted to hijack the process, the suggested system creates a strong disincentive for them to do so, as donations would quickly dry up if the foundations were turned into a political football;

☐ Nation building. As things stand the haves are threatened by the burgeoning power of the have-nots and this merely serves to widen the rifts in our society. The proposal creates a mechanism for the haves to participate of their own volition in the upliftment of the have-nots. To the extent that this occurs, the economic divide will be bridged and a sense of community and nationhood will be fostered; and

☐ Economic redistribution. Clearly, the greater the individual's taxable income, the greater the incentive to give in terms of the scheme. It should therefore provide a particularly efficient means of transferring wealth from those who can afford it to those in need of economic empowerment.

The proposal is in essence so simple that it might easily be dismissed as naive. I would, however, suggest that the general beneficence of humankind should not be underestimated, particularly when a person is provided with a very material incentive such as a tax deduction. International experience clearly confirms the direct correlation between charitable giving and the available tax incentives promoting it.

In the US, where tax incentives favour charitable donations, the average middle-income family is giving R1 500 per annum to charity despite recessionary conditions.

The idea is almost risk free from a budgetary point of view to the extent that any reduction in tax collections will be covered at the very least more than twice by donated funds. Perhaps these additional revenues could be used to fund the cost of the houses to be built by Madden's peace force.

☐ **Lippstreu is a tax specialist at Syfrets but writes in a personal capacity.**

LETTERS

FM 18/12/92 (320)

STATE REVENUE FM 18/12/92

Trickle down

(320)

State revenue figures over the seven months of the fiscal year to end-October, show a poor performance in most categories, notably Vat collections. These, together with GST carry-overs, brought in R9,5bn, which is 9,9% lower than earnings through Vat and GST over the same period last year, a shortfall this year of R2,8bn on the *pro rata* budget figure.

Of the other categories of Inland Revenue:

☐ Income tax raised R25,3bn, 5,1% up on last year's comparable figure, and a shortfall of R4,1bn on a *pro rata* basis; and

☐ Other taxes R2,7bn, 20,6% up on last year and R300m ahead *pro rata.*

Inland Revenue so far has totalled R36,4bn, an increase of only 0,2% over last year, or R6,5bn short.

Actual Customs & Excise income, before deductions under Customs Union agreements, while exceeding earnings over the same period last year by 23,4%, is nevertheless short of projected budgeted income over the period — R9bn has come in against a *pro rata* budgeted R9,5bn.

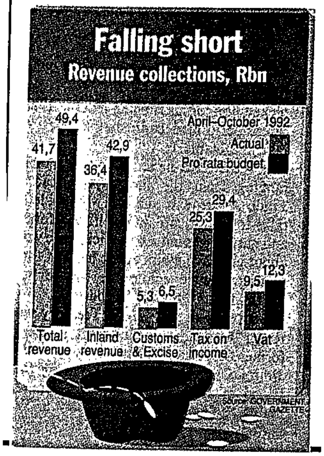
Nedcor Bank chief economist Edward Osborn says the figure for excise duties is disturbing, with R2,4bn being raised out of a *pro rata* budgeted R2,8bn: "Like Vat, the excise duty has been stung by lower consumption."

A total of R41,7bn has been raised in all forms of revenue, only 3,5% higher than that over the similar period last year — a real decline after inflation of 8,5%. The figure is also R7,7bn short of the *pro rata* estimate for the period of R49,4bn.

Osborn says that, should the pattern of revenue continue to year-end, a Budget deficit before borrowing for the year of 8%, or R28bn, looks likely. "This is the figure Finance Minister Derek Keys has been mentioning," says Osborn.

Inland Revenue figures are affected by large payments to the TBVC states and self-governing territories (R1,2bn so far this financial year); these relate to income, company tax and Vat, collected by Inland Revenue but due in these states and territories.

Also, Customs & Excise figures are affected by payments to neighbouring countries under the Customs Union agreements (R3,7bn so far). Says Osborn: "If one calculates gross revenue, which includes these payments, one comes to a figure for the year of R46,6bn — R7bn short of what it should be at this stage." ■



Falling short

Revenue collections, Rbn

Source: GOVERNMENT GAZETTE

'No talks on VAT'

THE Vat Co-ordinating Committee has not supported an increase in the rate of VAT and has not discussed the issue with Finance Minister Derek Keys, says VCC chairman Bernie Fanaroff. Reacting to an article in Business Times last week, Mr Fanaroff said discussions with Keys were limited to the issue of zero-rating of foodstuffs. The article quoted an unnamed VCC source as saying that the VCC had tentatively agreed on the need for an increase in the rate of VAT.

"We have deliberately dissociated our discussions on zero-rating from any discussions on an increase in VAT, partly because we don't want to be blamed for the increase and partly because we have not accepted the need for a general increase." S|Times (BUSS) 20/12/92 (320)

Jolly taxing time for CCs

STimes (BUSS)

20/12/92

~~180~~ (320)

By CHERILYN IRETON

A MISERABLE Christmas looms for taxpayers who have been using close corporations (CCs) and employment agencies to postpone or avoid payment of their tax liabilities.

An amendment to the Income Tax Act, activated by Finance Minister Derek Keys last week, demands that employers now bear the responsibility for deducting PAYE and SITE on all monies paid to so-called "labour brokers" or taxpayers who make their services available through agencies.

The amendment covers any remuneration paid on or after March 1 1993.

It will affect temporary workers, such as secretaries and bookkeepers, who are placed by specialist agencies.

It will also affect individuals who set up close corporations and then negotiate a work contract between their employer and the CC.

Francois Strydom, tax manager at Deloitte & Touche, says that in the case of professional firms such as lawyers, auditors and architects where services are performed by an enterprise — as opposed to providing persons to a client, as with a temporary bookkeeper — the enterprise will not be regarded as a labour broker.

There will be relief, in the form of exemptions, to qualifying labour brokers. The key will be whether the labour broker carries on an independent trade, says Strydom.

Issues that will determine its independence include whether the CC operates from its own premises and the number of clients that it has. This is clearly designed to draw one-man operations — working for one employer — into the tax net.

Other exemptions will be granted by the Receiver, for a period of one year at a time, if the labour broker is registered as a provisional taxpayer, is registered as an employer and his tax affairs are in order.

"Where no exemption has been granted, employees' tax must be deducted in line with the employees' tax tables — if the payment is made to individuals.

"In the case of payment to companies and close corporations, the current corporate tax rate of 48% will apply," says Mr Strydom.

He adds that taxpayers can apply for a reduction of the rate but will then have to prove that their taxable income will be less than the remuneration suggests.

Mr Strydom says it is unfortunate that the implementation was announced at such a late stage.

"The fact that only two months are effectively available to obtain exemption may cause prejudice to the taxpayers' concerned."

VAT increase 'inevitable'

(320)

STAR 22/12/92

By Sven Lünsche

Indirect, and perhaps direct, tax increases are inevitiable in the Budget for the 1993/4 fiscal year, says economist Elmien de Kock in Syfrets' latest Economic Review.

And she suggests that the conspicuous silence by the ANC and the trade unions about the impending hike in VAT and other taxes indicates that they have accepted such a move and shows "that they may finally be coming to terms with economic realities".

"Within the space of one year, they have switched from opposing VAT to tacitly supporting an increase in VAT," says De Kock, referring to the outcry by extra-parliamentary groups when VAT was introduced.

She says that the main reason for the visible lack of opposition to a rise in both direct and indirect taxes is that a low budget deficit was in the interests of a new government.

She adds, however, that as a result of VAT being turned into a "political hot potato" the tax was introduced at 10 percent and not at 13 percent "as it should have been".

As a result of these "political games" revenue in the current fiscal year will fall short by about R8 billion leaving the government facing a budget deficit of about eight percent of gross domestic product, well above the IMF recommended level of three percent.

"Although the economy is forecast to recover marginally next year, revenues would still not be sufficient without tax increases to ensure a lower deficit of about six percent of GDP.

"It is therefore inevitable that indirect, and perhaps direct, taxes will have to be increased in 1993/4 regardless of the depressed state of the economy," De Kock forecasts.

Since the Reserve Bank was unlikely to deviate from its current anti-inflationary stance the upswing would not be consumer led through lower interest rates.

"Rather, it will stem from an agricultural turnaround, inventory rebuilding and maintained export growth."

Nactu against VAT hike

Sowetan 22/12/92

(320)

By Ike Motsapi

■ Business may not survive a hike:

THE NATIONAL Council of Trade Unions has advised the Government not to go ahead with its plans to increase the Value Added Tax by three percent next year. 22/12/92

General secretary Mr Cunningham Ngcukana said his federation had, at a meeting on December 3, voiced concern to Minister of Finance Mr Derek Keys that any increase in VAT would bring added misery to the underprivileged.

VAT is at present levied at 10 percent.

Ngcukana said Nactu raised five points explaining why VAT should not be increased.

These were:

● It is wrong to raise taxes in a recession. An increase in VAT will hit industry and commerce hard because they are "presently punch drunk".

● A VAT increase will hit hardest those who can least afford it.

● VAT is inflationary. Every one percent increase will raise the Consumer Price Index by 0,8 percent.

● There are other ways of raising revenue like abolishing tax loopholes, increase fuel levies, impose new taxes like capital gains tax.

● Cut expenditure. Government should not be allowed any more revenue, as they have proved incapable of spending it responsibly. The gap between revenue and expenditure should be closed by cutting wasteful expenditure - not raising VAT.

FM 25/12/92

LABOUR BROKERS 320

The axe falls

FM 25/12/92.

Revenue has launched its long-awaited offensive against taxpayers who channel their earnings through private companies and close corporations (CCs) — thereby escaping employees' tax (Paye and Site). Also targeted are individuals, such as typists, who market their services to various clients through employment agencies — often escaping the Paye net.

Amendments to the Income Tax Act, enacted in 1990, have now been activated by government notice. Their effect is to import into the Act a new fiscal concept — that of labour broker, drawn from the Labour Relations Act. The Act now treats as employees, for tax purposes, persons falling within this definition, as well as individuals operating through labour brokers.

From March 1, 1993, Revenue will apply the definition of "labour broker" and require the withholding of Paye and Site from the fee earnings of those who fall within the definition and who have not been granted exemption. Employees' tax will have to be deducted at the rate of 48% in the case of companies and CCs, while an individual labour broker would have employees' tax deducted at the applicable personal rate.

Furthermore, also from March 1, 1993, if the individual operating through the labour broker receives a fee from that broker, then he or she will also have to be subjected to employee's tax (at personal rates) to be deducted by the broker.

However, the definition of "labour broker" is so wide that it potentially covers all legitimate providers of services including professional people, such as accountants and attorneys, as well as the real targets of the legislation — employment agencies and certain one-person CCs. The abusers of one-person CCs include people such as draftsmen, computer programmers and artisans (frequently from overseas) working through CCs for one "client" only — a method of postponing the payment of tax. In some cases the practice has amounted to tax evasion (ie fraud) as no CC was ever registered.

Deloitte & Touche tax manager Francois Strydom says it seems Revenue's approach will be to distinguish the provision of *services* to a client from the provision of *persons* to perform those services. This distinction will filter out the professional practitioners and other providers of services, who will not need to apply for exemption.

It remains to provide a procedure to distinguish between genuinely independent labour brokers (such as traditional employment agencies and independent one-person CCs) and those cases which Revenue considers to be disguised employer/employee relationships.

One important legal argument, says Deloitte tax manager Louise Vosloo, may be raised by taxpayers — that the definition of labour broker does not include a one-person CC. The argument is that one purpose of the Labour Relations Act is to protect employees rendering services to a labour broker. It seems unlikely, therefore, that the legislature intended to extend this protection to a one-person CC, where the only member is the person whose services are offered to clients. If successful, this argument would render the amendments ineffective in relation to all one-person CCs.

Any taxpayer falling within the definition of labour broker, who wishes to obtain exemption from the Paye and Site requirements, will now have to complete form IRP 30(a) and submit it to the local Receiver.

The labour broker will have to show it:

☐ Carries on an independent trade;

☐ Is registered both as an employer and as a provisional taxpayer; and

☐ Has submitted all tax returns to date or has a valid extension.

The problem lies with the concept "independent trade". According to Strydom, Revenue favours the "supervision and control" test. If the client, not the broker, determines the manner in which duties are performed as well as working hours, then there is no independent trade. The payment of remuneration at regular intervals may also lead to that inference.

The IRP30(a) also asks whether:

☐ The broker provides services to more than one client;

☐ It operates from its own office;

☐ The persons performing the services are subject to the terms and conditions of the contract between the labour broker and its client;

☐ There is a contract between the client and the broker's employees; and

☐ Those employees receive benefits, such as housing assistance or training from the client.

Answers to the questions in IRP30(a) will distinguish independent labour brokers from cases of disguised employment.

The labour broker will have to apply annually for an extension of the exemption. Employers using the services of labour brokers will now have to be wary. If an exemption is not granted, failure to deduct Paye will attract penalties as well as interest payable to Revenue. What is not clear yet is whether Site will apply if the annual remuneration is R50 000 or less — though it seems probable Site will apply.

Vosloo assumes that Paye and Site payments made by companies and CCs will qualify as credits against final assessments.

If a broker does not obtain an exemption there can be a double deduction of Paye — firstly by the client, secondly by the labour broker itself; that is, if it pays a salary to its own employee or fees to individuals it places with the client.

But no Paye will be payable by a CC on amounts paid over to its members, who are treated on the same basis as directors of private companies for tax purposes. Of course, the member will be taxed as a provisional taxpayer on all earnings, which would include fees from the CC, but not distributions from the CC (the counterpart of dividends from a company).

A labour broker may apply for a reduction in the standard rate, on the basis that its taxable income will be less than the remuneration equal to gross fees. This will be the case where the broker has deductible expenses not taken into account for Paye or Site purposes.

A serious question is whether an effective two months (to the end of February) will be enough to process applications for exemption. Strydom says he hopes the brochure to be issued explaining the procedure will be adequately detailed and that Revenue offices will have staff available to process the exemptions in time to meet the March 1 deadline. ■

Tax bonanza for top firms

S/Times (Buss) ~~(480)~~ (320)

27/12/92 **By CHERILYN IRETON**

SOME of SA's leading corporations are paying little or no tax at a time when the government is scrambling to find additional funds to finance its spending.

Almost a fifth of the JSE's industrial companies that detailed their tax payments in their latest audited results, enjoyed an effective rate of under 20%, according to figures provided by information service I-Net.

Iscor, labelled as the world's most profitable steel company by Fortune magazine, paid just 0,1% of its profit in tax for the year to June while paper and pulp producer Sappi remitted just 1% of its R216,7-million pre-tax profit to the Receiver of Revenue.

Anglo American Industrial Corporation — which houses Anglo's interests in companies like Mondi, Hiveld Steel and Haggie — paid tax at a rate of 13% last year.

Hiveld — which stands to gain further tax benefits from its involvement in the Columbus Stainless Steel project — paid tax at a rate of 12,5%.

The International Monetary Fund has warned that accelerated depreciation allowances granted to projects like Columbus — under section 37E of the Income Tax Act — will be a further drain on the country in the next few years in terms of lost revenues.

Other noteable tax rates are:

● Gencor 9%;
● Rand Mines 6,8%;
● Absa 26%;
● W&A 2%;
● Engen 10,2%;
● Dorbyl 11,4%;
● Safren 17,2%;
● Anglo Alpha 19,1%;
● Sasol 23,5% and
● South African Breweries 36,6%.

The rates are kept low by legitimate use of benefits from assessed tax losses and allowances for investment in capital projects.

Meanwhile, there are growing signs that individuals will be called on to fund the widening shortfall between government income and expenditure which is expected to be around R26-billion for the current fiscal year.

Sanlam economist Pieter Calitz says the government has three options: to reduce expenditure, increase taxes — preferably indirect taxes — or to fund the deficit through borrowings.

He believes government will have to use a combination of all three.

Increases in indirect taxes are expected to take the form of a higher VAT rate of 13% and a 10% increase in the fuel levy. Both will have an impact on inflation and could delay an upturn in the economy.

Although the government is not expected to raise individual tax rates in the next Budget, direct payments from individuals will be up at least 20% through fiscal drag, says Mr Calitz.

"To reduce real government spending by 3% will be difficult at this time. Minister Derek Keys' only way of achieving that is to fire public servants. That in itself can be contra-cyclical because of the severance costs."

Sacob, in its outlook for the 1993/94 budget advocates a cut in the corporate tax rate from its current 48% to bolster confidence.

The IMF, in a report on the South African economy released earlier this month, said every effort should be made to broaden the tax base and to eliminate tax expenditures.

Substantial

It criticised the accelerated depreciation allowances granted to large scale export beneficiation projects because they will entail a substantial cost to the government over the next few years in terms of lost revenue.

The depreciation allowances allow companies to apply the present 20% allowance from the date that they put up the funds for the project rather than from the date of commission.

This means that government will have to bear the cost of the allowances, which can be transfered to companies not even linked to the project, long before the project comes on stream or produces any revenue for the fiscus.

The I-Net analysis used published taxed rates from the latest audited financial statements.

Hike in taxes 'to be opposed'

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Sowetan 29/12/92

■ Cosatu boss warns of mass action:

LABOUR unions would embark on a renewed programme of mass action if the Government increased taxes in its 1993 Budget, Congress of South African Trade Unions president Mr John Gomomo warned yesterday.

Speaking at the 27th annual Labour Party conference in Port Elizabeth, Gomomo said Cosatu would not tolerate the Government's manipulation of taxes.

Political freedom had to be fought for, and mass action was an important part of that struggle, Gomomo said.

In his address, LP leader the Rev Allan Hendrickse called for the formation of a government of "national salvation" to rescue the country from economic ruin.

It was "nonsense to talk of a government of national unity" because the division that was the legacy of apartheid would haunt the country for generations to come.

"A government of national unity suggests we are unified when we cannot be at this stage in our history."

Instead, a government comprising a broad spectrum of political parties would create the kind of stability needed to attract foreign investment.