TAXATION — 1993

APRIL — ~~SEPT~~. DEC.

Public Works Dept provokes builder's ire

Star 1/4/93

Property Editor (320)

Taxpayers are being penalised for cumbersome payment systems in the Department of Public Works, says Frank Wright, president of the Master Builders Association, Cape Penisula branch.

He said this week it had become so difficult for contractors to get their final accounts settled by the department that many now avoided tendering for state work.

"This means the taxpayer, who in the end funds the department, is not necessarily getting the lowest price or the best contractor for the job."

Wright said private sector clients usually settled a final account, for the last portion of a contract, within two to three months.

"However, when one deals with the department, the final settlement can take anything from three to five years.

"During this period, the retention money — from one to five percent of the contract sum — does not earn interest.

"This is a costly situation for the contractor, even with inflation running below 10 percent. In fact, the money held back could amount to more than the contractor's entire profit on the job."

Wright said the situation was complicated by the department's inability to resolve difficult issues, or even to use recognised dispute resolution methods such as arbitration or mediation where a genuine dispute did arise.

He made a plea for change in the department's settlement system.

ANC seeks advice on tax reforms

Star 30/6/95

By Claire Gebhardt

The ANC has asked South Africa's Fiscal Think-Tank for feedback on four possible areas of tax reform, according to Think-Tank chairman Marius van Blerck.

These are: (320)

- The possible implementation of a "reconstruction levy";
- A modification of prescribed asset requirements to "directed" asset requirements, which would entail life offices using a certain percentage of their cash flows for infrastructural development such as housing;
- The possibility of a post-apartheid dividend in the form of foreign aid and how this will affect taxation; and
- The Gatt recommendations that expenditure on schemes such as GEIS (export incentives) are wasteful and whether this is correct.

A report-back with the ANC is scheduled for the 21st of next month.

Revenue chief steps in after Absa CE's son joins tax raid on Mancer

BDay 1/4/93

(320)

ANDY DUFFY

INLAND Revenue Commissioner Hannes Hattingh is to take personal charge of an investigation into a tax raid yesterday which might have contravened departmental rules on conflicts of interest.

The raid on the Germiston home of sports promoter Peter Mancer involved Frikkie Badenhorst, the son of Absa CE Piet Badenhorst. It came 10 days after Mancer won a bitterly contested R1,5m Supreme Court action against Absa.

Hattingh said it was department policy to eliminate any conflicts of interest from such investigations, and he would personally investigate whether the Receiver's Johannesburg office had followed this policy.

He said he was unaware that Badenhorst — who is doing his military service in the Receiver's special investigations division — was the Absa chief's son, or that he was working for the department.

Badenhorst and five other revenue inspectors entered Mancer's home early yesterday morning and spent more than two hours sifting through the family's belongings. The taxmen left with 20 lever box files, cash books and ledgers.

At the same time, two other inspectors pounced on the Johannesburg offices of Mancer's attorneys Bell, Dewar & Hall. Three inspectors also raided the offices of Mancer's auditor, Ralph Hellman.

The department told the attorneys it was probing alleged tax irregularities under Section 74 of the Income Tax Act, relating to the R1,5m won in the court case. It was apparently acting on news reports about the case and was trying to ascertain whether the R1,5m was taxable. Frikkie Badenhorst had sat in court during the case's judgment which cleared Mancer of any tax fraud.

The R1,5m has not been paid to Mancer yet, and he will not be entitled to it until Absa's appeal against the judgment is decided. Piet Badenhorst confirmed yesterday that Absa's appeal would go ahead.

The inspectors also demanded attorney/client privileged documents relating to the court case and to litigation still pending. These were refused and the attorneys said they would hand over the documents only if the Receiver had a court order.

The department's chief regional inspector Dirk Leriche assured Bell, Dewar & Hall as the raids were in progress that Badenhorst's role was a minor one and his presence was merely coincidental. Badenhorst junior was involved only because he happened to be part of the group assigned to raid Mancer, he said.

However, the young Badenhorst was officially authorised to join the raid on March 16 and the decision was taken on March 12 just as the court case was being wound up. His name appears as the contact on documents issued to the Mancer family.

Yesterday Leriche refused to answer questions about the appropriateness of Badenhorst's involvement.

The Mancers said special investigations division deputy director Ernest Dicker had cross-questioned them with a 13-page questionnaire on the family's total financial affairs. Badenhorst then issued a further questionnaire, signed by himself, demanding details of family expenses going

□ To Page 2

Tax raid

BDAY 1/4/93

(320)

□ From Page 1

back to 1987. The items included cutlery, haircuts and expenditure on squash.

Debbie Mancer said Dicker had initially denied to the Mancers that the young Badenhorst was related to Absa's CE. Badenhorst himself confirmed the relationship at the end of the raid.

"I was angry," said Debbie Mancer, "and even more angry when I found that Piet Badenhorst's son was in my house. He's the one who searched our house."

Piet Badenhorst said he believed his son's involvement did not represent a conflict of interests. Badenhorst senior denied that he had instigated the raid, that he knew about it before it took place, or that he was conducting a campaign of harassment against Mancer. Asked whether the Finance Department had made a mistake giving his son the job of joining the raid, Badenhorst said the department's affairs were "not my concern".

Mancer's attorneys spent much of yesterday trying to clarify with Leriche what Badenhorst's role was in the investigation, and the reason for the raids and their timing. Leriche was asked to give a written assurance that Badenhorst would be removed from the investigation.

Tax load lighter than you think

The Argus Foreign Service

LONDON. — It may surprise some, but South Africa's overall tax burden compares favourably with its major trading partners.

The latest South African Budget states that South African tax accounts for 24 percent of gross national product.

SA's tax burden is worse than Japan (20,5 percent of GDP), Switzerland (20,8 percent), United States (21,4 percent) and France (22,4 percent). 320

Yet taxation accounts for around 25 percent of Germany and Italy's GDP. For the UK it is 27 percent, 32 percent for Canada and as much as 35,7 percent of Sweden's economy.

Yet this is only part of the story.

Individuals in South Africa's major trading partners must make social security payments, mainly towards unemployment insurance, state pensions and health. Benefits are free medical treatment, social services for the poor and payments for the unemployed. ARG 1|4|93

Tax and social security deductions as a percentage of GDP are thus 51 percent for Sweden, 44 percent France and Germany, 41 percent Italy, 38 percent Canada, 38 percent UK, 33 percent, US 31 percent and Japan 29 percent.

From the above statistics, it can be seen that South Africa has some way to go to match the welfare payments made in leading industrial nations.

Comparing actual tax rates, the South African burden on individuals is much greater than the UK. The poor are worse off as can be seen from the tax tables below.

For the purposes of tax rate comparisons, a national "purchasing power parity" of R2,5 to the pound instead of the market rate of around R4,74 to one pound has been applied. This is a more accurate, though imperfect cost of living comparison than present exchange rates.

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

In the UK, the individual must make social security payments which rise next year to 10 percent from 9 percent. As mentioned above, however, those sums go towards free health, unemployment insurance and state pensions.

The scale of the NIC take is also limited to a maximum of 10 percent up to incomes of £21 000 (R52 500). Thus a married person with a taxable income of £40 000 (R100 000) would be paying 4,5 percent on national insurance contributions.

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

■ A great many of Johannesburg's tycoons must have been in a sombre mood this week, writes Derek Tommey from Johannesburg.

The cause was a report that a film finance scheme, which was expected to save them tens of millions in taxes, had been declared illegal by the Income Tax Appeal Court.

The judgment has not been confirmed because rulings by this particular court are normally secret, dealing as they do with private and confidential matters.

Only if one of the parties decides to go public, do the court's judgments become common knowledge.

But there is too much riding on this judgment for normal proceedings to be followed.

It is estimated that tens of thousands of tax assessments involving the payment of possibly R2 billion are waiting on the ruling.

...ch Organisation CE Alan Munroe, Chamber of Mines president Bobby Godsell and CSIR president ... ceremony which marked the creation of the Division of Mining Technology, a merger between

Picture: ROBERT BOTHA

Size of govt impedes growth hopes — BoE

BIDm 1/4/93

LINDA ENSOR

CAPE TOWN — The vision for economic growth outlined in Finance Minister Derek Keys's economic model would never be realised unless the size of government was substantially reduced, Board of Executors (BoE) senior portfolio manager Rob Lee warns in the latest Investment Outlook.

Disappointingly, the Budget failed conspicuously to make progress in this regard.

The substantial 12,5% increase in government spending budgeted indicated that the brave utterances by President F W de Klerk and Keys about downsizing government were so much hot air. As a consequence the individual taxpayer had to bear a higher direct and indirect tax burden in a situation of lower wage and salary increases, "punishingly high" real interest rates and continued retrenchments.

"The net result is that consumer spending is bound to fall substantially in real terms again this year," Lee said. He believed the Budget would depress economic growth further.

Hopes of an investment and export-led boom in SA were pie in the sky unless politicians facilitated its implementation.

Preconditions for realising these hopes were: a sustained international economic upturn; a reasonable degree of political stability and certainty; a reduction in violence; the consistent pursuit of stable, predictable and sensible economic policies; a considerable cut in the relative size of the public sector and a more realistic and competitive exchange rate.

The exchange rate should be lowered "by eliminating exchange control and reducing the level of protection and subsidies and not by depreciating the currency through excess money creation".

Lee believed the underlying trend in inflation was still downward. Inflation was expected to fall to about 8,5% in March, jumping thereafter to between 10,5% and 11,5% before returning to single digits.

He was optimistic that the 1994 inflation rate would average less than 10% on account of the weak domestic economy, low international inflation, the fall in money supply growth and a strengthening of reserves which would stabilise the rand.

A further cut in Bank Rate could be expected in the second half of the year as long as pressures on the capital account eased after the installation of a transitional government.

Regarding international economies, Lee believed a sustained recovery was unlikely. The recovery in the US economy and signs of a UK revival were being counterbalanced by continued weakness in Japan and collapsing production in France, Germany and the Netherlands.

Taxman nets R2,5bn

GERALD REILLY

PRETORIA — Inland Revenue inspectors and auditors had recovered a record total of R2,577bn in unpaid taxes in the 1992/93 year, a spokesman said yesterday.

The amount netted by the taxman's team was up 25% on the previous year.

But tax authorities admitted that there were still tens of millions of rands escaping the tax net annually.

They stressed, however, that there was no tax collection system anywhere in the world which was 100% "dodge-proof".

According to Inland Revenue, tax on undisclosed company and individual income was R1,653bn; unpaid PAYE came to R84m and regional services council levies to another R16m.

Unpaid VAT amounted to R368m, special income tax audits to R329m and unpaid GST to R153m.

Earlier this week, ANC economic spokesman Trevor Manuel said there was no need to tax more heavily if more efficient collection methods were used.

The Inland Revenue spokesman said the record recoveries in the 1992/93 tax year were mainly due to an inspectorate and audit staff that had been increased by more than 30% in the past two years to 1 500. (320)

A tighter and more sophisticated tax tracking strategy was also being used, he said.

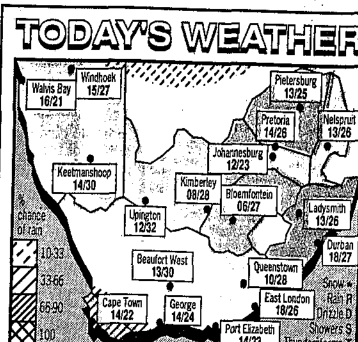
Currently, summonses on tax defaulters were being issued at a rate of about 14 000 per month.

Of the 6 770 000 returns posted to taxpayers for the 1991/92 tax year, more than 60 000 were outstanding.

Other authorities said although the figures indicated some success in finding unpaid taxes had been achieved, the answer seemed to be to further enlarge the inspe...ate staff.

For every R1 spent on an expanded staff, there could be a return of R10 for the fiscus, they speculated.

TODAY'S WEATHER



TRANSVAAL E SE MILD to warm.	**NORTHERN CAPE** WARM to hot.
TRANSVAAL W SW CLOUDY and warm.	**CAPE PENINSULA** COOL with light rain.
TRANSVAAL N NW CLOUDY and warm.	**REST OF CAPE** COLD to warm with light rain in places.

Star 2/4/93

Beware dealers charging 14%

(33)

Many unscrupulous retailers were already charging consumers the proposed 14 percent VAT on goods although the official implementation date is April 7, the Consumer Council said yesterday. (320)

Council executive director Jan Cronje said that retailers charging more than 10 percent VAT on goods before April 7 were guilty of fraud and warned that their names would be forwarded to the relevant authorities.

He urged consumers to report such cases to the Council. — Consumer Reporter.

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Vol. 334 PRETORIA, 2 APRIL 1993 No. 14731

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. 598 (320) **2 April 1993**

VALUE-ADDED TAX ACT, 1991

INCREASE IN RATE OF TAX SPECIFIED IN SECTION 7

Under section 77 of the Value-Added Tax Act, 1991 (Act No. 89 of 1991), I, Theodorus Gerhardus Alant, Deputy Minister of Finance, hereby make known for general information that in terms of a taxation proposal tabled in Parliament on 17 March 1993 the rate of value-added tax specified in section 7 of the said Act is to be increased to the rate of **14 per cent**, as set forth in that proposal, for the purpose of determining amounts of value-added tax which are or are deemed to have become payable on the supply of goods or services on or after **7 April 1993** or on the importation of goods into the Republic on or after that date.

T. G. ALANT,

Deputy Minister of Finance.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. 598 **2 April 1993**

WET OP BELASTING OP TOEGEVOEGDE WAARDE, 1991

VERHOGING IN BELASTINGKOERS VERMELD IN ARTIKEL 7

Kragtens artikel 77 van die Wet op Belasting op Toegevoegde Waarde, 1991 (Wet No. 89 van 1991), maak ek, Theodorus Gerhardus Alant, Adjunkminister van Finansies, vir algemene inligting bekend dat ingevolge 'n belastingvoorstel wat op 17 Maart 1993 in die Parlement ter Tafel gelê is, die koers van belasting op toegevoegde waarde vermeld in artikel 7 van genoemde Wet verhoog staan te word tot die koers van **14 persent,** soos in daardie voorstel uiteengesit, vir die doeleindes van die vasstelling van bedrae belasting op toegevoegde waarde wat op die lewering van goed of dienste op of na **7 April 1993** betaalbaar of geag betaalbaar geword het, of op die invoer van goed in die Republiek op of na daardie datum.

T. G. ALANT,

Adjunkminister van Finansies.

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Schemes to foot VAT hike

KATHRYN STRACHAN

THE Representative Association of Medical Schemes (Rams) announced yesterday it would carry the costs incurred through the increase in VAT — even though it would cost schemes an extra R300m.

Rams executive director Rob Speedie said the association had put up its scale of benefits by 3,64% — which would compensate providers of services for the full effect of the VAT increase.

He said the increase in the scale of benefits and recommended schedules of benefits would apply to services offered by the health care professions, private hospitals and day clinics, following the "most unwelcome" hike in the VAT rate.

Speedie said the move followed a meeting with the Medical Association of SA, the Dental Association of SA and representatives of private hospitals and clinics.

"All parties expressed their dismay that government hadn't seen its way clear to affording VAT relief in respect of health care services — in spite of numerous requests to do so.

"The decision to hike VAT on health care services will add R300m this year alone to claims paid by medical schemes," he said.

Rams would publish its increases in the Government Gazette as soon as possible, but would in the meantime urge medical schemes to apply the higher rates from April 7, when the VAT change came into effect, said Speedie.

(320)

BD 13/4/93

NEWS IN BRIEF

B/DAY 2/4/93

Govt AIDS decision

GOVERNMENT will not be making the HIV infection and AIDS notifiable, in line with the AIDS advisory committee's advice, National Health Minister Rina Venter has told Parliament. She says HIV infection should be made notifiable only if linked to mass screenings, which are not feasible in SA.

2/4/93

MP defects to Inkatha

INKATHA gained its second MP in the House of Delegates yesterday when Tongaat representative Michael Abraham left the NP to become the fifth Inkatha representative in Parliament. Abraham is also a former DP member.

2/4/93

Homeland assistance

THE four independent homelands received R6,12bn in assistance from SA during the 1992/93 financial year, Foreign Affairs Minister Pik Botha said yesterday. Bophuthatswana received R2,3bn, Transkei R2,2bn, Venda R665,6m and Ciskei R914,1m.

B/DAY 2/4/93

SA gains doctors

SA GAINED a large number of professionals last year, particularly in the medical field, Home Affairs Minister Danie Schutte said yesterday. Last year 289 doctors immigrated to SA against 35 who emigrated.

REPORTS: Political Staff, Political Correspondent.

Govt changes stance on VAT rate dates

B/DAY 2/4/93 (320)

TIM COHEN

CAPE TOWN — Government has announced that the old VAT rate will still apply for goods supplied before April 7 but delivered before April 28, reversing its previous stance.

The provision of a 21-day period of grace follows urgent public representations, particularly from Sacob, which argued that applying the new VAT rate to goods delivered after April 7 was administratively complex and unjust.

Opening debate on the VAT Amendment Bill in Parliament yesterday, Deputy Finance Minister Theo Alant said urgent representations had been received in the last few days from vendors, whose commercial practice it was to deliver goods to their clients a few days after the sale transaction had been concluded.

They argued the present provision in the VAT Amendment Bill resulted in friction between vendors and their clients, Alant said. An amendment would be introduced later in the session in terms of which the supply of goods which took place before April 1, and where the goods were delivered within 21 days, would be subject to the lower rate of tax.

Similar representations had been received concerning lay-buy sales, and an amendment would also be introduced on this issue.

The legislation would also provide that the old VAT rate would apply where the agreement had been entered into before April 7 even though the goods were delivered at a later date.

DP MP Geoff Engel said during the debate his party would not support the Bill because government was steadily bastardising a fine system of tax collection into one that would become unmanageable.

Sapa reports he said government was shifting a greater portion of the tax base onto the poor. In addition, VAT on medicine and medical services taxed misfortune and misery, he said.

ANC-supporting Independent MP for Simon's Town Jannie Momberg said the VAT increase from 10% to 14% was unacceptable to the ANC.

It represented an attack on the living standards of workers and the poor because it shifted the fiscal burden onto their shoulders. The increase was not only inflationary, but would dampen economic growth by reducing consumer spending when manufacturing production levels were critically low because of the recession.

The ANC supported progressive taxation which differentiated between taxing on the capacity to pay, such as a progressive PAYE system.

The organisation welcomed the exemption of basic foodstuffs, but believed there should be more relief.

Essentials, including medicine and medical services, electricity and water, should also be exempted.

General affairs expanded further

CAPE TOWN — Agriculture, health and local government became general affairs yesterday, ending an expensive, fragmented and race-based system of own affairs management, House of Assembly Ministers' Council chairman Adriaan Vlok said yesterday.

The own affairs aspects of welfare, housing and works were receiving attention, and would be transferred to general affairs early in the second half of the year, he said in a statement. B/DAY 2/4/93

An education co-ordination service had been implemented on April 1 to transform the prevailing system into executive regional departments as quickly as possible.

Functions carried out by own affairs administrations would be executed by the equivalent general affairs departments.

The old own affairs dispensation was being replaced by a more efficient, cost-effective and decentralised system.

About 10 500 members of the House of Assembly administration were affected by the transfer of functions and were being posted with the least possible disruption.

Funds for the newly transferred services had already been included in the 1993/4 budgets of the recipient departments.

The Cape Provincial Administration announced yesterday that two own affairs functions, local government and health, had been handed to the CPA.

The effect of the transfer of own affairs functions to the CPA means that 2 600 officers and posts of the administration of the houses of Assembly and Representatives now fall under the CPA.

All former own affairs Cape hospitals, some of which had reen run on an agency basis up to now, and all oral hygiene services, have been transferred to the CPA. — Sapa.

TAX ON MOVIES

FM 2/4/93. (320)

The unforgiven

The great movie tax saga has come a step nearer to its close. The *FM* has learnt that the judgment of the Transvaal Income Tax Special Court, in the important test case over the movie *Jake Speed*, has gone against the taxpayer. The Special Court reached its decision on the basis of Section 103 of the Income Tax Act, the general anti-avoidance Section.

The movie saga is a case history of how not to manage a tax system effectively and how to achieve maximum ill-will between Revenue and taxpayers. It started with highly favourable rulings given for the making of *King Solomon's Mines* and culminated in the enactment and subsequent amendment of Section 24F of the Act, which provided a more restricted and highly regulated basis of deduction for movie expenses.

In March 1989, the exporter's allowance previously granted under Section 11*bis* was severely curtailed. This spelled the death-knell of movie schemes as previously structured.

During the heyday of the movie schemes in the mid-Eighties, the promoters of schemes would form, typically, partnerships *en commandite*, with the investors who wanted a tax shelter as undisclosed partners. The cost structure of the movie syndicates was manipulated, judiciously in the more reasonable ones, recklessly in others, to create a heavy front-end load to the financing and hence the cost structure.

This type of structure, coupled with Section 11*bis*, could create significant gearing effects, though substantially less under Section 24F than previously. Before Section 24, every rand invested in a scheme could yield the benefit of three, four or even more rands of deductions, with a tax saving of half or even more of the deduction, depending on the tax rate applicable to the participant; this even allowing for the loss of the taxpayer's original stake. But, after the enactment and amendment of Section 24F, the benefits would rarely have been in excess of three times.

Over the years, deductions claimed seriously eroded the tax base and there was great irresolution at Revenue as to how to assess the tens of thousands of returns claiming movie-related deductions.

The departure of one Minister of Finance and the installation of another, free of any possible embarrassment related to the problem, has afforded an opportunity for government and Revenue to get off the hook — this through a rough and ready compromise which would give taxpayers some benefit from the deductions claimed, even if it falls far short of what some might well be entitled to in strict tax law. A promise to make a general offer of settlement was held out by Finance Minister Derek Keys in his Budget speech.

Many taxpayers have sound cases for being allowed their highly geared deductions on the basis of the law as it stood at the time, often on the additional basis of favourable rulings by the Commissioner. While those rulings are binding only in cases where he has a discretion to grant a particular deduction, in other cases assessing against the tenor of a ruling should be regarded as a serious breach of trust.

While it is true that the applicability of Section 103 has to be decided on the specific facts of a case, the result in the *Jake Speed* case may tempt Revenue to be less generous with the promised general offer of settlement than if the result had gone the other way.

There were indications, well before the *Jake Speed* judgment, that Revenue would offer one rand of deduction for every rand of money committed to a movie scheme and, most important, coupled with a waiver of penalties and of interest on insufficient provisional payments made on the assumption that a scheme was valid.

At the time most money was put into movie schemes, companies were being taxed at 50% and individuals at 45% or even 50%. So the actual benefit from a one-to-one allowance would be around a half. This, says one tax specialist, would not be enough to

* cont →

Keys ... *free of embarrassment*

FM 2/4/93. (320)

persuade large taxpayers presently in the stocks to settle, though the smaller fry might take the bait. To tempt the big players, the minimum that would be required is of the order of 1,6 to one, which would yield a benefit of around 80% of the money committed. Ideally, an offer of two to one could be relied upon to persuade almost all taxpayers to settle.

Any basis of settlement will almost certainly be formalised through a specific amendment to the Act, which would provide Revenue with an unambiguous set of guidelines for assessing all the taxpayers involved in movie schemes. This would presumably be announced by a press release once Revenue has reached a decision on the basis for a compromise.

Robin Friedland

Lower VAT applies on late delivery

Star 2/4/93

(320)

By Peter Fabricius
Political Correspondent

CAPE TOWN — Consumers who buy goods before the new 14 percent VAT rate comes in on April 7 — but take delivery afterwards — will only pay the old 10 percent VAT rate.

The lower rate will apply if the deliveries are made up to 21 days after April 7.

Deputy Finance Minister Theo Alant offered this concession in Parliament yesterday during debate on the Value-added Tax Amendment Bill which mainly introduces measures to smooth the transition to the higher VAT rate.

A similar concession would be made for lay-by purchases. If sales contracts were entered into before April 7, the 10 percent rate would apply for the whole transaction, no matter when the last payment was made.

Alant said that homeowners who entered written agreements to buy houses or residential sites before April 7 would also only have to pay 10 percent VAT — even if the transfer technically only came into effect after that date.

He said the reason was that buying a house was usually the biggest purchase of a consumer.

Most buyers who had entered written agreements to buy houses had also made fixed agreements for financing. Any increase in the cost could jeopardise the whole transaction.

No relief on the horizon

CitMail 2/4-7/4/93. (320)

By REG RUMNEY

JUST when business thought it was safe to go back into the water the fin of further recession is seen skimming the waves ahead.

The *Budget Review*, released with Finance Minister Derek Keys' speech, assumed a measly growth rate for this year of 0 to 0,5 percent. Only weeks after the tabling of the Budget that higher figure already looks optimistic.

A rather contractionary Budget designed to tackle the country's structural problem of a burgeoning deficit, continuing recession in world economies, and an outflow of money which puts foreign reserves under pressure are all grounds for pessimism.

Many economists are expecting either zero growth or a slight contraction in the economy this year. And that comes after two previous contractionary years.

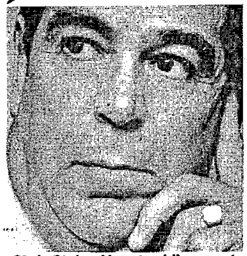
For one thing, the Budget's increase in Value Added Tax, an increase, through fiscal drag, in income tax, higher excise and fuel taxes, and the capping of public service pay increases to five percent will all hit ordinary consumers in their pockets.

Private consumption expenditure, which has been the main motor of growth, looks likely to stall as consumers pay off or consolidate debt.

Frankel Max Pollak economist Mike Brown reckons the Budget, by taking R6-billion to R7-billion out of private consumption spending through taxes, knocked 0,5 percent real growth off gross domestic product, the key indicator of economic activity.

Pre-VAT increase buying may give a temporary fillip to sales of some durable goods, but that will be followed by a steep drop after April 7.

So the outlook is bleak. Comments Rand Merchant Bank chief economist Rudolf Gouws: "We would have to have a pretty strong recovery in consumer spending in the third and fourth quarters of this year to have positive growth."



Chris Stals .. No rates hike — yet

Real government consumption spending will decline, and fixed investment won't recover this year. Monetary policy will remain tight.

Indeed, Reserve Bank governor Chris Stals looks as if he will put more interest rate cuts on hold indefinitely. In theory, Stals should consider a rise in the bank rate, the Bank's mechanism for influencing interest rates to protect South Africa's gold and foreign exchange reserves.

An increase of R1,7-billion in South Africa's reserve-related liabilities and small positive valuation adjustments meant the gross gold and foreign reserves fell only R1,3-billion in the fourth quarter of last year, according to the Reserve Bank's quarterly report.

For 1992 as a whole, total net foreign reserves fell by R2,3-billion.

At the end of last year, South Africa still only had sufficient gross gold and foreign reserves, at R11,2-billion, to pay for around two months' imports. Reserves fell last year because of the deterioration in the capital account of the balance of payments.

Reserves have come under more pressure because of the recent sudden strength of the dollar. The rand has fallen around 17 percent since September's European Monetary System crisis sent the dollar soaring.

Short-term outflows have resulted from a switching away from more expensive foreign trade finance to cheaper domestic finance and a situation of "leads and lags" where importers hurry up paying for goods while exporters drag out payment in expectation of getting more rands, says Southern Life chief economist Mike Daly.

Daly says South Africa stands a good chance of hitting a cashflow problem later this year. However, he notes that Stals has access to R5-billion of foreign interbank credit to boost gross reserves.

Stals told an Afrikaner Sakekamer meeting this week the continuing decline in reserves since August last year had not only put pressure on the exchange rate but was also draining liquidity from the system and putting pressure on interest rates to rise.

Daly considers a rise in rates, politically a step with enormous consequences, unlikely. However, a further cut in interest rates soon is now not on the cards. Gouws adds that interest rates have never risen in the latter stages of a recession, and if they did it would be a temporary measure.

To add to the woes of the man-in-the-street, the Budget's excise and fuel tax increases — and the four percentage point VAT rise, temporarily — will push up inflation, which has fallen to single figures.

But, if Nedcor chief economist Edward Osborn is right, underlying inflation — as measured by the year-on-year consumer price index — is around 12,5 percent rather than nine or 10 percent. Osborn expects inflation to move up to about 13,5 percent from April onwards.

That's bad news, but it does mean real interest rates — adjusted for inflation — are actually not as high as they might seem now.

Tax return deadline extended

320

CT 3/4/93

By BARRY STREEK
Political Staff

PEOPLE guilty of late tax returns and registrations will not be prosecuted until after August 31 this year, Finance Minister Mr Derek Keys said yesterday.

Mr Keys said the concession should ease tension between taxpayers and the Department of Internal Revenue.

Dismissed

"No fines will be levied for late income tax returns that are submitted before August 31, 1993, and for which no assessment has yet been rendered. This concession will also apply to taxpayers who have neglected to register for tax purposes."

Mr Keys dismissed calls to stimulate job creation through tax incentives.

He said although it might sound superficially attractive to have a tax system that favoured business taxpayers with higher numbers of employers, the reasons against this were simple and strong.

"We would distort the market and in a way that would discourage gains in productivity ... but at a still more basic level there is no way we could administer such a scheme.

"The level of tax morality would not permit us to run a system based purely on declarations.

"International experience with employment-related taxation has generally been very poor."

Although R1 billion had been allocated to government departments for labour-intensive projects, R685 million remained unspent because the rate of spending had been slow.

Co-operation

This was because the spending targets were outside the normal operations of the departments which made the progress of the projects difficult.

"But, more important, the co-operation of the communities concerned was hard to obtain," Mr Keys said.

Private sector 'snakes' slammed

ALIDE DASNOIS 320
Business Staff ARG 3/4/93

INSTEAD of getting hot under the collar about Cabinet ministers' housing allowances, South African taxpayers should be attacking the snake-eyed, slithery-tongued fiscal carpetbaggers in the private sector.

So says tax expert Costa Divaris in the latest issue of Juta's Taxgram.

Cabinet ministers' packages are probably modest by boardroom standards, he says. South Africans who are really concerned about wastage should be "knotting their knickers from the other end". They should be protesting against the ceaseless pouring of taxpayers' money into the "insatiable maws" of companies benefiting from various export or tax-incentive schemes.

"The current political struggle is a muted affair compared with the feeding frenzy of vested interests ripping out huge, gory chunks of the quivering national carcass", says Mr Divaris.

Such "gory chunks" include General Export Incentive Scheme (GEIS) export-incentive scheme frauds, protectionism, "support programmes" and abuses of the local content programme for vehicles.

Tax incentives, he says, "never bring forth anything except upturned palms".

Mr Divaris believes that South African industry would benefit from the "immediate, overnight" removal of tariff protection. Inefficient industries would go to the wall — and good riddance, he says.

What about the jobs lost? "The jobs are going anyway. We can't hide behind jobs forever."

■ Abuse of GEIS is calculated to have milked the economy of hundreds of millions of rands.

The Department of Trade and Industry has to date unearthed 36 alleged cases of GEIS fraud amounting to R136 million — just the tip of the iceberg.

"In regard to cases of fraud under GEIS, refunds are demanded from claimants who have acted illegally and such cases are handed over to the commercial branch of the South African Police for further action. In cases where fraud is proven, exporters are being deregistered", a statement by the Department of Trade and Industry said.

The director-general of Trade, Mr Gerrie Breyl, confirmed cases were being investigated, but refused to comment further.

In Durban, one exporter calculated that hundreds of millions of rands were being skimmed off through innovative scams largely involving over-invoicing. In some cases South African-based subsidiaries sold goods to parent companies overseas at inflated prices.

ST Times 4/4/93

Saviour Sacob

THE SA Chamber of Business (Sacob) has saved its members, and others, possibly millions of rands.

Goods and services purchased before April 7, when the VAT rate increases from 10% to 14%, but delivered before April 27, will carry the old VAT rate of 10%. (320)

Sacob initiated an admendment to regulations, saying that it would be administratively complex to police these purchases.

Refunds on Site stymied

S/Times 4/4/93

(Buss)

By CIARAN RYAN

THE Government and trade unions are on a collision course over the refund of more than R1-billion in Site tax which companies have overcharged workers since the tax was introduced in 1989.

Commissioner of Inland Revenue Hannes Hattingh says workers will be refunded only the tax over-paid in the current year of assessment.

"We cannot give tax refunds all the way back to 1989," he says. "This is not allowed in terms of the Income Tax Act. Once the tax is deducted, that is the final payment."

Receivers' offices are reported to be dragging their heels over the refunds to an estimated 3,8-million workers for last year.

More than 60% of workers were found to have overpaid Site, based on a sample of 5 000 IRP2 forms by Workers Tax Consultants. The biggest culprits are South Africa's largest employers: Transnet, Telkom, Eskom and the police.

David Heyman, managing director of Workers Tax Consultants, which is claiming refunds for tens of thousands of workers from 15 trade unions, says that in spite of many applications for refunds each month, only a few cheques are received.

320

Hands

C

Cosatu negotiation co-ordinator Jayendra Naidoo says it is unacceptable that workers are still being overcharged Site tax because companies do not have the correct information about their marital status and dependants.

"The whole tax system needs to be reviewed, not merely Site," says Mr Naidoo. "Tax money is being wasted. We are getting precious little for our taxes."

After initially refusing any refunds on legal grounds, the Commissioner for Inland Revenue conceded that the over-deduction was morally wrong and agreed to refund workers.

A working group was established to determine how to repay the overcharged tax.

Mr Heyman says: "The Commissioner for Inland Revenue and the 34 receivers' offices are sitting on their hands.

"The Government is terrified that it has another tax revolt on its hands, similar to the one over VAT. It has no idea how it will pay back this money.

"This money is owed to the poorest section of the community. Any refund is not spent on perfume, it is used to buy food."

Site, similar to Paye, was introduced to simplify the deduction of tax from those earning under R12 000 a year. The threshold has since been raised to R50 000. It is not a different tax, only a different way of collecting it, says the Department of Inland Revenue.

But it is indeed different, says Mr Heyman, because Site, unlike Paye, is non-refundable.

The onus is on employers to deduct Site and to get workers to fill out an IRP2 form. But because many workers are illiterate the forms are often incorrectly completed.

Mr Heyman says employers have not recorded the correct marital status of employees, or the number of children they support, resulting in the overpayment.

S/Times 4/4/93

Sorry we raided your home

(320)

By KURT SWART

THE Department of Inland Revenue has apologised to sports promoter Peter Mancer for a raid on his home this week, but he will still have to furnish details for the past five years of his expenditure, ranging from dog licences to tombstones.

Officials gained entry to Mr Mancer's Lambston, Germiston, house on Wednesday morning by telling his elderly mother — who has a heart condition — that they were friends.

One of the officials was Mr Frikkie Badenhorst, son of Absa's chief executive, Mr Piet Badenhorst.

The raid came a week after Mr Mancer had won a R1,5-million court case against Absa and coincided with raids on the offices of his attorneys, Bell, Dewar and Hall, and his auditor, Mr Ralph Hellman.

The officials said the search — in terms of section 74 of the Income Tax Act — was part of an investigation into tax irregularities.

Told they would need a court order to remove privileged documents from the attorneys' offices, they left empty-handed.

On Friday, attorneys who asked the Department of Inland Revenue to investigate Mr Badenhorst's involvement in the raid were told that it was "coincidence", but that he had been removed from the investigation.

During the raid, Mr Mancer was handed a letter signed by Mr Frikkie Badenhorst asking him to furnish statements of all assets and liabilities between February 28 1986, and February 28 1992.

To comply with the demand, Mr Mancer must provide details of money spent since 1988 on items such as haircuts and beauty treatments, hobbies, gramophone records and sports equipment.

Specified

The five-page schedule — tax officials said it was a "standard form and a standard procedure" — covers every aspect of daily life in minute detail.

In addition to details of bond and car payments, it also makes provision for ... in open court and he has nothing to hide. He has given the receiver the assurance that he will assist their investigation," he said.

Mr Teubes Prinsloo, chief director, operations, for the Department of Inland Revenue, said the department had apologised to Mr Mancer and his attorneys for certain aspects of the raid.

Mr Mancer was "shocked and angry" about the latest salvo in what he believes is a personal vendetta against him.

"There was no need for false pretences. If the tax officials had identified themselves, I would have let them in but, as it is, my mother was so upset by the raid that I thought she was going to collapse. She was as white as a sheet. After the raid we called a doctor and she had to be sedated," Mr Mancer said.

Giving judgment in the Rand Supreme Court last week, Mr Justice Hartzenburg said Mr Mancer was a victim of circumstances, caught in a fight not of his making.

The real battle was between Absa's Mr Badenhorst and former Allied MD Kevin de Villiers, the court found. Absa had claimed that the contract between Mr de Villiers and Mr Mancer for a R4,5-million sponsorship package of the Allied yacht in the 1990/91 BOC yacht race was a sham to obtain unlawful tax benefits for Allied Bank.

"Absa investigated me in London, Australia, New York, Rio de Janeiro and Uruguay," Mr Mancer said. "Contracts were cancelled, my reputation was tarnished and my business destroyed."

Yesterday Mr Piet Badenhorst declined to comment, saying it would be "improper at the current stage in the legal dispute between him and Absa for the various issues to be debated in the media".

BADENHORST'S R100m 'GRUDGE': See Business Times

War-zone pilot is honoured for mercy mission

By SHARON CHETTY

AS A pilot working with the United Nations in Angola, Warwick Sparg is part of the team that provides a lifeline for battle-ravaged villages.

And for this modest father of two, flying UN personnel all over the war-torn country is all in a day's work.

He flies members of the UN World Food Programme to areas cut off by fighting, carries dignitaries and journalists all over the country and has been on numerous mercy flights to airlift the sick and injured.

It is this dedication to helping others that has earned Mr Sparg a prestigious award from the Hungarian government for flying a critically ill officer out of Angola.

In December 1991 — his first month on the job — Mr Sparg was the only pilot in Angola. He was called on to fly Hungarian national Ference Mathys, a member of the UN peace-keeping forces who had contracted hepatitis, to Johannesburg.

"Two days earlier, I had airlifted Ference out of Mavinga in the south, and even then I doubted he would survive," said Mr Sparg.

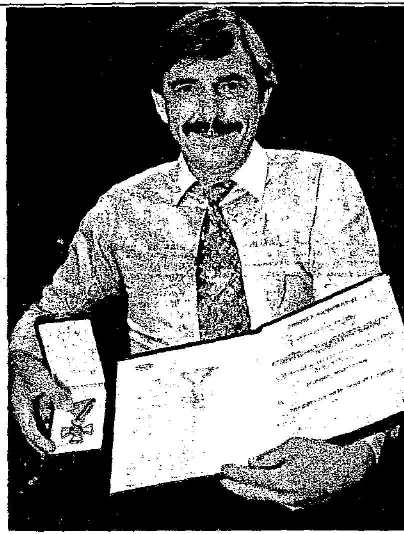
"I had already flown for more than 12 hours that day, but agreed to do the six hours to Lanseria".

Refugees

En route, Mr Sparg arranged by radio for an ambulance to meet his aircraft, and when one clinic refused to take in Mr Mathys because of an unpaid account by the UN, he offered to pay the sick man's medical bills himself.

"Had I not agreed to fly that night the delay on landing could have been detrimental to Ference," he said.

Last week Mr Sparg was presented with the Officers' Cross of Merit by ...



GRATEFUL THANKS: Warwick Sparg proudly shows the Hungarian Officers' Cross of Merit Picture: ABDUL SHARIFF

Call to put bite on economic crime

S/Times 4/4/93

By CATHY STAGG

LAWYERS are debating sweeping changes to the way the law is applied to economic crimes.

One of the most controversial suggestions is that the right to remain silent be scrapped.

It has also been suggested that the profitability of crime should be thwarted by making criminals repay those who were ripped off.

Stripping criminals of their assets should include those not directly acquired through crime.

Secrecy

If culprits deliberately dragged out their trials, they should be made to pay for wasted court time ...

... legal profession at recent seminars, some of which were convened by attorneys — while South Africa's first symposium on economic crime was hosted by auditors KPMG Aiken and Peat in February.

Attorney-General for the Witwatersrand Klaus von Lieres, SC, who spoke at the Feburary conference and the chairman of the Transvaal Law Society's criminal law committee, Mr PC Langenhoven, who hosted a symposium last month, both attributed SA's sick society to decades of ...

... organisations which chose not to act against criminals because it was time-consuming and costly — allowing conmen to get off scot-free.

But while prosecuting criminals was essential, he suggested it was more cost-effective to prevent crime.

He called for a pro-active crime prevention campaign instead of an apathetic reactive attitude.

Head of the Office for Serious Economic Offences Jan Swanepoel, SC, also called for more private-sector involvement in combating economic crime.

Mr Frikkie Badenhorst, son of Absa's chief executive, Mr Piet Badenhorst.

The raid came a week after Mr Mancer had won a R1,5-million court case against Absa and coincided with raids on the offices of his attorneys, Bell, Dewar and Hall, and his auditor, Mr Ralph Hellman.

The officials said the search — in terms of section 74 of the Income Tax Act — was part of an investigation into tax irregularities.

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To comply with the demand, Mr Mancer must provide details of money spent since 1988 on items such as haircuts and beauty treatments, hobbies, gramophone records and sports equipment.

Specified

The five-page schedule — tax officials said it was a "standard form and a standard procedure" — covers every aspect of daily life in minute detail.

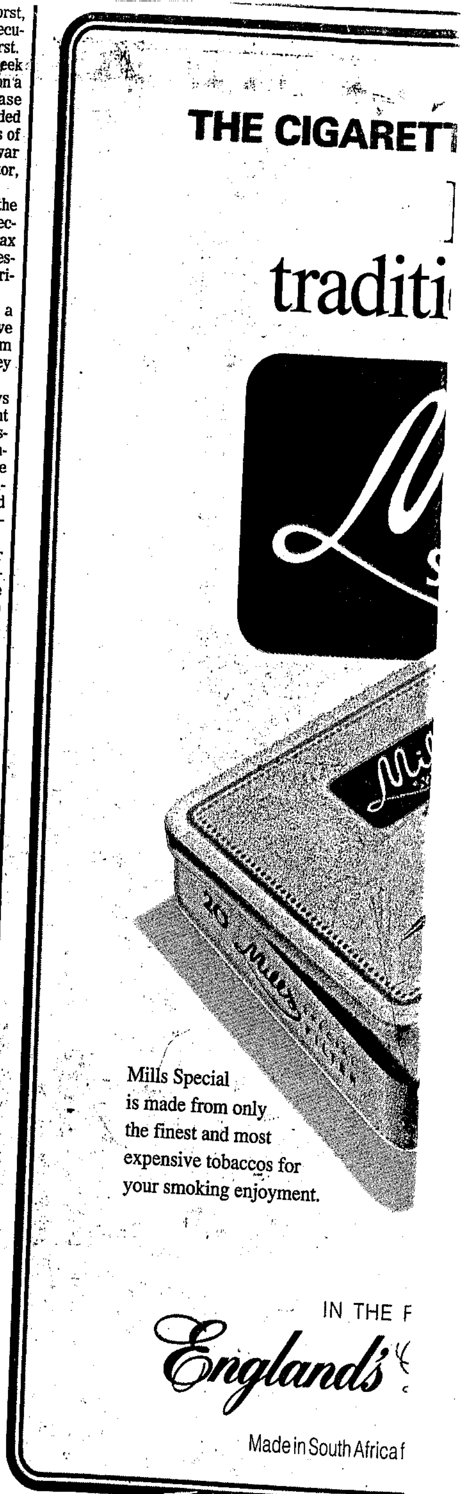
In addition to details of bond and car payments, it also makes provision for amounts spent on groceries, soft drinks, cigarettes, blankets, newspapers, pocket money, garden tools, cinemas and home movies.

Presents and gifts to family also have to be specified, along with payments for pictures and ornaments, garden tools, sheet music, school fees, drycleaning and laundry, cosmetics and donations to church and charity.

Mr Mancer has three weeks from the date of the letter — March 30 — to provide the receiver with the details.

Yesterday his lawyer said Mr Mancer had "informed the Department of Inland Revenue that he would "give them everything".

"Every document, all his books, have been inspected



Budget bonus

S Times (Buss) 4/4/93

By DON ROBERTSON

MINISTER of Finance Derek Keys has given taxpayers a small measure of assistance and has cleared up several confusing points raised in his March 17 Budget.

In the first reading of the Budget debate in Parliament on Friday, Mr Keys assured taxpayers that no penalties would be levied on late taxes, provided they are submitted before August 31. (320)

This will apply to returns on which no assessment has been issued and to those who have neglected to register.

He also clarified some of the confusion regarding secondary taxation of companies by adding that foreign dividends received by South African companies with overseas operations would be allowed as a credit on dividends paid in SA. (40)

Shares issued in lieu of dividends would not be taxed.

Mr Keys also contradicted opponents who have criticised government spending by announcing that there might be a slight real decline in the past fiscal year and that spending could be down by about 2,5% in the current year, before taking into account rises in indirect taxation, which could reduce the figure to more than 3%.

Motor industry should cheer tax clarification

STAR 5/4/93

By Derek Tommey

The Government has clarified some of the problems arising from this year's Budget, and brought some cheer to the motor trade, the mining industry — and possibly to the stock market.

The deputy Minister of Finance, Dr Theo Alant, says that where an invoice has been issued, or a payment made for goods before April 7 and these goods are delivered on or before April 28, the old VAT rate of 10 percent will still apply.

This move will be of particular benefit to the motor industry. The increase in VAT from 10 percent to 14 percent has resulted in an upsurge in orders for vehicles.

The industry has been complaining that it will not able to deliver them before April 7.

Motor dealers and others who can deliver only a few days after receiving an order will now be able to continue selling goods today and tomorrow, if they are open, for delivery in the next three weeks at a VAT rate of 10 percent.

Minister of Finance Derek Keys has also clarified the position over payment of dividends by gold mines which do not adopt the dual tax system.

Derek Keys . . . new system improves cash flow of companies

320

Keys says the majority of shareholders of gold mines are companies. In order to achieve the objective of leaving those gold mines which elect to retain the present tax formula in the same position, it is necessary to allow a credit to their corporate shareholders for dividends declared by them.

This will ensure that the tax position of these mines will remain unchanged.

Keys says there is no intention of changing the present definition of dividend with regard to capitalisation shares.

Where shareholders have the option of taking capitalisation shares or a cash dividend, the capitalisation shares will not be regarded as dividends, but the amount taken as cash will be.

Dealers says the clarification of the situation could lead to many more companies offering shareholders the option of taking capitalisation shares or cash dividends.

This would contribute to companies ploughing back more money, in addition to the savings arising from the cut in company tax from 48 to 40 percent.

Keys has refused to make any changes in rules concerning the payment of secondary tax on companies (STC) — the tax linked to the payout of dividends.

He claims that the new system improves the cash flow of companies and more than offsets the burden of STC.

STC may nominally increase last year's tax payment to more than 48 percent.

By the time last year's dividends are paid, the reduced tax rate on company profits will provide immediate benefits and offset the STC.

Keys says that in view of the long-term benefits of the lower tax rate and the concession to backdate the first dividend cycle to September 1 1992, no further concessions can be justified or afforded.

The Commissioner for Inland Revenue will ensure that companies applying to change their years of assessment to take advantage of the lower tax rate will not benefit from the change.

Dividends credited to loan accounts prior to March 17 1993 will be dealt with by the revised equivalent of the former Section (8b) to ensure that payments from loan accounts, which are in essence distributions of profit, do not escape STC.

Keys says it has always been the objective to exclude foreign-sourced profits from the base of STC because these profits do not enjoy the benefit of the lower normal tax rate.

This objective will now be achieved by allowing all foreign dividends as a credit against dividends declared.

Keys blames bureaucratic logjam

Millions for job creation go unused

BDAY 5/4/93.

(320)

LINDA ENSOR

CAPE TOWN — A total of R685m earmarked two years ago by government for job creation projects is lying idle, despite the desperate situation of millions of unemployed.

Finance Minister Derek Keys disclosed in Parliament that the R685m was the unspent part of the R1bn allocated in 1991 to government departments for labour-intensive projects.

Speaking during the first reading on the Budget on on Friday, Keys blamed bureaucratic logjams and lack of community involvement for the lack of success so far in creating jobs.

While the R685m had been committed, spending had been slow because spending targets were outside normal departmental operations, and because it had been difficult to get community co-operation, he said.

Keys conceded that the impact of the R1bn allocated had been "slow and small". For this reason an additional R60m had been allocated in this year's Budget to the National Economic Forum for job creation in the hope that it would use the funds more effectively.

He emphasised the importance of non-governmental organisations integrating with government departments to ensure effective delivery of finance to address socioeconomic backlogs.

Regarding the introduction of the secondary tax on companies (STC), Keys insisted that no relief would be forthcoming for companies whose year-ends fell shortly before or on March 31 despite their complaints that they would be prejudiced by the implementation of the tax.

These companies had claimed that they were obliged to pay the tax on dividends out of profits taxed at the old tax rate.

Keys said this view ignored the cash flow effect of the amendment, as the earliest date for payment of STC would be July 31, 1993 —after or shortly before the first payment of provisional tax for the next year.

"The provisional tax will be calculated at the new company rate which is eight percentage points less than the old rate and which will provide an immediate benefit to the company," Keys said.

A concession to backdate the first dividend cycle to September 1 1992 had already been made.

Applications by companies to have their financial year-ends changed to take advantage of the lower rate of company tax would be approved in such a way that the change would not provide any tax benefit for income which would otherwise have been subject to the old rate of tax.

Corporate gold-mine shareholders electing to retain the present tax formula rather than adopt STC would be credited for dividends declared by these mines to keep their tax position the same.

Keys said the treatment of foreign dividends had been changed from the original proposal to allow all foreign dividends as a credit against dividends declared in order to remove them from the STC base. This was necessary, he said, as they did not

☐ To Page 2

Logjam BDAY 5/4/93.

(320)

From Page 1

benefit from the lower normal tax rate.

Scrip dividends would not be subject to STC, but if a cash option was taken up the cash would be taxed.

Calculation of the net amount subject to STC would be based on the date of dividends declared and the date on which dividends to be received were declared.

Keys announced a moratorium on penalties for the late submission of tax returns due by August 31 1993.

An Inland Revenue spokesman said at the weekend that the measure would encourage people who failed to register as taxpayers out of fear of heavy penalties to come forward.

The measure would also encompass late submissions of returns, but the spokesman said most outstanding returns were covered by exemptions.

● See Page 3

Unbundling measures could focus on special scrip dividend

BDAY 5/4/93. (320)

LINDA ENSOR

CAPE TOWN — Inland Revenue is considering structuring its draft legislation on unbundling on the declaration of dividends in specie — a special scrip dividend — as a way for groups to get rid of their pyramid structures.

An Inland Revenue spokesman said at the weekend that no finality had been reached on draft legislation to support unbundling but that it would be ready shortly.

Finance Minister Derek Keys said at the conclusion of the first reading on the Budget debate on Friday that draft legislation to support unbundling would be introduced during this parliamentary session.

Unbundling measures would initially apply to groups with a listed company, but he would consider extending them to unlisted companies if they were effective.

The Inland Revenue spokesman said consideration was being given to structuring the draft legislation on the basis that holding companies which stood between the trading company and its ultimate parent company could declare dividends in specie up the pyramid ladder to the parent company without being liable for payment of the secondary tax on companies and of non-residents tax on interest.

Long-term assurers, which paid tax on dividend income, would also be exempted from paying tax on the dividend in specie received.

The Inland Revenue spokesman said no final decision had been taken on whether to limit tax exemptions to a specified percentage shareholding, as was the case when the moratorium on the payment of stamp duty on intra-corporate transactions was introduced in the late 1980s.

In this case, only where the shareholding was 75% or more were the transactions exempt from stamp duty.

It was likely that exemptions would initially be effective for a limited period, with the possibility of extensions later.

Exemption from stamp duty, initially in effect for one year, was extended twice and had been helpful in cleaning up corporate structures, the spokesman said.

No pre-VAT spending spree

MARCIA KLEIN

CASH-STRAPPED consumers have been unable to take advantage of the few weeks' warning that the VAT rate would be increased from 10% to 14%.

Retailers said yesterday they were surprised that sales had not increased significantly in the interim period between the March 17 Budget announcement of a VAT increase and today's implementation.

Shops were busy yesterday, but figures were unlikely to reflect a "mini-boom", they said.

320

Last month retailers said they were expecting "a mini-Christmas" before April 7, but warned that the boom would be short-lived as sales would probably slip to lower than budgeted levels after introduction of the new VAT rate.

Since the increase in VAT was announced, sales of big ticket items, particularly furniture, white goods and cars had been buoyant. But sales of food and clothing had not shown any dramatic increases.

Pick 'n Pay deputy MD Sean Summers said there had been a pick-up over the past week, but this probably was the tail end of month-end shopping. The average consumer was short of cash, with all available resources, including credit, used up.

Wooltru finance manager John Lavies said his group had been disappointed at the level of sales.

OK marketing director Arthur Solomon reported an increase in sales because of pre-VAT buying.

National Automotive Dealers' Association chairman Ray Nethercott said there had not been much movement over the past few days, but March had been exceptionally good. Sales were up by about 13% month on month. About 10% of the increase came from pre-VAT buying.

Furniture Traders' Association executive director Frans Jordaan said no figures were available yet, but he believed furniture retailers had experienced fairly buoyant sales.

Steps to stop secondary tax dodgers

GRETA STEYN

INLAND Revenue was paying urgent attention to drawing up tax avoidance provisions for the new secondary tax on companies (STC), Inland Revenue Commissioner Hannes Hattingh said on Monday.

He said consultations were taking place with the private sector and a clarifying memorandum — a precursor to Income Tax Act amendments — would be released soon.

He said the treatment of loans or advances to shareholders, which sometimes took place in lieu of dividend payments, presented a problem.

Measures would have to be taken to prevent the use of this mechanism to avoid payment of STC, but it was not yet clear what form they would take and whether they would closely resemble the anti-avoidance provisions under the old system of dividends taxation.

Deloitte & Touche's Chris Beneke warned in the company's Tax News that anti-avoidance measures were likely to be introduced retroactively, with effect from March 17.

Loans or advances to shareholders would presumably be deemed to be dividends, declared by a company, for the purposes of STC.

Kessel Feinstein tax partner Ernest Mazansky said Finance Minister Derek Keys had indicated the repayment of shareholders' loans to companies would incur STC. This was bound to elicit criticism.

Beating VAT climb

Sowetan 7/4/93 (320)

SHOPPERS took advantage of the last few hours before VAT rose to 14 percent — with big items enjoying priority.

Although the rain may have put a bit of a damper on sales, there was evidence that people looking for new cars or household items were making sure they had made their purchases by today.

Mr Graham Jamieson, manager of Friendly Ford in Diep River, said things had been "chaotic" there with 30 cars having been sold since the weekend.

"People are spending a lot of money. Anything that is available is being sold," he said.

Household items

Mr Christo Steenkamp, manager of Giddys in Bellville, specialising in household items, said quite a few customers had turned out to buy fridges, eyelevel ovens and bedsets before 14 percent VAT was introduced.

Giddys in Mitchell's Plain said business was as usual.

■ Big items get priority in rush before the 4% increase

Supermarkets on the other hand reported busy "but normal trade".

At Pick 'n Pay, Claremont, most customers appeared to be filling their shopping baskets with the usual household items, the manager there said.

Mr Barry Martin, manager of the Ottery Hypermarket, said many people were asking which items were VAT-free but added that the "weather is a bit of a damper".

At the Dion's store in Wynberg, where a 10 percent discount was on offer, there were "quite a few feet in the store", the manager said.

The manager of Bradlows in Claremont said sales had certainly picked up prior to the VAT increase.

People were concentrating on large items such as dining room suites, hi-fi sets and televisions, on which the four percent increase would really count, rather than smaller ornaments. — *Sowetan Correspondent.*

MINISTRY OF LAW AND ORDER

No. 575 **8 April 1993**

GRANTING OF SEARCH POWERS TO AUTHORIZED OFFICERS OF THE CITY COUNCIL OF NIGEL

By virtue of the powers vested in the Minister of Law and Order by section 2 (2) (g) of the Control of Access to Public Premises and Vehicles Act, 1985 (Act No. 53 of 1985), which powers have been delegated to me in terms of section 5 of the Act by Government Notice No. 1631, dated 20 July 1990, published in *Government Gazette* No. 12647, dated 20 July 1990, I, Sebastiaan Johannes Jakobus Smit, Deputy Commissioner of the South African Police, hereby determine that authorized officers of the City Council of Nigel, may search persons for the purpose of granting permission to enter or enter upon premises or vehicles which are the property of, or are occupied or used by, or are under the control of the City Council of Nigel.

S. J. J. SMIT,

Deputy Commissioner: South African Police.

MINISTERIE VAN WET EN ORDE

No. 575 **8 April 1993**

VERLENING VAN DEURSOEKINGSBEVOEGDHEDE AAN GEMAGTIGDE BEAMPTES VAN DIE STADSRAAD VAN NIGEL

Kragtens die bevoegdheid verleen aan die Minister van Wet en Orde by artikel 2 (2) (g) van die Wet op Beheer van Toegang tot Openbare Persele en Voertuie, 1985 (Wet No. 53 van 1985), welke bevoegdheid ingevolge artikel 5 van die Wet aan my gedelegeer is by Goewermentskennisgewing No. 1631 van 20 Julie 1990, gepubliseer in *Staatskoerant* No. 12647 van 20 Julie 1990, bepaal ek, Sebastiaan Johannes Jakobus Smit, Adjunkkommissaris van die Suid-Afrikaanse Polisie, hierby dat gemagtigde beamptes van die Stadsraad van Nigel persone mag deursoek vir die doel van verlening van toestemming tot die binnegaan of betreding van persele of voertuie wat die eiendom is van, of geokkupeer of gebruik word deur, of onder die beheer is van die Stadsraad van Nigel.

S. J. J. SMIT,

Adjunkkommissaris: Suid-Afrikaanse Polisie.

DEPARTMENT OF STATE EXPENDITURE

No. 587 (320) **8 April 1993**

Statement of Revenue collected during the period 1 April 1992 to 28 February 1993.

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

No. 587 **8 April 1993**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 28 Februarie 1993.

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting	Month of February Maand Februarie		Total 1 April to 28 February Totaal 1 April tot 28 Februarie	
		1992–93	1993	1992	1993	1992
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	50 484 300 000	2 786 170 254	2 911 101 935	39 325 623 334	38 068 626 566
Loan Levy 1989–94	Leningsheffing 1989–94	—	—	—	173 464	2 032 358
Sales tax	Verkoopbelasting	21 019 700 000	5 717 490	10 446 531	75 565 193	10 563 359 013
Value-added tax	Belasting op toegevoegde waarde	—	572 100 125	1 126 947 045	14 841 737 082	6 294 795 173
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	320 000 000	17 041 949	21 144 913	259 934 792	316 481 138
Non-residents' tax on interest	Rentebelasting op buitelanders	—	3 391	—	16 624	37 826
Undistributed profits	Onuitgekeerde winste	—	—	—	89 742	365 617
Donations tax	Geskenkbelasting	6 000 000	821 582	758 813	16 884 164	5 523 685
Estate duty	Boedelbelasting	75 000 000	5 906 455	5 135 411	77 979 385	74 992 837
Trade securities	Handelseffekte	221 000 000	11 483 848	16 543 311	151 627 510	186 017 394
Stamp duties and fees	Seëlregte en gelde	830 000 000	47 164 773	41 806 715	687 909 208	639 292 437
Transfer duties	Hereregte	1 110 000 000	81 656 145	63 458 297	1 150 508 929	813 047 124
Miscellaneous	Diverse	—	—	—	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	295 000 000	114 745	30 368 073	156 888 448	249 577 707
Interest and dividends	Rente en dividende	59 450 000	1 177 821	4 302 085	41 908 908	57 538 982
Levies	Heffings	19 000 000	2 809 172	9 590 220	23 248 211	23 342 011
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	59 550 000	2 836 517	3 127 366	66 713 909	34 798 812
Departmental activities	Departementele bedrywighede	1 129 000 000	210 234 101	70 713 565	1 440 225 805	1 056 938 485
Capital revenue	Kapitaalinkomste	20 000 000	—	—	—	—
	R	75 648 000 000	3 745 238 368	4 315 444 280	58 317 034 708	58 386 767 165
Less: Payments to self-governing national states	*Min:* Betalings aan selfregerende nasionale state	1 361 300 000	110 854 000	171 838 797	1 238 289 000	1 240 333 714
Payments to TBVC countries	Betalings aan TBVC-state	760 700 000	56 863 882	—	641 273 750	—
Total: Inland revenue	Totaal: Binnelandse inkomste R	3 526 000 000	3 577 520 486	4 143 605 483	56 437 471 958	57 146 433 451
Customs and excise duties:	Doeane- en aksynsregte:					
Customs duty	Doeanereg	3 124 000 000	227 121 568	225 777 545	2 736 249 695	2 537 135 171
Excise duty	Aksynsreg	4 754 000 000	377 672 821	590 219 410	3 969 575 180	3 183 128 211
Surcharge	Bobelasting	1 670 000 000	121 720 733	130 903 209	1 394 348 714	1 347 297 943
Miscellaneous	Diverse	17 000 000	489 216	(386 264 857)	107 060 160	142 267 909
Fuel levy	Brandstofheffing	6 634 000 000	569 549 081	470 579 518	6 239 862 026	4 725 476 016
Ordinary levy	Gewone heffing	64 000 000	4 732 123	4 288 854	63 068 668	55 245 776
	R	16 263 000 000	1 301 285 542	1 035 503 679	14 510 164 443	11 990 551 026

Head of Revenue	Inkomstehoof	Estimate Begroting 1992–93	Month of February Maand Februarie 1993	1992	Total 1 April to 28 February Totaal 1 April tot 28 Februarie 1993	1992
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Less:	*Min:*					
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	5 040 000 000	–	–	5 068 559 500	4 499 022 000
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	11 223 000 000	1 301 285 542	1 035 503 679	9 441 604 943	7 491 529 026
	R	84 749 000 000	4 878 806 028	5 179 109 162	65 879 076 901	64 637 962 477
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	–	298 276	–	57 794 159
	R	–	–	298 276	–	57 794 159
	R	–	4 878 806 028	5 179 407 438	65 879 076 901	64 695 756 636
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	–	69 608 079	35 724 596	271 022 678	189 924 776
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	–	3 051 441	2 873 020	52 966 749	30 275 015
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	–	1 828 586	622 055	15 036 381	6 828 780
	R	–	74 488 106	39 219 671	339 025 808	227 028 571
Grand total	Groottotaal R	–	4 953 294 134	5 218 627 109	66 218 102 709	64 922 785 207
Reconciliation with statement published by Government Notice 396 in *Government Gazette* of 12 March 1993:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 396 in *Staatskoerant* van 12 Maart 1993:					
In Transit 31 March 1992	In Transito, 31 Maart 1992	–	–	–	480 288 319	–
In Transit/Overremitted, 31 January 1993	In Transito/Te veel oorgedra, 31 Januarie 1993	–	(33 008 102)	–	–	–
Collections as above	Invorderings soos hierbo	–	4 953 294 134	–	66 218 102 709	–
	R	–	4 920 286 032	–	66 698 391 028	–
In Transit/Overremitted, 28 February 1993	In Transito/Te veel oorgedra, 28 Februarie 1993	–	49 166 851	–	49 166 851	–
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	–	(11 602 487)	–	(264 537 702)	–
Received into Exchequer Account	In Skatkisrekening ontvang R	–	4 957 850 396	–	66 483 020 177	–

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

No. 579 8 April 1993

NORTHERN TRANSVAAL WATER BOARD, DISTRICTS OF PIETERSBURG AND LOUIS TRICHARDT, TRANSVAAL: EXTENSION OF SUPPLY AREA

I, Jacob Albertus van Wyk, Minister of Water Affairs and Forestry, under and by virtue of the powers vested in me by section 108 (2) of the Water Act, 1956 (Act No. 54 of 1956), hereby alter the description of the area of the Northern Transvaal Water Board as set out in Government Notices Nos. 2227 and 2412 of 21 September 1990 and 28 August 1992, by the inclusion of the area described in the Schedule hereto.

J. A. VAN WYK,

Minister of Water Affairs and Forestry.

DEPARTEMENT VAN WATERWESE EN BOSBOU

No. 579 8 April 1993

NOORD-TRANSVAAL-WATERRAAD, DISTRIKTE PIETERSBURG EN LOUIS TRICHARDT, TRANSVAAL: UITBREIDING VAN VOORSIENINGSGEBIED

Ek, Jacob Albertus van Wyk, Minister van Waterwese en Bosbou, verander hierby kragtens die bevoegdheid my verleen by artikel 108 (2) van die Waterwet, 1956 (Wet No. 54 van 1956), die beskrywing van die gebied van die Noord-Transvaal-Waterraad soos vervat in Goewermentskennisgewings Nos. 2227 en 2412 van 21 September 1990 en 28 Augustus 1992, deur die insluiting van die gebied in die Bylae hiervan beskryf.

J. A. VAN WYK,

Minister van Waterwese en Bosbou.

Budget tax move boosts confidence

CT 8/4/93 (320)

By AUDREY D'ANGELO
Business Editor

BUSINESS confidence rose to its highest level for nearly two years in March, boosted by a budget that cut the company tax rate and is expected to increase the growth rate of the economy in the longer term.

Lower inflation, a marked decline in the number of insolvencies, a rise in the volume of merchandise exports, better car sales and higher prices on the JSE were seen as other positive factors.

The SA Chamber of Business (Sacob) confidence index rose to 95,1% from 94,2% in February and 92,9% in January. This was the first time it had risen above 95% since April 1991.

But Sacob chief economist Ben van Rensburg warned that confidence remained vulnerable. And, with growth this year expected to be betwen zero and 0,5%, "there will be a further erosion in real per capita disposable incomes."

There was a danger that the continued high fiscal deficit and net capital outflows "will give rise to a credit squeeze and resulting upward pressure on interest rates.

"A rise in interest rates combined with the impact of higher taxes on disposable incomes could prove to be disastrous at this time.

"Hopefully the recent increase in the gold price combined with the improved prospects for agricultural exports will serve to reduce pressures on the gold and foreign exchange reserves and thereby limit the potential for a credit squeeze."

And, Van Rensburg points out: "Economic prospects could be significantly improved in the months and years ahead if a political solution is found to support the relatively sound economic base that is being created."

He said negative factors in March included:

- The commercial rand weakened further against the dollar;
- There was a small increase in short-term interest rates as reflected by the rate on three-month Bankers Acceptances;
- The expected value of real retail sales in March was lower than in February;
- The volume of merchandise imports declined compared with the previous month;
- The seasonally-adjusted value of the physical volume of manufacturing production declined slightly; and
- The real value of building plans passed showed a relatively sharp fall.

Van Rensburg said the budget undoubtedly had the biggest impact on the business mood in March.

"The key elements of the budget, which include a sharp rise in the VAT rate, a drop in the tax rate applicable to undistributed company profits and a general shift towards greater investment by the public sector are certainly consistent with the Government's recently released Normative Economic Model and should serve to raise the growth rate of the SA economy over the longer term.

"However in the short term the failure of the Government to cut real consumption expenditure sufficiently and the resultant need to raise taxes will mean a significant deterioration in the purchasing power of consumers.

"The results of a recent survey which suggested that the downturn in the retail sector had bottomed out could prove to be premature."

GENERAL NOTICES

NOTICE 298 OF 1993

320

INCOME TAX, 1993

NOTICE TO FURNISH RETURNS FOR THE 1993 YEAR OF ASSESSMENT

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

(a) Every person (not being a married person, a married woman or a company) **under the age of 63 years,** or the representative of such person, whose gross income in respect of the 1993 year of assessment exceeded R10 600.

(b) Every person (not being a married person, a married woman or a company) **over the age of 63 years (but not over the age of 65 years),** or the representative of such person, whose gross such person, whose gross income in respect of the 1993 year of assessment exceeded R11 100.

(c) Every person (not being a married person, a married woman or a company) **over the age of 65 years,** or the representative of such person, whose gross income in respect of the 1993 year of assessment exceeded R21 300.

(d) Every married person **under the age of 63 years,** or the representative of such person, whose gross income in respect of the 1993 year of assessment exceeded R12 400.

(e) Every married person **over the age of 63 years (but not over the age of 65 years),** or the representative of such person, whose gross income in respect of the 1993 year of assessment exceeded R13 000.

(f) Every married person **over the age of 65 years,** or the representative of such person, whose gross income in respect of the 1993 year of assessment exceeded R24 600.

(g) Every married woman **under the age of 65 years,** or her representative, whose gross income in respect of the 1993 of assessment exceeded R5 100.

(h) Every married woman **over the age of 65 years,** or her representative, whose gross income in respect of the 1993 year of assessment exceeded R17 100.

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

(j) The public officer of every company.

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

ALGEMENE KENNISGEWINGS

KENNISGEWING 298 VAN 1993

INKOMSTEBELASTING, 1993

KENNISGEWING OM OPGAWES VIR DIE 1993-JAAR VAN AANSLAG TE VERSTREK

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

(a) Elke persoon (behalwe 'n getroude vrou of 'n maatskappy) **onder die ouderdom van 63 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R10 600 was.

(b) Elke persoon (behalwe 'n getroude persoon, 'n getroude vrou of 'n maatskappy) **bo die ouderdom van 63 jaar (maar nie bo die ouderdom van 65 jaar nie),** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R11 100 was.

(c) Elke persoon (behalwe 'n getroude persoon, 'n getroude vrou of 'n maatskappy) **bo die ouderdom van 65 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R21 300 was.

(d) Elke getroude persoon **onder die ouderdom van 63 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R12 400 was.

(e) Elke getroude persoon **bo die ouderdom van 63 jaar (maar nie bo die ouderdom van 65 jaar nie),** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R13 000 was.

(f) Elke getroude persoon **bo die ouderdom van 65 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R24 600 was.

(g) Elke getroude vrou **onder die ouderdom van 65 jaar,** of haar verteenwoordiger, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R5 100 was.

(h) Elke getroude vrou **bo die ouderdom van 65 jaar,** of haar verteenwoordiger, wie se bruto inkomste vir die 1993-jaar van aanslag meer as R17 100 was.

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

(j) Die openbare amptenaar van elke maatskappy.

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

PLEASE NOTE: (320)

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

(a) such remuneration (after the deduction of pension and retirement annuity fund contributions and in the case of a person over the age of 65 years, contributions to a medical aid fund) was payable at a rate not exceeding R50 000 per annum; and

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

(c) an income tax form has not been issued to that person for completion.

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

2. (a) Where the gross income of a married woman's husband (including any amounts which would have constituted gross income but for the fact that such income was derived from a source outside the Republic of South Africa) does not exceed R10 000, such married woman may elect to include her income with her husband's income.

(b) In the case of a polygamous marriage and subject to the election as mentioned in paragraph 2 (a) being made, only the income received by the wife of the longest subsisting marriage, is to be included in the husband's income. If the second or subsequent wife falls under categories (a) to (f) or (k) above, she is, subject to the provisions mentioned in paragraph 1 above, required to furnish a return.

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

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

5. "YEAR OF ASSESSMENT" means:

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

LET WEL:

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

(a) sodanige besoldiging (na aftrekking van pensioen- en uittredingannuïteitsfondsbydraes en in die geval van 'n persoon bo die ouderdom van 65 jaar, bydraes tot 'n mediese fonds) betaal is teen 'n koers wat nie R50 000 per jaar te bowe gaan nie; en

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

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

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

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

(b) In die geval van 'n poligamiese huwelik en onderhewig aan die uitoefen van die keuse soos in paragraaf 2 (a) genoem, is slegs die inkomste van die vrou met die langsbestaande huwelik by die man se inkomste ingesluit. Indien die tweede of daaropvolgende vrou in kategorieë (a) tot (f) of (k) hierbo val, moet sy, behoudens die bepalings in paragraaf 1 hierbo genoem, 'n opgawe verstrek.

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

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

5. "JAAR VAN AANSLAG" beteken:

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

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

(c) In respect of **all other persons,** the year ending on the last day of February each year. (320)

PERIOD FOR RENDITION OF RETURNS

Returns are required to be rendered within the following periods:

(1) Where in terms of section 66 (13)*ter* of the Income Tax Act, accounts have been accepted in respect of the whole or portion of a taxpayer's income, drawn to a date falling AFTER 28 FEBRUARY 1993, WITHIN 60 DAYS FROM THE DATE TO WHICH SUCH ACCOUNTS ARE DRAWN.

(2) In respect of a person who (on or before 30 June 1965) elected NOT to be a provisional taxpayer, WITHIN 60 DAYS FROM 30 JUNE 1993.

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

(4) In respect of ALL OTHER PERSONS, WITHIN 60 DAYS FROM 9 APRIL 1993.

FORMS

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

FORWARDING OF RETURNS

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

AN ENVELOPE MARKED: **"INCOME TAX—OFFICIAL"**, WILL BE CARRIED POST FREE.

PENAL PROVISIONS

Any person required to render a return who fails to do so within the period mentioned above, is liable to a penalty not exceeding R2 000 and/or to imprisonment for a period not exceeding 12 months. Furthermore, his taxable income may be estimated and three times the amount of tax charged thereon.

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

No person is exempted from penalty merely by reason of the fact that he may not have been called upon personally to furnish a return.

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

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

TYDPERK VIR INDIENING VAN OPGAWES

Opgawes moet binne die volgende tydperke ingedien word:

(1) Waar rekeninge ten opsigte van 'n belastingpligtige se inkomste, of 'n gedeelte daarvan, ingevolge artikel 66 (13)*ter* van die Inkomstebelastingwet aangeneem is wat opgemaak is tot 'n datum wat NA 28 FEBRUARIE 1993 VAL, BINNE 60 DAE VANAF DIE DATUM WAAROP SODANIGE REKENINGE OPGEMAAK IS.

(2) Ten opsigte van 'n persoon wat (voor of op 30 Junie 1965) gekies het om NIE 'n voorlopige belastingpligtige te wees nie, BINNE 60 DAE VANAF 30 JUNIE 1993.

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

(4) Ten opsigte van ALLE ANDER PERSONE, BINNE 60 DAE NA 9 APRIL 1993.

VORMS

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

AANSTUUR VAN OPGAWES

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

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

STRAFBEPALINGS

Iemand van wie 'n opgawe vereis word, maar wat versuim om dit binne die tydperk hierbo genoem te verstrek, is strafbaar met 'n boete van hoogstens R2 000 en/of met van hoogstens R2 000 en/of met gevangenisstraf vir 'n tydperk van hoogstens 12 maande. Boonop kan sy belasbare inkomste geskat en driedubbele belasting daarop gehef word.

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

Niemand is vrygestel van boete bloot omdat hy nie persoonlik aangesê is om 'n opgawe te verstrek nie.

FURTHER INFORMATION

Further information or assistance may be obtained either from the Receiver of Revenue in whose assessing area you reside or from: (320)

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

J. W. HATTINGH,
Commissioner for Inland Revenue.

(9 April 1993.)

(8 April 1993)

NOTICE 299 OF 1993

DEPARTMENT OF TRADE AND INDUSTRY

Notice is hereby given that the following promissory note issued by the Department of Trade and Industry to Cemafrique as set hereunder, has been mislaid:

Promissory note issued to Cemafrique

Promissory Note No.	Date of issue	Due date	Face value (R)
00002931	16 May 1992	1 April 1993	250 119

The above-mentioned promissory note will after the date of publication be regarded as cancelled. Should the warrant voucher be retrieved, it must please be returned to the Department of Trade and Industry, Private Bag X84, Pretoria, 0001.

(8 April 1993)

NOTICE 300 OF 1993

DEPARTMENT OF TRADE AND INDUSTRY

Notice is hereby given that the following promissory note issued by the Department of Trade and Industry to Cemafrique as set hereunder, has been mislaid:

Promissory note issued to Cemafrique

Promissory Note No.	Date of issue	Due date	Face value (R)
00003379	16 July 1992	1 April 1993	717 923

The above-mentioned promissory note will after the date of publication be regarded as cancelled. Should the warrant voucher be retrieved, it must please be returned to the Department of Trade and Industry, Private Bag X84, Pretoria, 0001.

(8 April 1993)

NADERE INLIGTING

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

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

J. W. HATTINGH,
Kommissaris van Binnelandse Inkomste.

(9 April 1993.)

(8 April 1993)

KENNISGEWING 299 VAN 1993

DEPARTEMENT VAN HANDEL EN NYWERHEID

Hiermee word kennis gegee dat die volgende promesse uitgereik deur die Departement van Handel en Nywerheid aan Cemafrique soos hieronder uiteengesit, verlore geraak het:

Promesse uitgereik aan Cemafrique

Promesse No.	Uitreikingsdatum	Vervaldatum	Sigwaarde (R)
00002931	16 Mei 1992	1 April 1993	250 119

Na datum van publikasie word bogenoemde promesse as gekanselleer beskou. Indien die promesse gevind sou word, moet dit asseblief aan die Departement van Handel en Nywerheid, Privaatsak X84, Pretoria, 0001, teruggestuur word.

(8 April 1993)

KENNISGEWING 300 VAN 1993

DEPARTEMENT VAN HANDEL EN NYWERHEID

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Promesse uitgereik aan Cemafrique

Promesse No.	Uitreikingsdatum	Vervaldatum	Sigwaarde (R)
00003379	16 Julie 1992	1 April 1993	717 923

Na datum van publikasie word bogenoemde promesse as gekanselleer beskou. Indien die promesse gevind sou word, moet dit asseblief aan die Departement van Handel en Nywerheid, Privaatsak X84, Pretoria, 0001, teruggestuur word.

(8 April 1993)

Secondary tax proposal fails to stimulate industry

Star 8/4/93

320

By Sven Lünsche

The government's plan to stimulate investment spending by imposing a secondary tax on companies (STC) has not got the response that was hoped for.

The STC was announced by Finance Minister Derek Keys last month and consists of a 15 percent tax on distributed income.

In conjunction with a lower company tax rate of 40 percent, the STC is aimed at encouraging companies to spend more on capital outlays.

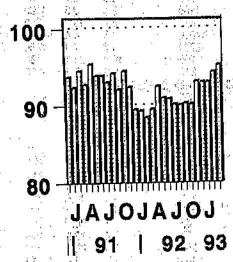
However, presenting Sacob's latest survey of confidence in the manufacturing industry, economist Keith Lockwood says that only a small percentage of manufacturers — four percent of those surveyed — envisage new investment expenditure over the next 12 months.

In areas like the Transvaal, the majority of respondents expect to invest less in new capacity than they did last year, Lockwood says.

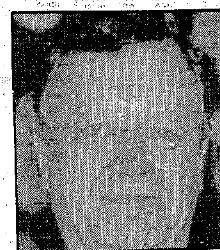
Such a decline in capital outlay will have a detrimental effect on employment levels — 62 percent of manufacturers surveyed expect to reduce the number of their unskilled workers.

While Lockwood admits that many businesses have not yet had the time to assess the STC, the poor outlook for investment spending shows that political and economic aspects appear to be the more important determinants of investor confidence.

It is political instability that seems to be the critical factor in preventing a more robust recovery of business confidence.



Business Confidence Index (1990=100)



Finance Minister Derek Keys

While Sacob's Business Confidence Index (BCI) reached its highest level in almost two years in March, chief economist Ben van Rensburg warns that the uncertainty surrounding constitutional talks and the impact of last month's Budget mean business confidence is still vulnerable.

"Failure to make progress on the political front and bringing down the level of violence has negated the positive impact of a lower corporate tax rate on investment levels.

"Economic prospects could be significantly improved in the months and years ahead if a political solution is found to support the relatively sound economic base that is being created," Van Rensburg says.

He adds that the impact of the Budget proposals on discretionary spending by consumers and thus on sales by companies will, in the short term, have an adverse impact on business confidence.

"But businesses are more concerned about long-term economic and financial stability, and in this sense the Budget and the Normative Economic Model provide the first signs of a more coherent economic policy," Van Rensburg says.

Sacob has also scaled back its economic growth forecast for this year to a "best-possible" scenario of between zero and 0,5 percent.

Massacre prompts police reward offer

BDAY 8/4/93

DURBAN — Police are offering a R50 000 reward for information leading to the arrest of the killers of 10 ANC supporters in Murchison, near Port Shepstone, on Monday.

Durban police spokesman Capt Bala Naidoo announced the reward offer yesterday. He said informants could telephone Crime Stop on 0800-111213 or investigator W/O Frik Breedt on (0391) 22524.

The violence-related toll in Murchison this week has climbed to 12 with two more killings early yesterday. Police spokesman Lt Dawood Kader said three suspects had been arrested.

The two latest victims, aged 19 and 25, were hacked and stabbed to death while sleeping in a house in Mtengwane.

Inkatha leader Mangosuthu Buthelezi condemned Monday's Murchison massacre saying: "Violence is not in the interests of anyone." He was speaking on his return from Britain yesterday.

He said he had no preconditions for a summit conference with ANC president Nelson Mandela and would like such a meeting as soon as possible. "I can see him tomorrow," Buthelezi said.

He also "rejected with contempt" Monday's statement by ANC Natal Midlands deputy chairman Blade Nzimande that the Concerned South Africans Group, of which Inkatha was a principal member, might stage a "Unita option" — rejecting election results if they lost.

Meanwhile, unidentified gunmen on Tuesday night shot and wounded senior IFP member Manuel Mdunge on his way home in Umlazi, Durban, party spokesman Ed Tillet said yesterday.

Tillet said the car in which Mdunge was travelling was riddled with bullets and at least 20 spent cartridges were found at the scene. It was the second attack on senior IFP officials in Umlazi in the past week, he said.

"There is a systematic campaign to eliminate IFP leaders, to destroy the IFP and to sabotage peace initiatives in Umlazi," Tillett claimed.

Another two people were shot dead and a woman seriously injured in an attack on a squatter camp at Esikhaweni near Empangeni on the Natal North Coast, it was reported yesterday.

At Nkelabantwana near Bulwer in the Natal Midlands a man was shot dead yesterday and another wounded in an attack. A police spokesman said five people fired on a group, killing Ndoneni Bunenizizi.

In Khayelitsha near Cape Town yesterday, a policeman was shot and two wounded men arrested when police were attacked and involved in a 40-minute gunfight, according to police.

Sgt I Isaacs, Const S Ntongona and Const M Mbolekawa went to the scene in an armour-plated vehicle. Sgt Isaacs was shot in the leg.

The robbers fled with the police in pursuit. The heavy police vehicle became stuck in deep sand, however, and its occupants stepped out to try and calm an angry crowd, which, according to police reports, were being egged on to set the vehicle alight.

The SAP members were attacked and in the ensuing gun fight, Isaacs was shot. Two men were later arrested trying to have their bullet wounds treated at a hospital.

Police said members of the Internal Stability Unit prevented the crowd from setting the armoured vehicle alight. — Sapa.

ANC proposes tough arms laws

(327)

CAPE TOWN — The failure of the security forces to protect people from attack was a major cause of the spiralling demand for firearms, the ANC told a committee of the Goldstone commission investigating illegal arms yesterday.

The ANC told the committee in Cape Town both self-defence units and hostel residents' associations demanded firearms because they had little or no faith in the security forces' willingness and ability to protect them.

"For as long as the security forces are perceived as partisan or ineffective, there is little prospect of any statutory intervention (affecting) the proliferation of illegal firearms in our country."

The ANC said firearms should be confined to sporting activities and to securing a livelihood.

Statutory amendments proposed by the ANC included:

- Raising the age limit for the issue of firearm licences from 16 to 21 years;
- That applicants for licences undergo psychometric testing to assess their suitability to possess a firearm;
- Individuals be restricted to one firearm; and
- That anyone found in possession of more than two illegal firearms be presumed to have been dealing illegally in such arms.

Weapons such as semi-automatic and automatic arms and large-calibre weapons should be statutorily restricted to a much greater extent, the ANC submitted.

Meanwhile, committee chairman M N S Sithole ruled yesterday that the terms of reference of the Goldstone commission committee investigating the illegal importation, distribution and use of arms and ammunition will remain unchanged.

His ruling followed a complaint by counsel for the Inkatha Freedom Party, Louis Visser, SC, that the committee's mandate did not extend to the illegal possession of firearms. BDAY 8/3/93

Visser said the committee could not fulfil its task properly without also investigating the illegal possession of arms and ammunition.

Sithole said the committee would proceed with its inquiry as mandated.

The hearing continues today. — Sapa.

VAT increase a burden to the poor

320

Sowetan & Radio Metro
Talkback

with Tim Modise

By Mzimasi Ngudle

GOVERNMENT corruption was the reason why the poor should now shoulder the Value Added Tax increase, *Sowetan*/Radio Metro Talkback Show guest speakers said last night.

Ms Nonia Ramphomane, president of the National Black Consumer Union, Mr Mapete Leeuw, education secretary for the Congress of SA Trade Unions, and Ms Jean Tatham, president of the Housewives League, concurred that VAT increase would be a heavy burden on the poor.

Ramphomane said it was very difficult for black consumers to cope, especially since there was a high rate of unemployment in the country.

"The increase is exorbitant. It is wrong for the Government to collect the money from the poor," she said.

Ramphomane said the Government should increase VAT on things that the poor would not afford.

"The money spent on covert activities should be used to bring down the deficit. I feel strongly that meat must be been zero-rated," she said.

Leeuw said Cosatu would consult with other organisations and consumer groups on what action to take.

Left lying down

"The matter cannot be left lying down," he said in response to a caller who had suggested that tougher action be taken against the Government.

"We call for an independent audit commission to probe expenditure as well as a tax commission to evaluate the whole tax system.

"There's widespread corruption in Government circles and maintaining apartheid itself has been a wastage.

"This Government must be brought to order. It can no longer be allowed to act unilaterally," he said.

Tatham said the price increases introduced three weeks before the introduction of VAT were confusing.

"I'm dissatisfied with suppliers who increased prices because it was very confusing," she added.

Sowetan 8/4/93.

"Union guys don't do anything about it. Why does Cosatu not stand up and fight the Government?"

Joe, Johannesburg

"Why do they shift the burden to the poor instead of tapping the mineral wealth of the country?"

Mike Johnson, Johannesburg

"We are going to be hardest hit. It is not only VAT. There is PAYE as well. This is destroying the quality of life."

Anonymous

TAX & DIVIDENDS (320) FM 9/4/93.

Dual tax: Confounded by uncertainty

Ripples of approval have greeted the dual system of tax announced in the Budget. Not unnaturally, big market-capitalisation companies say they favour the drop in corporate tax from 48% to 40%. But the introduction of a 15% tax computed on dividends — the secondary tax on companies (STC) — has had a mixed reception. Most company officials stress, however, that not all the information is available yet.

The tax changes have wide ranging consequences. According to the SA Institute of Chartered Accountants, depending on the nature of the business and structure of the group, "effects of the dual tax system may amount to only a minor rate change or could have an effect that is considered fundamental." In other words, the accountants haven't made up their minds yet.

The effect of the new tax is so unpredictable that a simple tabulation reveals its diverse outcome on 46 of the JSE's most significant companies. But the estimates are based on incomplete information: for example, dual tax applies to mining companies but gold mines have a choice between the new system and the old. The table gives an indication of the direction and scale of the effect of EPS.

Most companies are reluctant to give their estimates of the earnings effect of the dual tax system; some purport not to have made the calculation. The beneficiaries of the changes are companies, like Anglovaal Industries (AVI), whose historical earnings would have increased by an eighth, according to stockbroker estimates.

As a rule of thumb, those companies with high existing tax rates and a high dividend cover will benefit; the higher the cover the smaller the distributed profits and the lower the STC. AVI director Richard Savage says: "We appreciate the reduction in company tax and the concept of encouraging investment." Most managers feel that the lower tax charge will be good for investment and employment.

Premier Group's earnings will also benefit from the tax changes by about 5%, according to deputy CE Gordon Utian. He adds: "It will give us access to more cash to increase production facilities and job opportunities." However, as a group driven by consumer spending, the increase in Vat is unlikely to provide the right environment for increased investment at present.

In the short-to-medium term, some companies will lose out. For Sappi, the combination of a low effective tax rate (only 1%) and a low dividend cover indicates that earnings will be stung by STC. The board is reviewing the implications of the tax. Sappi finance director Bill Hewitt says: "It's not a shortage of money that's stopping people spending — it's the climate of uncertainty." Lower taxes will encourage companies to hold cash or pay off debt, rather than promote investment.

Anglo American Industrial Corp (Amic), with a low tax rate and low dividend cover, is also likely to be hit by STC. Amic finance director Brian Bullett was hesitant to comment about the tax changes: "It's not final yet and some issues are under representation." But in general, Bullett is in favour of the tax despite some reservations. The most significant are the inequities arising in the transition period. First, the method of charging STC on dividends from wholly owned unlisted companies and, second, STC applies to preference dividends which are largely debt instruments rather than a form of distribution. Bullett doesn't believe the changes will affect Amic's dividend cover.

TAXING TIMES

Company	Earnings* change (%)	Company	Earnings* change (%)
Amcoal	−6	Barlows	+6
Trans-Natal	+9	HLH	+6
Anamint	−7	Malbak	+5
Palamin	+1	M & R	+5
Samancor	+2	Richemont	nil
Implats	+7	Safren	+5
Rusplats	+7	SAB	+6
Anglo	nil	Engen	−6
Anglovaal	nil	Sasol	−1
GFSA	−4	Sentrachem	+6
Gencor	nil	Afrox	+5
JCI	nil	Premier	+10
Amgold	−12	Tiger	+5
Absa	−4	Nampak	+6
FNB	+7	Sappi	−12
NBS	−3	Edgars	+6
Nedcor	+10	Foschini	−3
Standard	+10	Pepkor	+6
Mut & Fed	+4	Pick 'n Pay	+1
Santam	+7	Wooltru	+3
SA Eagle	+2	Tongaat	−4
Amic	−9	Rembrandt	+9
AVI	+12	*Mean*	+2

* Estimated percentage change in historical EPS following the new 40% company tax rate and 15% tax on dividends.

Source: Martin & Co

Another cause for complaint could be that companies with March year-ends will pay STC on their final dividend but won't benefit from the lower corporate tax rate until the next financial year. SA Breweries is one. Group financial director Selwyn MacFarlane says the overall effect is to improve earnings but he concedes the "transition details are still in the process of clarification." CNA Gallo is in a similar situation: technicalities over the transfer of dividends from wholly owned unlisted subsidiaries are under review. Finance director Alan Cherry says the dividends may be used to offset CNA Gallo's STC charge; if not, the effective tax rate will rise from 48% to about 53% and that will produce a one-off detrimental effect on earnings.

What STC will do to dividend policies is also uncertain. Most companies are reticent and prefer to wait and see the fine print of the legislation before introducing changes. The lack of urgency to make changes suggests that, in most cases, the effect of STC isn't going to be dramatic. There may be a tension between companies which want to retain a greater part of profits and their shareholders who want a steady income stream from investments. That might cause majority shareholders to put increased pressure on subsidiaries. Dividend income (that's already had STC paid on it) can be offset against dividends paid out for the purposes of calculating STC.

One commentator says: "It would be less than politic of us not to discuss the issue with our major shareholders — in any case, it makes sense to debate the possible benefits that can accrue both to them and the company from any change in dividend policy." But the majority view is that dividend policy depends on what is affordable within the constraints of promoting earnings and asset growth; most claimed that their cover would remain unchanged.

The dual tax system will include STC as part of the taxation charge on the face of the income statement (this will have an impact on EPS). However, it certainly seems the new scheme takes as much away with one hand as it gives with the other. Responses vary. One official says: "It's an immensely positive move in the context of SA in terms of encouraging investment." Another decries it as "a charge against distribution," despite careful proclamations to the contrary by Finance Minister Derek Keys.

The dual tax system will bring SA corporate tax rates in line with other international tax regimes and provide an incentive for local and overseas companies to invest.

It may be a step forward but it's unlikely to be more than symbolic while violence and political uncertainty continue. *Louise Randell*

OHIO/SPL. FM 9/4/93

Facing Caesar's fate

Beware, the soothsayer told Caesar, the Ides of March. The record date of the deal in terms of which former electronics-listed Ohio sold its trading assets to JSE-listed SPL was, coincidentally, the same March

cont

TAX FM 9/4/93

Prodigal payers

(320)

Errant taxpayers are to be offered a generous amnesty for past failures to submit income tax returns. A release from the office of the Commissioner for Inland Revenue says the amnesty will extend to all classes of taxpayer, personal or corporate, who are in default for any year of assessment. To qualify, the returns must be submitted by August 31 1993.

Not only will no penalties be payable by taxpayers taking advantage of the amnesty, but interest will run only from the date of actual assessment, not from any earlier date.

However, there will be an important exception in the case of taxpayers who should have been registered as provisional taxpayers, if they are bound by the provisions of Section 89*quat* of the Income Tax Act. That is, if their income exceeded R50 000 in the case of individuals and R20 000 in the case of companies.

They will have to pay interest at the gazetted rate, now 18%, on all underpayments of provisional tax from the date the payment should have been made — for instance, from six months after the end of their year of assessment.

It is difficult to estimate how much additional revenue might be brought in by the amnesty, though Trevor van Heerden, of the office of the Commissioner, says the costs of pursuing defaulters through the normal procedures are so high that even a modest return would make the exercise worthwhile.

Deloitte & Touche tax partner Willem Cronje expresses scepticism about how much will be collected, as past international experience has not been encouraging, especially in places such as Latin America, where tax obligations, over many years, have been dodged on a wide scale. One danger is that some defaulters may take a cynical view,

FM 9/4/93 (320)

arguing there will be another one in a year or two, so there need be no rush to comply.

Another problem, argues Cronje, is the effect of an amnesty on honest taxpayers' morale. The question of an amnesty was considered in depth by the Margo Commission, which reached a negative conclusion.

But, argues Cronje, an amnesty at this stage might be regarded as a special case because of the changes taking place in SA. Moreover, provisional taxpayers — who comprise most defaulters in money terms — do not escape the payment of interest.

In the last resort, an amnesty can be no substitute for having an efficient tax administration up and running — one capable of tracking down defaulters. ■

Bank charges buffet the poor

Star 10/4/93

REAL and hidden bank charges are likely to drive already disadvantaged low earners right out of the formal banking system, BRUCE CAMERON reports.

SOUTH Africa's major banks have introduced a wide range of higher service charges which will squeeze low-income earners out of formal banking services.

In the process, the banking system has increased the existing bias which already prejudices the poor.

The trend was started more than five years ago by United Bank, when it was still the United Building Society, which introduced a wide range of charges, forcing closure of thousands of accounts. Other banks have followed suit as a strategy to cut costs.

Banks argue they cannot afford to carry accounts of people who deal in very small amounts and make numerous transactions.

Almost every month, new and increased charges are being introduced on services.

Low earners and the poor now have to pay proportionally more for operating bank accounts. People at the lower end of the market already have to pay more in interest on borrowings.

The cost of borrowing money for the high-risk informal business sector was spotlighted in the Government's recent economic model with a recommendation that the private financial sector should pay more attention to how they can fund the lower end of the market at more reasonable rates.

In most cases, clients with larger balances are excluded from many of the charges, which range from making a balance inquiry at an automatic teller machine to monthly charges on inactive accounts below a fixed minimum balance.

Many of the banks are extremely tardy in giving full details of the charges. In some cases, charges are made on savings accounts with balances below the minimum amounts.

But in South Africa the poor are forced to deal with a world-class retail banking system designed to meet the needs of a highly industrialised, rich society.

Many low earners are forced into situations where they have no option but to pay proportionally high minimum transaction charges which have been introduced because wages are being paid directly into bank accounts or because they have been paid with crossed cheques, which cannot be cashed.

New SA: 'No need to pack your bags'

Star 10/4/93

BRUCE CAMERON

320

CAPITAL gains, wealth and land taxes are all possible in the new South Africa but they should be no worse than in many other Western countries, the Board of Executors (BOE) concludes in an analysis of three future scenarios.

The particular target would be high-net-worth individuals, but BOE Cape executive director Tom Boardman says there is no cause for fear "and packing your bags". The team did not believe there would be personal tax changes even assuming "the low road" option of high government spending.

New taxes could be levied on capital, including: capital gains, which could probably be levied at a lower rate than income tax, be inflation index-linked, extend to second and other dwellings and vacant land, have a net worth threshold, and could have a progressive or flat rate; land taxes, which could piggy-back on municipal rates; and a wealth tax, which could target high-net-worth individuals and could be based on registerable assets.

Another area of higher taxes would be estate duties, with donations tax being increased in tandem.

she had a winning combi- | the more I spluttered and | Most stutterers are men, and

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The dividends credited to loan account can escape tax

Star 10/4/93

LEIGH HASSALL

SHAREHOLDERS of smaller companies will be relieved to learn that dividends previously credited to their loan accounts could escape the new 15 percent tax on dividends.

Speaking at a breakfast meeting last week, hosted by accountants Anderson Rochussen Crisp, Professor Dennis Davis of Wits University said there was tremendous confusion over whether such dividend transfers would attract the new tax.

The debate has been raging as to the nature of such transfers since the announcement of the new tax in Minister Keys's Budget speech on March 17 1993.

A classification as "paid" would free the accumulated amounts from the tax. On the other hand, because the amounts were never physically paid, but merely transferred to the loan accounts, this could render them as unpaid and subject to the tax.

Davis has now clarified the situation, saying that Inland Revenue has conceded that in terms of the law these amounts would be regarded as tax-free distributed dividends — but only provided certain criteria had been met.

320

Common practice

Firstly, a resolution must have been passed by the company before March 17 1993 declaring the dividend and the amount of the dividend.

Secondly, the dividend must have been credited to the loan account prior to March 17 1993.

It is common practice among private companies to leave the dividends in the business by transferring the amount to the shareholder's loan account.

Davis also clarified the situation concerning scrip dividends. He noted that Revenue had accepted that scrip dividends fall out of the definition of dividends and therefore will not attract the 15 percent tax.

Harry Rubin of accountants Ernst & Young highlighted some other issues concerning the new tax. He noted that there was a misconception that close corporations (CCs) escape the tax. This is not the case as CCs are taxed as companies and therefore will bear the extra tax.

Deferral advantage

Rubin pointed out that if a company or CC pays out all the after-tax profit as a dividend, the effective tax rate is 47,8 percent — not much of a saving from the previous company rate of 48 percent.

The recent reduction in the company tax rate to 40 percent, while the maximum marginal rate remains at 43 percent for married taxpayers, provides for some tax planning. Rubin said directors of private companies and members of CCs could benefit by the timing advantage of a deferral of income tax.

He noted that a director or member could pay himself a salary to the extent at which he reaches his maximum marginal tax rate of 40 percent. The remaining business profits would be taxed at the company rate of 40 percent instead of the maximum marginal rate of 43 percent. The 3 percent is a saving now; however, when the business profits are withdrawn at some future stage, they will be subject to the 15 percent dividends tax.

VAT starts to bite

South 10/4-14/4/93.

By Juanita Williams and Waghied Misbach

320

CASH-STRAPPED consumers will feel the pinch as the new 14 percent VAT rate sets in this week.

Economists predict the 40 percent increase over the present VAT rate will raise inflation by two percent this year.

Major retailers agree that consumers will be severely affected by the VAT hike as they can now buy less with their money.

The expected "mini-boom" before the VAT increase came into effect, did not happen, adding to the gloomy forecast for retail sales.

Retailers said stores were busy this week, but the trading could not be described as a "mini-boom".

Pick 'n Pay financial director Mr Chris Hirst said this week people were "rushing around" before the April 7 increase.

Hirst expected food sales to drop two to three percent when the full effect of VAT was felt.

OK Bazaars regional director Mr Maurice Hardwich said sales had increased before the VAT increase took effect, but only on food and durable goods such as furniture.

Hardwich predicted a marked slowdown in sales after the Easter holiday. Consumers will spend less on food and clothing, he says.

SOUTH went shopping for basic foods on Wednesday and found a basketful of items had increased by R4 after the VAT increase.

Sugar, eggs, washing powder and canned food prices had increased by an average of 20 cents.

There was a marked difference in prices of foodstuffs after the VAT increase was added. Some retailers were discovered increasing their prices by more than four percent.

Housewives League Mrs Sheila Baillie said consumers should monitor the prices of goods and not allow shop owners to take them for a ride.

SI Times (Bus)
11/4/93

Payout problem

(320)

MINORITY shareholders, especially those who depend on dividend income, could find themselves at the losing end of the new dual company tax announced in the Budget.

No doubt, minorities are relieved that Finance Minister Derek Keys did not reintroduce a tax on dividends they receive. But concern is mounting about future dividend payments.

The dual system involves a drop in the company tax rate from 48% to 40% and an accompanying secondary tax on companies (STC) of 15% on profit distributed to shareholders.

It has been generally welcomed because it will encourage companies to plough back their earnings and reinvest in their operations — a development that will benefit minorities looking for long-term growth in their investments.

The flip side will be, as intended, lower dividend payouts. Companies are likely to increase dividend cover — it has historically averaged between 2 and 3 times — as they strive to become more tax efficient.

Shareholders can expect to see companies increasingly issuing scrip dividends, which are not expected to be subject to STC. This means that those minorities who rely on cash income will have to sell their scrip on the JSE and risk fluctuating market prices.

Companies may also consider offering scrip or cash as dividend.

An interesting legal issue might be whether a cash dividend could be offered at a lesser amount than scrip. It might be challenged on the grounds that not all shareholders were treated equally.

JSE executive president Roy Andersen, in supporting the move by Mr Keys, says investors will always be able to move their investments into companies that declare high dividends.

Mr Andersen believes the situation could also result in a marginal shift in investor preferences from equities to fixed-interest yielding securities, such as the JSE's new corporate bonds.

Shareholders Association of SA chairman Issy Goldberg has some reservations. Although he commends Keys on the dual company tax system, he says: "For every use of good intentions there is invariably abuse."

He fears that some companies may use the system as an excuse for not paying dividends. Others may not pay reasonable dividends even though they have healthy cash resources. Another area of concern is that directors may compensate themselves for lower dividends received on the shares provided as part of their packages.

Bus. S.I Times. 11/4/93

Foschini stitch in time

FOSCHINI Group is in the throes of a reshuffle designed to ensure long-term management continuity and to position the company for growth. The restructuring sees Neville Goodwin, managing director of Foschini Stores, take on additional duties as deputy managing director of the group.

Red Robb, managing director of Markhams, moves to deputy managing director of Foschini Stores. Dennis Polak takes Robb's slot as Markhams managing director while remaining managing director of Pages. Doug Murray becomes general manager of Pages.

John Hoffman, managing director of American Swiss, takes charge of the group's overall retail jewellery merchandising. This includes 153 American Swiss stores, 76 Sterns shops and 320 in-store American Swiss boutiques.

"We expect this move to bring about significant savings through the benefits of economies of scale," says Foschini Group managing director Clive Hirschsohn.

"At the same time, it is extremely important that Sterns retain its separate identity."

Foschini Group board changes result in Elliot Osrin, a director of Foschini Ltd, becoming non-executive chairman.

Worst retail winter since 1945 looms

(Buss.) S/Times 11/4/93

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Business Times Reporters

RETAILERS face the worst winter since the Second World War.

Economists warn that fragile consumer spending of the first quarter could deteriorate even further as the Government taps more revenue from the public through increased VAT and fuel levies.

They are particularly concerned about damage to spending and confidence that would follow a rise in interest rates, as threatened by upward pressure on rates in the money market.

Sacob economist Ben van Rensburg says a rise in interest rates, combined with the impact of higher taxes on disposable incomes, could prove disastrous.

Brandy

Estimates from Central Statistical Service suggest that retail sales for March will be R6,86-billion. This compares with R11,033-billion in December.

Almost a third of retail spending is on food.

KWV statistics show that South Africans are not drowning their sorrows in booze.

Sales of gin slumped by 18% last year, vodka by 11,7%, cane spirits 14% and brandy 5%. Natural-wine sales were "stagnant".

The brief post-Budget uptick in spending as consumers brought forward their buying of big-ticket items to avoid 14% VAT is expected to distort sales figures over the next few months.

The best evidence of this is in new cars, sales of which which by 15,8% to 18 665 in March from 16 119 in February. Pre-VAT buying was more in evidence in the commercial-vehicle sector where sales of pick-ups and minibuses rose by 25,6% on the February figure, by 46,2% in medium trucks and 30% in heavy trucks and buses.

The National Association of Automobile Manufacturers of SA (Naamsa) warns that higher VAT rates, increased fuel prices and the weakening of the rand will hurt sales in the months ahead. With litle chance of a recovery in the economy this year, it is likely that sales projections for the year will have to be revised downwards.

Afrikaanse Handelsinstituut economist Nick Barnardt expects personal disposable income, which has been falling in real terms, to go sharply lower.

"It seems that a tough three to four months lie ahead for retailers. Real disposable income is expected to fall by about 5%.

"The next few months will be particularly difficult for sales of luxury durable items."

Mr Barnardt says retailers of credit-intensive goods face the worst winter since 1945.

"Obviously, we hope we are wrong. But retailers and wholesalers must be prepared for a poor winter."

OK marketing director Arthur Solomon says the next few months will be tough, but there is cause for optimism.

"There is no doubt that VAT is beginning to bite and the extra fuel cost is filtering through to the cost of merchandise. In addition, there is a lot more unemployment.

"But its not entirely gloomy because we are coming off a low base and there is evidence of greater confidence in the business world that things in South Africa will settle down," says Mr Solomon.

Sacob says suggestions in a recent survey that the downturn in the retail sector had bottomed out may prove premature.

"Government's failure to cut real consumption expenditure sufficiently and the resultant need to raise taxes will result in significant deterioration in the purchasing power of consumers, and will have a negative impact on businesses which supply them with goods and services."

Sales of basic foodstuffs, which fell to record lows in January and February, are expected to recover slightly in the next few months. Several factors will contribute to this and could result in single-digit food-price inflation for the second half of 1993, predicts Mr Barnardt.

Orders

They are the improved supply of fresh produce as a result of the drought being broken in most areas, the zero rating of VAT on basic foods and pending deregulation of some agricultural markets.

The rush to by audio-visual equipment appeared to be a last-minute decision.

Laura Levitan, marketing director for Tek Electronics, says that on Monday her company invoiced three times the normal daily volume in orders, especially in the Southern Transvaal region.

Miss Levitan expects this boost to end, particurly because prices are likely to rise well above the additional VAT increase. The reason is the weakening rand and the need to increase profit margins.

Hani's assassination.
In Tsakane, outside Brakpan,
police yesterday

Picture: George Mashinini

Prices of zero-rated foodstuffs down

Star 13/4/93

Staff Reporters

Prices of zero-rated foodstuffs took a dive last week as retailers implemented the new VAT rates.

Hyperama spokesman Shane Kahn said all goods had dropped by 10 percent. He said all their outlets would still charge the old 10 percent VAT rate on consumable goods.

A Checkers spokesman confirmed that their prices had dropped by 10 percent.

Pick 'n Pay spokesman Geoff Kahn said all Transvaal outlets will absorb the 4 percent VAT increase until April 18.

Pick 'n Pay had subsidised the price of brown bread and dropped the price to R1,29.

The Star conducted a survey of several items from our regular shopping basket after the VAT zero-rating came into effect last week and found that prices had indeed dropped. (See table)

6 ITEMS	OK Eloff Street	PICK 'N PAY West Street	SPAR Newgate	CHECKERS Yeoville
Tastic Rice 1 kg	3,54 (4,50)	2,68 (3,95)	— (3,95)	3,59 (3,95)
Butter 500 g	3,62 (5,75)	6,20 (6,19)	5,99 (6,29)	7,24 (5,99)
Milk 1 litre	2,26 (2,55)	1,59 (1,99)	2,19 (2,59)	1,89 (2,59)
Iwisa M/Meal 2,5 kg	— (4,05)	4,29 (4,29)	3,95 (4,25)	4,29 (4,49)
Cooking Oil 750 ml	2,90 (3,39)	2,49 (2,69)	2,90 (3,19)	2,24 (3,18)
Five Roses Tagless Teabags 250 g	6,69 (7,49)	6,39 (7,29)	8,79 (6,99)	7,24 (6,99)

★ Survey conducted April 7. (Prices in brackets are from survey conducted shortly before Budget day on March 17).

youths were arrested after ... eight
group of ...

There is a large demand for part-time and full-time

Taxman rules out VAT hike action

BDAY 13/4/93

(320.)

KELVIN BROWN

GOVERNMENT had ruled out taking action against retailers who were using the new VAT rate to bolster prices, Inland Revenue Department VAT chief director Mike Du Toit said at the weekend.

He was commenting on reports by consumer organisations that many retailers were raising the old final selling price by 4%, rather than 3,6%, to match the increase in VAT from 10% to 14%. Adding 4% to the old VAT inclusive price means more than 14% VAT is being charged, with difference pocketed by retailers.

The organisations, which include the Consumer Council and the Housewives' League, said this exploitation was prevalent among small to medium-sized retailers, rather than among the larger groups.

Exploiting the VAT rise was wrong in principle, said Du Toit, but in a free market system retailers could increase prices by as much as they liked.

His department's job was to ensure the right amount of VAT was paid by the retailer. It was up to the consumer to fight his or her own case as it was impossible for the department to control price rises with the increase in VAT.

The best way to work out the new final selling price was to subtract 10% from the old VAT inclusive price and then add 14%.

The Inland Revenue Department could take action only if VAT was being charged on zero-rated items or if items were being advertised at the VAT exclusive price, Du Toit said.

Consumer Council PR manager Paul Roos said monitoring by the Consumer Council showed larger retailers were "generally keeping their noses clean".

Similar results were reported by the Housewives League. A spokesman said price movements of larger retailers were monitored carefully, but only a sample of smaller retailers could be monitored. This made it easier for them to get away with increasing their prices.

The VAT Co-ordinating Committee was also monitoring price increases, a Cosatu spokesman said. "It is unacceptable that VAT is being used as a means to profit rather than as a tool to collect revenue."

Investment practices on verge of revolution

Star 13/4/93

(320)

By Derek Tommey

As the full implications begin to emerge of the dual tax system announced by Finance Minister Derek Keys, it is becoming evident that the investment scene in South Africa is on the verge of a revolution.

It means changes in the way companies are valued; it means the value of dividends will have to be re-assessed; traditional investment yardsticks such as dividend yields could become irrelevant; and small and large investors, including unit trusts, could have to look again at their investment policies.

Because there was some confusion over exactly what Keys intended, many people have been slow to grasp the full effects of the tax system unveiled in his Budget speech.

But a statement by Keys a few days ago has clarified the situation.

The guts of the dual system is that companies, after they have paid the new 40 percent company tax, will be liable for the 15 percent tax on dividends only if they pay dividends in cash.

But if instead they pay scrip dividends — the issue of shares

Roy Andersen . . . investors might probably have to switch

to the value of the dividend — no tax is payable.

The implication is that many companies are likely drastically to reduce their cash dividend payments.

Moreover, a substantial number might even decide to pay no cash dividends at all, paying only scrip dividends instead.

They could easily justify such a policy.

They could point out that paying cash dividends will put up their tax bill and leave with them less to invest.

Paying out scrip dividends only would not increase their tax burden, but would leave them with 60 percent of their profits to invest, against 35 percent previously.

Investing this higher percentage would greatly accelerate their profit growth and boost the share price.

Therefore, they can argue, it would be in the best interest of shareholders to get scrip dividends rather than cash.

Large institutional investors are likely to favour such a policy.

They frequently complain that companies pay them dividends which they have a problem investing. Then every four or five years the same companies come to them for new capital.

Large investors say it makes more sense to let companies keep the cash and pay out scrip only.

Small investors who need cash may not like receiving scrip dividends or small cash payments. They could, of course, sell the shares they receive.

However, with brokers imposing a minimum charge of R30, and with odd lots usually changing hands at a discount to the market price, they are unlikely to get the full cash value of scrip dividends.

Roy Andersen, executive president of the Johannesburg Stock Exchange, says investors seeking income rather than capital growth might probably have to switch part of their investments from shares to corporate bonds such as the SAB 12 percent 2000, now yielding 14,6 percent.

It is likely to take some time before companies decide on their new dividend policies.

They will first need to assess investment policies and relations with shareholders.

There are, in fact, many aspects of the dual tax system needing careful investigation.

Nonetheless, companies opting for scrip dividends only and reinvesting 60 percent of their profits are, if they make the right investments, clearly going to shine.

Altogether, it seems that listed companies, the share market and the economy are about to enter a period of exciting growth.

NEWS IN BRIEF

Bi Day 13/4/93

Tax date concession

TAXPAYERS had until August 31 to submit their 1992/93 income tax returns, the Receiver's Office said. The concession will also apply to taxpayers who have neglected to register for income tax purposes and for people who are registered for tax purposes but cannot be traced. (320)

Central Statistical Service figures show that revenue collected for the Exchequer in the first 11 months of the 1992/'93 year amounted to 80,1% of the budgeted amount for the year.

Tax collections during the first 11 months increased 3,7% compared with the same period a year before. Income tax, excluding gold mining taxes, increased 3,2%, while GST and VAT fell 11,5%. Consolidated fuel levies rose 32%.

Star 14/4/93

Revenue collection up

Revenue collected by the Exchequer in the first 11 months of the 1992/93 financial year was 80,1 percent of the amount budgeted for, figures released by the Central Statistical Services on Tuesday show.

Total revenue collected from April 1992 to February 1993 amounted to R67,905 billion and is 2,6 percent higher than the amount collected in the same period in the previous year. (320)

However, the CSS says an increase of 13,2 percent was budgeted for in the 92/93 fiscal year.

The slight increase was largely due to increases in revenue from gold mine income tax of 14,9 percent to R384,4 million, from excise duty of 24,7 percent to R3,970 billion, and from the fuel levy of 32 percent to R6,240 billion. — Sapa.

Sacob urges government to rethink 'double tax'

BIOM 14/4/93 (320)

MATTHEW CURTIN

BUSINESS is lobbying government to amend planned legislation introducing the new secondary tax on companies (STC), to prevent companies with a March 31 year-end being taxed twice.

It is understood Sacob has made representations to government on the new tax structure — a lower 40% company tax and a 15% tax on distributable profit announced in this year's Budget. It came into effect from April 1, a day after a large number of SA companies had their financial year-end.

Such companies include Anglo American and other companies in the Anglo fold such as Amcoal and Anamint, as well as the Argus Group, Datakor, Edgars, OK Bazaars, Rembrandt, Sentrachem, SA Breweries and Times Media Limited.

Finance Minister Derek Keys, in recent comments clarifying the new tax regime, said companies declaring dividends after March 17 would be subject to the STC.

While the total tax payable for the earlier year would exceed the nominal 48% rate for those companies, their cash flow would benefit immediately from having to calculate provisional tax at the new reduced company tax rate in the current year.

However, Anglo American tax consultant Marius van Blerck said yesterday that as the planned legislation stood at the moment, companies with a March year-end were significantly worse off than companies with February and April year-ends.

Business was convinced that given government's constructive approach so far to representations made on STC anomalies, if the anomaly of the new tax rate was clearly shown, government could well take steps to remedy the situation.

There were two ways of ensuring these companies avoided the misfortune of falling under two tax systems simultaneously. One was to backdate the change in tax rates to March 31 — an unlikely move given that April 1 was traditionally the date when new rates came into effect — while the other was to exempt these companies from the STC.

Van Blerck said as long as provisions were made so that companies were not able to declare "abnormal dividends" to take unfair advantage of the exemption, such a move would represent a simple solution to the March year-end anomaly.

Taxman is eyeing flea market traders

B/DAY 14/4/93 (320)

TRACY SCHNEIDER

THE Inland Revenue Department would clamp down on informal sector traders evading income tax, policy chief director Trevor Van Heerden warned yesterday.

He said the moratorium on tax evasion would end on August 31, after which informal sector traders — particularly flea market traders — would be "vigorously investigated".

Under the moratorium no penalty would be imposed for late returns for 1993 or previous years submitted before end-August. This concession also applied to those who had not registered for income tax purposes.

Van Heerden said some flea market traders were earning substantial undeclared incomes. "We cannot say exactly how much is passing us by, but it is definitely enough to warrant more attention than in the past."

Flea markets' growing popularity made them a good source of revenue, with traders liable to submit returns after earning about R12 000 a year.

"We are concerned about the situation and have recently sent people overseas to see what measures are being used to police flea markets and bring traders into the tax system," said Van Heerden.

(SOBA)

The organiser of a well-known flea market said the move was unfortunate, as traders were trying to make ends meet in the face of a slack economy. "I think it is disgusting that the Receiver wants to crack down on the little guy," he said.

Robben Island panel to be set up

B/DAY 14/4/93

PETER GALLI

A ROBBEN Island advisory committee — as broadly representative as possible — would be appointed soon to steer discussions about future development, Cape Provincial Administration spokesman Johan Neethling said recently.

A private sector consultant would also be appointed, he said.

The island is currently a marine reserve and conservation area, housing a variety of marine and wildlife including penguins, buck, partridges and ostriches.

It has an operational prison that can house 850 criminals and 110 houses for correctional services staff. There are also shopping and sports facilities, a mosque and church.

Outgoing Tourism Minister Org Marais' request last week for R250 000 to conduct an environmental impact study of future development on the island was rejected by Parliament and funds for this would have to be found from another source, he said.

This assessment was imperative and would examine how many tourists the island could accommodate daily and the effects of this and development, he said.

However, any such development would probably not take place before 1997 and would involve across-the-board facilities ranging from a five-star hotel to self-catering accommodation and camping facilities.

Robben Island Correctional Services commander Col De Nysschen said the Correctional Services Department would relinquish control of the island by the end of 1996.

But premises for a new prison and funding for this still had to be found.

"Transport costs make Robben Island the most expensive prison in the country to run. The new prison will have to be able to accommodate the overpopulation of prisoners in the western Cape and will therefore have to be large enough for about 2 000 inmates," he said.

A site for the new prison had not yet been found.

Asked whether a new prison was economically viable at present, De Nysschen said one needed to "look at the present budget for the prison to see that it was viable".

In another western Cape development, work was under way on the infrastructure for the residential side of the Victoria & Alfred Waterfront project. This would take the form of a townhouse development, comprising 600 units ranging from one to four bedrooms.

While a total of R40m would be needed to build the planned aquarium, an initial R25m would be sought, which would hopefully be raised from individual companies sponsoring specific parts of the aquarium.

Duties, VAT hike slammed

B/DAY 14/4/93

320

PETER GALLI

THE increased VAT rate and higher transfer duties became effective last week.

Camdon's nationwide franchise chairman Scott McRae said government was "increasingly and misguidedly" tapping the property market as a tax milch cow.

"This is out of step with overseas trends, which have generous tax allowances to encourage property ownership. The budget underlined this short-sighted policy."

He analysed the increasing tax load on property as follows:

- When GST was in operation, building a new home was subject to 13% GST on materials only. When VAT was introduced, this was changed to 10% on materials and labour, which was now 14%;
- When buying a home from a developer, no GST was payable. Then 10% VAT was introduced, which increased to 14%. Estate agents' commissions were previously GST free, then subject to 10% VAT and now 14%; and
- Under the GST system, transfer duty of 1% was payable on the first R30 000 and 3% on the balance. This rose to 1% on the first R50 000 and 5% on the balance; now 1% is payable on the first R60 000, 5% on between R60 000 and R250 000 and 8% on all amounts over R250 000.

McRae said a new property tax vision would result in a healthier construction sector and greater housing affordability.

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

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1 APRIL 1993

PRESS STATEMENT

by the

COMMISSIONER FOR INLAND REVENUE

VALUE-ADDED TAX: PRICE TICKETS

320

In terms of the provisions of section 65 of the Value-Added Tax Act, 1991, prices must be displayed inclusive of VAT. The Commissioner may, however, approve any other method of displaying prices of goods or services in the case of an increase or decrease in the VAT rate.

In view of the announcement of an increase in the VAT rate on 7 April 1993, vendors will be permitted to reflect both the inclusive price at 10 per cent and the inclusive price at 14 per cent on two clearly distinguishable labels in order to facilitate the change over from the old rate to the new rate. Notices should be prominently displayed at all entrances to the premises in which the enterprise is carried on and at all points in such premises where payments are effected, explaining which label represents which price.

Issued by: The Commissioner for Inland Revenue, Pretoria.

1 APRIL 1993

PERSVERKLARING

deur die

KOMMISSARIS VAN BINNELANDSE INKOMSTE

BELASTING OP TOEGEVOEGDE WAARDE: PRYSETIKETTE

Ingevolge die bepalings van artikel 65 van die Wet op Belasting op Toegevoegde Waarde, 1991, moet pryse inklusief van BTW vertoon word. Die Kommissaris kan egter in die geval van 'n verhoging of 'n verlaging in die BTW-koers enige ander metode vir die vertoon van pryse van goed of dienste goedkeur.

In die lig van die aankondiging van 'n verhoging in die BTW-koers op 7 April 1993, word ondernemers toegelaat om beide die inklusiewe prys teen 10 persent en die inklusiewe prys teen 14 persent op twee duidelik onderskeibare etikette te vertoon ten einde die oorskakeling na die nuwe koers te vergemaklik. Kennisgewings wat 'n verduideliking gee van watter etiket watter prys verteenwoordig, moet prominent by al die ingange tot die perseel asook by al die betaalpunte vertoon word.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

2 APRIL 1993

PRESS STATEMENT

by the

COMMISSIONER FOR
INLAND REVENUE

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**VALUE-ADDED TAX:
CHANGE OF VAT RATE**

In terms of the proposed new section 67A (2) of the VAT Act which is introduced by clause 6 of the Value-Added Tax Bill, 1993, the supply of goods for which an invoice has been issued or any payment of the consideration has been received by the supplier on or before 6 April 1993, but which are delivered after that date are subject to the new rate of tax (14 per cent).

The Deputy Minister of Finance announced in Parliament on 1 April 1993 that the rule in regard to the delivery of goods in these circumstances is to be relaxed. The amended provision will provide that where goods are supplied (i.e. as contemplated in terms of the general rules in the VAT Act) before 7 April 1993 and are delivered within 21 days of that date (i.e. 28 April 1993) the old rate of 10 per cent will apply.

This announcement was made as a result of urgent representations received from vendors whose commercial practice is to deliver goods to their clients only a few days after the sale transaction has been concluded.

Dr Alant also announced that where a lay-by agreement has been entered into before 7 April 1993, the 10 per cent rate will apply, even though the goods are delivered at a later date. An amendment to this effect will be introduced later in this session.

Issued by: The Commissioner for Inland Revenue, Pretoria.

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7 APRIL 1993

PRESS STATEMENT

by the

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COMMISSIONER FOR
INLAND REVENUE

INCOME TAX: REMISSION OF INTEREST FOR THE LATE RENDITION OF RETURNS

In his reply to the budget debate, the Minister of Finance announced that the Commissioner for Inland Revenue has taken the first step to promote co-operation between taxpayers and his office and invited taxpayers to join in this endeavour.

2 APRIL 1993

PERSVERKLARING

deur die

KOMMISSARIS VAN
BINNELANDSE INKOMSTE

**BELASTING OP TOEGEVOEGDE WAARDE:
VERANDERING VAN BTW-KOERS**

Ingevolge die voorgestelde nuwe artikel 67A (2) van die BTW-wet wat deur klousule 6 van die Wysigingswetsontwerp op Belasting op Toegevoegde Waarde, 1993, ingevoer word, is die lewering van goed waarvoor 'n faktuur uitgereik is of enige betaling van vergoeding deur die leweraar ontvang is voor of op 6 April 1993, maar wat na daardie datum afgelewer word, aan die nuwe belastingkoers (14 persent) onderhewig.

Die Adjunkminister van Finansies het op 1 April 1993 in die Parlement aangekondig dat die reël met betrekking tot die aflewering van goed in hierdie omstandighede verslap gaan word. Die gewysigde bepaling sal bepaal dat waar goed gelewer word (d.i. soos beoog ingevolge die algemene beginsels van die BTW-wet) voor 7 April 1993 en binne 21 dae na daardie datum (d.i. 28 April 1993) afgelewer word, die ou koers van 10 persent van toepassing sal wees.

Hierdie aankondiging is gedoen na aanleiding van dringende vertoë wat van ondernemers ontvang is wie se kommersiële praktyk is om goed eers 'n paar dae nadat die kooptransaksie gesluit is, aan hulle klante af te lewer.

Dr. Alant het ook aangekondig dat waar 'n bêrekoopooreenkoms voor 7 April 1993 aangegaan is, die koers van 10 persent van toepassing sal wees, selfs al word die goed eers later afgelewer. 'n Wysiging te dien effekte sal later in hierdie sessie ingevoer word.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

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7 APRIL 1993

PERSVERKLARING

deur die

KOMMISSARIS VAN
BINNELANDSE INKOMSTE

INKOMSTEBELASTING: KWYTSKELDING VAN BOETES VIR DIE LAAT INDIENING VAN OPGAWES

Die Minister van Finansies het in sy repliek op die begrotingsdebat aangekondig dat die Kommissaris van Binnelandse Inkomste die eerste stap geneem het om samewerking tussen belastingpligtiges en sy kantoor te bevorder en belastingpligtiges uitgenooi om in hierdie strewe te deel.

The Commissioner for Inland Revenue intends not to impose penalties for the late rendition of income tax returns for the 1993 and previous years of assessment which are submitted before 31 August 1993 and in respect of returns already received and for which assessments have not yet been raised. This concession will also apply to taxpayers who neglected to register for income tax purposes and who submit their returns during this period.

In granting this concession the Commissioner for Inland Revenue undertakes to apply the following procedure:

(a) No penalty will be imposed for the late rendition of an income tax return for the 1993 and previous years of assessment if said return is submitted during this period.

(b) During this period, no penalties will be imposed for the rendition of income tax returns in respect of the 1993 and previous years of assessment by taxpayers who, until now, have never applied for an income tax return and where consequently never registered for income tax purposes.

(c) No penalties will be imposed for the late rendition of income tax returns for the 1993 and previous years of assessment by taxpayers who are or were registered within Inland Revenue but cannot be traced and who submit their outstanding returns not later than 31 August 1993.

(d) No penalties will be imposed in respect of income tax returns which have already been received for the 1993 and previous years of assessment but were submitted late and in respect of which assessments have not yet been issued. Taxpayers who received assessments with a "date issued" later than the date on which the Minister made his announcement, i.e. 2 April 1993, and on which penalties for the late rendition of a return are shown, must contact their local Receiver of Revenue for a remission of such penalties.

Receivers of Revenue are prepared to help any taxpayer who wishes to take advantage of this opportunity and needs assistance with the completion of his return.

This period of grace affords taxpayers a real and valuable opportunity to submit their returns without the imposition of penalties. The Minister of Finance expressed his confidence that taxpayers who are affected by this will avail themselves of this opportunity to get their tax matter in order.

Issued by: The Commissioner for Inland Revenue, Pretoria.

Die Kommissaris van Binnelandse Inkomste is van voorneme om geen boetes te hef vir die laat indiening van inkomstebelastingopgawes vir die 1993 en vorige jare van aanslag wat voor 31 Augustus 1993 ingedien word en ten opsigte van opgawes reeds ontvang waarvoor aanslae nog nie gehef is nie. Hierdie vergunning sal ook geld vir belastingpligtiges wat nagelaat het om vir inkomstebelastingdoeleindes te registreer en wat hul opgawes gedurende hierdie tydperk indien.

Met bogenoemde toegewing onderneem die Kommissaris van Binnelandse Inkomste om die volgende prosedure toe te pas:

(a) Geen boete sal gehef word vir die laat indiening van inkomstebelastingopgawes, vir die 1993 en vorige jare van aanslag, indien sodanige opgawes gedurende hierdie tydperk ingedien word nie.

(b) Geen boete sal gehef word gedurende hierdie tydperk vir die indiening van inkomstebelastingopgawes vir die 1993 en vorige jare van aanslag deur belastingpligtiges wat tot op hede nooit om 'n inkomstebelastingopgawe aansoek gedoen het nie en derhalwe nie vir doeleindes van inkomstebelasting by Binnelandse Inkomste geregistreer is nie.

(c) Geen boete sal gehef word vir die laat indiening van inkomstebelastingopgawes vir die 1993 en vorige jare van aanslag deur belastingpligtiges wat by Binnelandse Inkomste geregistreer is, of was, maar nie opgespoor kan word nie en wat nie later as 31 Augustus 1993 hul uitstaande opgawe indien nie.

(d) Geen boetes sal gehef word ten opsigte van inkomstebelastingopgawes vir die 1993 en vorige jare van aanslag wat reeds ontvang is, maar wat laat ingedien was, en waarvoor aanslae nog nie uitgereik is nie. Belastingpligtiges wat aanslae ten opsigte van hierdie opgawes ontvang het met 'n "datum uitgereik" na die datum waarop die Minister die aankondiging gemaak het, d.w.s. 2 April 1993, waarop boete vir die laat indiening van 'n opgawe getoon word, moet sy plaaslike Ontvanger van Inkomste kontak vir die kwytskelding van sodanige boete.

Die Ontvangers van Inkomste staan gereed om belastingpligtiges wat graag van hierdie geleentheid gebruik wil maak en wat hulp nodig het met die invul van hul opgawes, behulpsaam te wees.

Hierdie grasietydperk bied aan inkomstebelastingpligtiges 'n wesenlike en waardevolle geleentheid om hul opgawes in te dien sonder die oplegging van boetes. Die Minister van Finansies het sy vertroue uitgespreek dat belastingpligtiges wat geraak word, hierdie geleentheid sal benut om hul belastingsake in orde te kry.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

Tax confusion delays results

MATTHEW CURTIN 320

ANGLO American has postponed announcing year-end results for three of its investment companies because of uncertainty surrounding the implications of the new secondary tax on companies (STC).

An Anglo spokesman said yesterday: "There is still some uncertainty regarding the practical application of aspects of STC and urgent clarificaton is being sought (from government) on these matters." The implications of the tax had to be cleared up before the companies made their year-end statements to shareholders.

The problems centre on diamond investment company Anglo American Investment Trust (Anamint), gold investment company Amgold, and exploration and investment company New Central Witwatersrand, which have their financial year-ends on March 31.

Finance Minister Derek Keys said earlier this month that all companies paying dividends after March 17 would be liable for STC, which is a 15% levy on distributable profits. BDAY 16/4/93.

This could prejudice companies with March 31 year-ends because they would fall under two tax structures: both STC and the old 48% company tax rate because their year-end comes before the implementation of the lower 40% rate on April 1.

The postponement of the results comes as business continues to grapple with the implications of the Budget. Sacob has made representations to government seeking redress for companies prejudiced by STC. The new system has knocked shares

To Page 2

Results

BDAY 16/4/93. 320

From Page 1

in some companies with low effective tax rates and high dividend payments, such as paper producer Sappi, which will emerge worse off under STC.

In fact, STC will make little material difference to the three Anglo companies.

Anamint derives most of its income from dividends received from overseas companies. Foreign dividends are excluded from STC because they reflect profits which do not have the benefit of the lower company tax.

Amgold and New Central Wits receive the bulk of their income from dividends from gold mines. There was initial concern that gold investment companies would be prejudiced by STC because they would be paying the new tax on dividend income from gold mines which had been effectively taxed already. The mines, likely to opt, in terms of the Budget proposals, for their old tax and lease formula, would be paying an effective 48% tax rate.

However, Keys told Parliament it was necessary to allow credit to gold mines' corporate shareholders for dividends declared by the mines.

Consequently, the three companies would be liable for STC only on internally generated income.

Anamint earned R1,9m in interest in 1991/92, compared with dividend receipts of R394m; Amgold received R68m in interest and other income compared with investment income of R220m; and New Central Wits R279 000 compared with R3,8m. The companies pay little or no tax.

FM 16/4/93

COMPANY TAX (320)

Keys clarifies

When is a dividend not a dividend (for tax purposes)? The answer is more complex than it seems, in relation to the new secondary tax on companies announced by Finance Minister Derek Keys in his Budget speech.

Keys recently put some flesh on to the bones of the original statement in the Budget debate. He explained that the present definition of *dividend*, in the Income Tax Act, excludes from its scope capitalisation shares which are awarded to shareholders. If, however, the share capital is subsequently reduced, any amount which has been paid to shareholders (out of profits which have been capitalised) is to be regarded as a dividend and taxed accordingly. So, in these circumstances, the company would have to pay tax on the amount involved.

The amending Act will clarify the position of the company which gives its shareholders the option of taking capitalisation shares or a cash dividend. The capitalisation shares will, in that case, not be regarded as dividends, unlike the cash alternative. In the past, says Deloitte & Touche tax partner Willem Cronje, this point was obscure and its clarification is most welcome.

All of this has no bearing on the situation where a company, which owns shares in other companies, distributes its holdings to its own shareholders as a dividend in kind (that is, specie). Such a distribution falls within the definition of dividend in the Act and would attract secondary tax on companies.

But how do you value a distribution in kind? In the case of a share-dealing company which distributes shares which comprise its trading stock, a proviso to section 22(8) of the Act requires the company to treat the distribution as a realisation in its own hands. This would oblige the company itself to pay income tax on any profit. Moreover, the dividend in kind would have to be valued at market value at the date of the declaration.

In the case of shares held as investments by a company, the question of income tax in the company's hands would not arise. But the Act is ambiguous on the question of how to value a dividend in kind other than trading stock. This should be clarified for broader reasons.

Lastly, Keys in his speech promised legislation to support the unbundling — initially — of quoted companies. This can only mean, says Cronje, exemption of companies and

FM 16/4/93

shareholders alike from the tax consequences (set out above), of distribution of the company's shareholdings. It might also mean exemption from other taxes to facilitate capital reconstructions where appropriate in the course of unbundling. ■

Our tax burden is getting heavier

Citizen 18/4/93. (320)

■ MONEY TALK

CALCULATIONS by accountants, tax experts and others since Finance Minister Derek Keys announced his Budget have highlighted some very worrying aspects about our present economic situation.

The most important aspect is that economic growth this year is highly unlikely. The little growth that was expected will probably disappear as a result of the higher direct and indirect taxes on individuals. Direct taxes paid by individuals as a proportion of current personal income has risen by a massive 30 percent during the last five budgets. It is ironic that during virtually every budget the authorities acknowledged that the income tax burden in SA has become too large.

To understand how heavy this burden has become one must bear in mind that our economy has been shrinking, which means that the public sector has been claiming an ever-growing proportion of the nation's resources. Just look at the effect the increase in VAT will have. It will cause receipts from this source to rise by an estimated 43 percent. This is money that comes directly out of our pockets – money which we would have been able to spend on improving our homes, feeding, clothing and educating our children.

Now the state will spend it and, unfortunately, government spending is far less efficient than spending by individuals.

The net result of the higher taxes is that consumer spending is going to fall substantially this year. In fact, experts predict that retailers are facing the toughest period in almost half a century.

How should one face the difficult period ahead?

The very first step should be to hold on to your job by making yourself as useful as possible to your employer. Secondly, try learning a new skill that is generally in demand. Thirdly, a home-based business can keep the wolf from the door. If you have a reasonable amount of capital and are considering starting a new business be extremely careful not to enter overcrowded areas, such as the minibus taxi industry.

Research has shown that you would stand a far better chance if you tried franchising (for example Kentucky Fried Chicken, Spar, etc). That is, choose businesses where you remain your own boss, but have the backing of an experienced organisation. Contact the SA Franchise Association (Safa) for further information.

Research in America shows that some 90 percent of new franchising businesses are still in existence 10 years after they have been formed, while less than one in five of other small businesses succeeded during this period.

ST Times (Buss. Times)

Sentrachem dual tax boost

18/4/93

By ZILLA EFRAT

SENTRACHEM's results are one of the first to reflect the benefits of the dual tax system announced in the Budget.

Attributable earnings rose 25,6% in the six months to February. Without the tax change they would have risen 18% — still an impressive showing for a chemical company in the current tough economic environment.

The dual tax system, which entails a fall in company tax to 40% and a secondary tax of 15% on dividends payouts, bolstered Sentrachem's earnings a share by an extra 2c to 32,3c (25,7c).

Managing director John Job says that because this addition is insignificant in Sentrachem's total funding, the benefits have not been earmarked for anything.

He does not expect the tax change to lead to a major shift in Sentrachem's dividend policy, especially in the current year. The group has always had a conservative dividend policy, with annual cover usually three times.

Dividend cover has traditionally been more conservative at the halfway mark — as can be seen by the 4,6 times covered interim dividend of 7c (6c) announced this week.

320

Squeeze

Sentrachem's interim earnings also benefited from a 14,5% dip in net financing charges and a 62% spurt in export sales. Exports now account for 13% (9%) of the group's turnover, which rose 13,3% to R1,3-billion in the six months.

Operating income, however, was down 1,9% at R114,6-million, even though the consolidated results from Sentrachem's six divisions rose 6%. This is due to "certain non-recurring items" and a squeeze on operating margins.

The group this week approved a R20-million expansion of its Mancozeb fungicide plant at Sasolburg. Some larger projects, which could cost between R50-million and R200-million, are being examined.

The income statement includes a R15,3-million extraordinary item, which largely relates to the closure of the unprofitable Styrochem plant.

Of the amount, R3-million was spent on investigating the acquisition of Australian chemical company Chemplex. This amounted to 1% of the purchase price and Dr Job says the money was well spent in helping the group to decide not to go ahead with the deal.

He expects earnings for the year to be ahead of last year's, but growth is likely to be less than the 25,6% of the first half.

Star 19/4/93

'Rethink VAT on meat'

By Norman Chandler
Pretoria Bureau (320)

Farmers have again urged the Government to rethink VAT on red meat.

The Red Meat Producers' Organisation (RPO) says VAT is "unacceptable" to the industry and that the industry is already heavily taxed in comparison with many foreign countries where meat is subsidised.

"Red meat is a basic foodstuff which plays an extremely important role in the nutritional needs of all consumers, constituting approximately 17 percent of the food basket of all consumers," says the RPO.

It argues that if VAT were to be imposed at a zero rate, there would be a saving to the consumer of about R700 million a year.

VAT on red meat, in combination with the lengthy drought, "has resulted in a drastic deterioration in the financial position of all producers. Producer prices are currently under such pressure that they have, in real terms, declined for the fifth successive year."

The RPO — which is to take up the matter with Minister of Finance Derek Keys — adds that it fears that red meat's market share may be forfeited to substitutes.

"This will force consumers to circumvent the formal food chain which in turn could expose them to disease and poorer hygiene."

BUSINESS DAY, Monday, April 19 1993

Govt 'unlikely' to extend relief from secondary tax

160 (320)

PETER DELMAR

IT WAS unlikely that government would extend relief from the provisions of the new secondary tax on companies (STC) to firms reporting results on March 31, a senior Finance Department official said at the weekend.

He was responding to Anglo American's postponement of year-end results of three of its investment companies because of uncertainty surrounding the STC.

Asked about discussions between government and Anglo and other companies, Finance Department director of legal drafting Ian Meiklejohn said he "didn't think there was any relief in the offing".

Meiklejohn confirmed there were discussions between the department and Sacob on the position of companies which believed they had been disadvantaged by the STC.

Finance Minister Derek Keys said recently companies paying dividends after March 17 would be liable for the 15% STC levy on distributable profits. They would also qualify for the new tax rate of 40%.

Anglo American and others have complained that they would be prejudiced because they would be subject to both STC and the old 48% company tax.

Meiklejohn said it was the Finance Ministry's view that these companies would still enjoy immediate cash flow benefits arising from the lower company tax rate.

concerned refused to prosecute members following the opening or referral of the said dockets; if so, (a) which attorneys-general and (b) in (i) how many and (ii) what matters? B490E

The MINISTER OF LAW AND ORDER:

(1) No.

(a), (b), (c), (d), (2), (3) and (4) Fall away.

Space industry: investigation into commercial feasibility

233. Mr C W EGLIN asked the Minister for Public Enterprises:

(1) Whether, with reference to the reply to Question No 298 on 19 June 1992, the investigation into the commercial feasibility of establishing a space industry in the Republic has been concluded; if not, why not; if so, what were the findings;

(2) whether he will make a statement on the matter? B534E

The MINISTER FOR PUBLIC ENTERPRISES:

(1) The investigation into the market opportunities, the competition in the market, the RSA's potential for a winning advantage and the risk factors, is already in an advanced stage.

The investigation focuses on practical commercial opportunities for a low earth-orbit satellite vehicle, services and launching facilities. Because parties from various countries are involved, and the best technical partners must be brought together, the investigation is taking a substantial amount of time. The analysis of the market and the profitability of each project is time consuming.

(2) A statement will be made if the report is made known, and a statement is justified.

Hillbrow/Berea area: crime statistics

235. Mr L FUCHS asked the Minister of Law and Order:

How many cases of (a) murder, (b) culpable homicide, (c) assault with intent to do grievous bodily harm, (d) common assault, (e) rape, (f) robbery, (g) theft of vehicles and cycles, (h) theft of other items, (i) damage to property, (j) housebreaking with intent to steal and theft, (k) possession of drugs, (l) drunken driving, (m) vagrancy and (n) prostitution were reported in 1992 at police stations serving the Hillbrow/Berea area in Johannesburg? B536E

The MINISTER OF LAW AND ORDER:

(a)	111	(h)	2 875
(b)	51	(i)	1 377
(c)	601	(j)	1 604
(d)	1 350	(k)	173
(e)	168	(l)	375
(f)	735	(m)	0
(g)	2 507	(n)	5

Note: Hillbrow and Berea are being served by the Hillbrow police station.

Taxation Laws Amendment Act

238. Mr R R HULLEY asked the Minister of Finance: 320

Whether sections 12 (1) *(d)*, 13 (1) *(c)*, 15 (1) *(h)* and 16 (1) *(a)*, respectively, of the Taxation Laws Amendment Act, 1992 (Act No 136 of 1992), have come into operation; if so, when, in each case; if not, (a) why not, and (b) when will they come into operation, in each case? B541E

The MINISTER OF FINANCE:

No. The relevant sections of the Taxation Laws Amendment Act, 1992 (Act No 136 of 1992), are amendments with regard to share-block schemes to the Value-Added Tax Act, 1991 (Act No 89 of 1991), and have not yet come into operation. Following that announcement of the relevant amendments, practical problems were experienced with the implementation thereof and it has been decided to propose a further amendment in this regard. The relevant section will come into operation on the date on which the proposed amendments come into operation.

Detentions/arrests/charges for bombing

239. Mr P G SOAL asked the Minister of Law and Order:

Whether, with reference to the replies to Question No 28 on 27 March 1990, Question No 14 on 14 May 1991 and Question No 210 on 5 May 1992, any persons have been (a) detained, (b) arrested, (c) charged and/or (d) convicted in connection with the bombing of certain premises, particulars of which have been furnished to the South African Police for the purpose of the Minister's reply; if so, (i) what are the relevant details in regard to each of the bombings and (ii) in respect of what date is this information furnished? B543E

The MINISTER OF LAW AND ORDER:

(a), (b), (c) and (d) No.

(i) Falls away.

(ii) 31 March 1993

SAP: deaths in custody

247. Mr P G SOAL asked the Minister of Law and Order:

How many persons died in police custody in (a) 1991 and (b) each specified month of 1992 for which statistics are available? B544E

The MINISTER OF LAW AND ORDER:

(a) 153

(b)	January	18
	February	13
	March	14
	April	16
	May	19
	June	15
	July	15
	August	21
	September	19
	October	23
	November	15
	December	22
	Total	210

Murders of 16 persons

248. Mr P G SOAL asked the Minister of Law and Order:

Whether, with reference to the replies to Question No 27 on 27 March 1990, Question No 55 on 15 March 1991 and Question No 131 on 18 March 1992, any persons have been detained, arrested, charged and/or convicted in connection with the alleged murders of 16 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 are the names of the persons (i) detained, (ii) arrested, (iii) charged and/or (iv) convicted in connection with each of these alleged murders and (b) in respect of what date is this information furnished? B545E

The MINISTER OF LAW AND ORDER:

No, nobody has as yet been charged or convicted in connection with these murders as there is no evidence to implicate any person.

(a) (i–iv) Fall away.

(b) 31 March 1993.

SAP: criminal conduct/civil damages

249. Mr K M ANDREW asked the Minister of Law and Order:

(1) Whether any dockets were opened in 1987, 1988, 1989, 1990, 1991 and 1992, respectively, with a view to investigating alleged criminal conduct on the part of members of the South African Police in cases in which civil damages were paid by the Minister of Law and Order following a pre-trial settlement or a trial judgment; if so, how many were so opened in each of these years;

(2) whether any of the dockets so opened resulted in the successful prosecution of members of the Police; if so, how many in each of these years;

(3) whether the Attorney-General of the Transvaal refused to prosecute any members of the Police in respect of any dockets so opened; if so, in respect of how many such dockets? B517E

The MINISTER OF LAW AND ORDER:

(1), (2) and (3) Fall away.

Note: As a result of the magnitude of the administrative processes involved in order to determine the information, the information cannot, unfortunately, be made available at short notice.

Railway stations open for passenger/goods traffic

250. Mr R V CARLISLE asked the Minister for Public Enterprises:

How many railway stations in the Republic

Cont →

HOUSE OF ASSEMBLY

Tax dodgers offered 4-month moratorium

Star 21/4/93

(320)

Tax offenders paid a massive R2,5 billion in back taxes and penalties last year. Now, the taxman has announced a four-month moratorium for defaulters to clean their slate, reports MICHAEL CHESTER.

TAXPAYERS in danger of hassles with the Receiver of Revenue have been advised to circle the date August 31 on their calendars. It will mark a new D-Day in the battle between the tax collector and tax dodgers.

The Commissioner of Inland Revenue has called a four-month truce that gives offenders the chance to clean the slate on their tax scams by this date without the risk of being clobbered with penalties.

He intends the moratorium to act as the spur to a phase of better co-operation between the taxman and the taxpayer. It's the (temporary) velvet glove over the iron fist.

The Department of Inland Revenue has confirmed that 168 000 taxpayers were hauled into court in a nationwide crackdown on offenders in the 1992/93 tax year that ended on February 28.

Its collections from back payments owed by taxpayers, who had been under the illusion they had found loopholes in the tax net, plus penalties that increased with the severity of the transgressions, amounted to a staggering R2 577 million.

Offences varied from escapades with doctored expense accounts to trying to camouflage sources of income — worst of all, chucking those dreaded buff tax return forms into the dustbin, and even changing address to dodge the taxman.

Returns

The 1993/94 buff forms have already started dropping into the postboxes of 650 000 salaried taxpayers, 860 000 provisional taxpayers with additional sources of income from investments and so on, and 324 000 company taxpayers.

The only taxpayers not on the mailing list are the 3,8 million workers whose wages amount to less than R50 000 a year. They do not have to send back tax returns, and their income tax is deducted by their employers under the SITE system.

When the buff forms arrive, taxpayers are asked to aim at filling them in and sending them back by June 8. In fact, though, everyone will be able to take advantage of the moratorium that will run to August 31.

The truce applies not only to taxpayers up-to-date with their returns, but also defaulters who failed to send them in last year and before then.

The tax commissioner has undertaken to levy no penalties whatsoever on late returns — as long as they are all in before the moratorium expires.

Tax policy director Trevor van Heerden points out that the moratorium also applies to informal sector traders, along with the growing brigade of part-timers running stalls at flea markets.

"We cannot say exactly how much has been passing us by," he says, "but it is definitely enough to warrant more attention than in the past."

Most of the thousands of traders in the informal sector, which has spread in recent years, have usually assumed they were tax-immune.

Van Heerden says the time has arrived to bring them into the system when their incomes start running into thousands. He confirms that a team of experts has been assigned to examine how countries overseas deal with the issue.

When the truce has expired, all suspected tax fiddles will be "vigorously investigated". □

MPs chide govt over SITE

CT 26/11/93

Political Staff

OPPOSITION MPs chided the government yesterday for allowing the Inland Revenue Commissioner to refund overpayments made by workers under SITE.

They were debating the Income Tax Amendment Bill.

Democratic Party MP Mr Brian Goodall said Parliament should insist on obligations on employers to make correct deductions and on employees to provide correct information.

But Mr Goodall said he supported the legislation nevertheless as there may have been some confusion in SITE deduction procedures.

The Conservative Party backed Mr Goodall's argument.

Deputy Finance Minister Mr Theo Alant said under the SITE system, employees earning less than a specified amount did not have to submit income tax returns, as employers were responsible for determining the amount of income tax payable.

Mr Alant said some employees had not kept employers fully informed of changes in their marital status and their number of dependants.

(320)

Trade unions had asked for overpayments of SITE tax to be refunded to workers, and this had been agreed to.

Star 21/4/93

Receiver's net snares many artful dodgers

(320)

By Michael Chester

Tax dodgers have been hit with bills for more than R2,5 billion in a sweeping crackdown by the Department of Inland Revenue over the past 12 months.

No fewer than 168 000 were summonsed for court proceedings during the 1992/93 tax year that ended on February 28 as tax scams were exposed at an average rate of 14 000 a month.

The total amount pulled in by the Receiver of Revenue as a result of special audits and investigations soared to R2 577 million in back taxes — plus penalties imposed by the courts for tax evasion.

Sentences ranged between modest fines for "minor fiddles" to penalties equal to 200 percent of the full value of taxes owed by companies and individuals who had persistently dodged demands.

Inland Revenue executive Hennie Smit, who handles the legal interpretation of tax rules, said a fine line had been drawn between tax avoidance schemes technically within the law and blatant tax evasion.

● Tax dodgers offered a moratorium — Page 15.

Teams of inspectors had cracked down on offences that varied from swindles on expense accounts and negligence by bookkeepers to scams to falsify corporate financial statements — and simply ignoring their tax return forms.

Investigations had been assisted by young CA graduates who spend their national service on duty at Receiver of Revenue offices.

Inland Revenue chief director of operation control Chris Dempers said a breakdown of the R2,5 billion collected in back taxes and penalties showed:

- R1 954 million was pulled in from fiddles in individual and company income tax.
- A total of R369 million was recouped from VAT frauds.
- Some R153 million had to be paid as a result of swindles in the old GST that had finally been tracked down.
- R84 million was put down to errors in PAYE estimates of month-by-month deductions by employers on salaries and wages.

The balance was connected with transfer duties and stamp duties.

"Exercises to flush out tax offenders have gone on for some time — but the scams reached a new record in 1992/93," said Dempers.

Internal Registered Stock, 12,50 Per Cent, 1996 (R146).

Internal Registered Stock, 12,50 Per Cent, 1995/6 (R144).

Internal Registered Stock, 13,50 Per Cent, 1996 (R142).

No. 646 **23 April 1993**

The Department of Finance announces hereby that transfer documents for registration in respect of the undermentioned Republic of South Africa Internal Registered Stock must be lodged with the Office of this Department at 301 Abattoir House, 50 Hamilton Street, Arcadia, Pretoria, **not later than 29 April 1993** to qualify for the interest payment on 31 May 1993.

The registration of transfer documents thus handed in will be finalised on 10 May 1993 whereafter the registers will be closed until the date of the interest payment.

Internal Registered Stock, 13,50 Per Cent 1996 (R142).

No. 647 **23 April 1993**

The Department of Finance announces hereby that transfer documents for registration in respect of the undermentioned Republic of South Africa Internal Registered Stocks must be lodged with the Office of this Department at 301 Abattoir House, 50 Hamilton Street, Arcadia, Pretoria, **not later than 30 April 1993** to qualify for the interest payment on 1 June 1993.

The registration of transfer documents thus handed in will be finalised on 11 May 1993 whereafter the registers will be closed until the date of the interest payment.

Internal Registered Stock, 11,50 Per Cent 2001 (R104).

No. 654 **23 April 1993**

REPUBLIC OF SOUTH AFRICA

320

DEPARTMENT OF FINANCE:

INLAND REVENUE

OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 18

Date: 23 April 1993

INCOME TAX: CIRCUMSTANCES IN WHICH CERTAIN AMOUNTS RECEIVED OR ACCRUED IN RELATION TO THE DISPOSAL OF LISTED SHARES ARE DEEMED TO BE OF A CAPITAL NATURE: SECTION 9B OF THE INCOME TAX ACT, 1962 (THE ACT)

1. INTRODUCTION

The distinction between capital and income is fundamental to the tax system, but neither concept has proved capable of a satisfactory

Binnelandse Geregistreerde Effekte, 12,50 Persent, 1996 (R146).

Binnelandse Geregistreerde Effekte, 12,50 Persent, 1995/6 (R144).

Binnelandse Geregistreerde Effekte, 13,50 Persent, 1996 (R142).

No. 646 **23 April 1993**

Die Departement van Finansies maak hiermee bekend dat oordragdokumente vir registrasie ten opsigte van die ondergemelde Republiek van Suid-Afrika Binnelandse Geregistreerde Effekte **nie later nie as 29 April 1993** by die Departement se kantoor te Abattoirhuis 301, Hamiltonstraat 50, Arcadia, Pretoria, ingelewer moet word ten einde vir die rentebetaling op 31 Mei 1993 te kwalifiseer.

Die registrasie van oordragdokumente aldus ingehandig sal op 10 Mei 1993 gefinaliseer word waarna die registers tot die dag van rentebetaling gesluit sal wees.

Binnelandse Geregistreerde Effekte, 13,50 Persent 1996 (R142).

No. 647 **23 April 1993**

Die Departement van Finansies maak hiermee bekend dat oordragdokumente vir registrasie ten opsigte van die ondergemelde Republiek van Suid-Afrika Binnelandse Geregistreerde Effekte **nie later nie as 30 April 1993** by die Departement se kantoor te Abattoirhuis 301, Hamiltonstraat 50, Arcadia, Pretoria, ingelewer moet word ten einde vir die rentebetaling op 1 Junie 1993 te kwalifiseer.

Die registrasie van oordragdokumente aldus ingehandig sal op 11 Mei 1993 gefinaliseer word waarna die registers tot die dag van rentebetaling gesluit sal wees.

Binnelandse Geregistreerde Effekte, 11,50 Persent 2001 (R104).

No. 654 **23 April 1993**

REPUBLIEK VAN SUID-AFRIKA

DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 18

Datum: 23 April 1993

INKOMSTEBELASTING: OMSTANDIGHEDE WAARIN SEKERE BEDRAE ONTVANG OF TOEGEVAL MET BETREKKING TOT DIE VERVREEMDING VAN GENOTEERDE AANDELE GEAG WORD VAN 'N KAPITALE AARD TE WEES: ARTIKEL 9B VAN DIE INKOMSTEBELASTINGWET, 1962 (DIE WET)

1. INLEIDING

Die onderskeid tussen kapitaal en inkomste is fundamenteel tot die belastingstelsel, maar geeneen van hierdie begrippe kon nog bevredidefinition in the Act. Despite guidelines laid down by South African case law, the test which must be applied to the merits of each case remains a subjective one. The Tax Advisory Committee (TAC) investigated these problems and recommended the introduction of what is, in essence, a so-called "safe-haven" for shares listed on the Johannesburg Stock Exchange (JSE), which have been held for a period exceeding 10 years. (The period has since been reduced to five years). These recommendations were accepted by the Government, subject to certain conditions, and led to the insertion of the provisions of section 9B of the Act by section 9 of the Income Tax Act, 1990.

2. THE EFFECT OF THE PROVISIONS

320

In terms of the provisions of section 9B (2) of the Act, as originally inserted, a taxpayer may elect that any amount which is received by or accrues to him as a result of the disposal of an **affected share** on or after 14 March 1990, be treated as being of a capital nature in the application of the definition of "gross income" in section 1 of the Act. Should a taxpayer thus exercise his election positively and the provisions of the relevant section are made applicable to him, the effect thereof is that any profit made on the disposal of an affected share will not be subject to tax.

As far as the word "disposal" is concerned, the ordinary meaning of the word must apply and will include various forms of change in ownership, such as the sale, cession and exchange of shares. Furthermore, paragraph (c) of the proviso to section 9B (1) provides that where a share held by a taxpayer is cancelled or withdrawn or if the relevant company wherein the share is held is liquidated or deregistered, such share is deemed to be disposed of by the taxpayer.

3. THE MEANING OF AN "AFFECTED SHARE"

An affected share is defined in section 9B (1) as "... a share listed on a licensed stock exchange as defined in the Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), which has been disposed of by the taxpayer and of which he immediately prior to such disposal had been the owner for a continuous period of at least five years . . .". A licensed stock exchange, in turn, is a stock exchange to which a stock exchange licence is issued in terms of section 9 of the last-mentioned Act and is, at present, limited to the JSE.

gend in die Wet omskryf word nie. Ten spyte van riglyne wat deur die Suid-Afrikaanse regspraak neergelê is, bly dit steeds 'n subjektiewe toets wat op die meriete van elke geval toegepas moet word. Die Belastingadvieskomitee (BAK) het ondersoek ingestel na hierdie probleme en aanbeveel dat 'n maatreël, wat in wese neerkom op 'n sogenaamde "veilige hawe", ingestel word vir aandele wat op die Johannesburgse Effektebeurs (JEB) genoteer is en wat vir 'n tydperk van langer as 10 jaar gehou word. (Die tydperk is sedertdien tot vyf jaar verminder.) Hierdie aanbevelings is deur die Regering, onderworpe aan sekere voorwaardes, aanvaar en het gelei tot die invoeging van die bepalings van artikel 9B van die Wet deur artikel 9 van die Inkomstebelastingwet, 1990.

2. DIE UITWERKING VAN DIE BEPALINGS

Ingevolge die bepalings van artikel 9B (2) van die Wet, soos oorspronklik ingevoeg, kan 'n belastingpligtige kies dat enige bedrag wat hy ontvang of aan hom toeval vanweë die vervreemding op of na 14 Maart 1990, van 'n **geaffekteerde aandeel,** van 'n kapitale aard beskou word by die toepassing van die omskrywing van "bruto inkomste" in artikel 1 van die Wet. Indien 'n belastingpligtige dus wel sy keuse positief uitoefen en die bepalings van die betrokke artikel op hom van toepassing maak, is die uitwerking daarvan dat enige wins met die vervreemding van 'n geaffekteerde aandeel nie aan belasting onderhewig sal wees nie.

Wat die woord "vervreemding" betref, moet die gewone betekenis van die woord daaraan geheg word en sluit dit verskeie vorms van verandering in eienaarskap in soos byvoorbeeld die verkoop, sessie, of ruiling van aandele. Daarbenewens bepaal paragraaf (c) van die voorbehoudsbepaling by artikel 9B (1) dat waar 'n aandeel gehou deur 'n belastingpligtige, gekanselleer of ingetrek word of indien die betrokke maatskappy waarin die aandeel gehou word, gelikwideer of gederegistreer word, so 'n aandeel geag word vervreem te gewees het deur die belastingpligtige.

3. DIE BETEKENIS VAN 'N "GEAFFEKTEERDE AANDEEL"

'n Geaffekteerde aandeel word in artikel 9B (1) omskryf as "... 'n aandeel wat op 'n 'gelisensieerde effektebeurs' soos in die Wet op Beheer van Effektebeurse, 1985 (Wet No. 1 van 1985), omskryf, genoteer is, wat deur die belastingpligtige vervreem is en waarvan hy onmiddellik voor bedoelde vervreemding die eienaar vir 'n ononderbroke tydperk van ten minste vyf jaar was: . . . ". 'n Gelisensieerde effektebeurs op sy beurt is 'n effektebeurs waaraan 'n effektebeurslisensie ingevolge artikel 9 van laasgenoemde Wet uitgereik is en is tans beperk tot die JEB.

In respect of shares disposed of prior to 18 March 1992, the qualifying period for which a share must have been held was 10 years. As a result of the amendment introduced by section 9 of the Income Tax Act, 1992, the period has been reduced to five years.

In so far as the expression "share" is concerned, it is not defined in section 1 of the Act and the ordinary meaning thereof will apply and therefore does not include instruments such as debentures, stock, bonds and units in a unit portfolio as contemplated in the Unit Trusts Control Act, 1981.

Provision is also made in section 9B (1) to ensure continuous ownership of an affected share under certain circumstances, for example—

(a) the transfer of shares from one company to another in a "group of companies" as defined in section 48 of the Taxation Laws Amendment Act, 1988, which regulates the moratorium on the payment of stamp duty and transfer duty with regard to the rationalisation of groups of companies. [Paragraph (a) of the proviso to section 9B (1) (a)];

(b) the subdivision of shares or the issue of capitalised shares on condition that the taxpayer's participation rights and interests remain unaltered and the taxpayaer under no circumstances gives any consideration, either directly or indirectly, for such shares. [Paragraph (b) of the proviso to section 9B (1)]; and

(c) the transfer of shares of a registered insurer to another insurer in terms of the transfer of insurance business as contemplated in section 25A of the Insurance Act, 1943. [Paragraph (d) of the proviso to section 9B (1) as inserted by section 9 of the Income Tax Act, 1992.]

The period of ownership of shares which are acquired in terms of a rights-issue does not, therefore, automatically follow the period of ownership of the underlying shares which gave rise to the rights issue, because the recipient of the shares in terms of a rights issue normally pays a consideration for the shares acquired thereunder.

Where a beneficiary acquires shares resulting from the distribution of the assets of a trust, the ownership of the shares by the trustee and thereafter by the beneficiary is not considered to be continuous in determining whether a share is an affected share. Where, however, the ownership of the shares already vested in the beneficiary since the creation of the trust (as in the case of a "bewind trust") and the trustee was responsible only for the administration of the assets (shares), the ownership will be considered to be continuous.

Ten opsigte van aandele vervreem voor 18 Maart 1992, was die kwalifiserende tydperk wat 'n aandeel gehou moes word 10 jaar. As gevolg van die wysiging ingevoer deur artikel 9 van Inkomstebelastingwet, 1992, is die tydperk egter verkort tot vyf jaar.

Wat die uitdrukking "aandeel" betref, word dit nie in artikel 1 van die Wet omskryf nie en is die gewone betekenis daarvan van toepassing en sluit dit nie instrumente soos skuldbriewe, effekte, verbande en onderaandele in 'n effektegroep soos beoog in die Wet op Beheer van Effekte-Trustskemas, 1981, in nie.

Voorsiening word ook in artikel 9B (1) gemaak om ononderbroke eienaarskap in 'n geaffekteerde aandeel in bepaalde omstandighede te verseker, byvoorbeeld—

(a) oordragte van aandele van een maatskappy na 'n ander in 'n "groep maatskappye" soos omskryf in artikel 48 van die Wysigingswet op Belastingwette, 1988, welke artikel die moratorium op die betaling van seëlregte en hereregte met betrekking tot die rasionalisasie van maatskappygroepe reguleer. [Paragraaf (a) van die voorbehoudsbepaling by artikel 9B (1) (a)];

(b) die onderverdeling van aandele of die uitreiking van kapitalisasie-aandele op voorwaarde dat die belastingpligtige se deelnemingsregte en belange onveranderd bly en die belastingpligtige geen vergoeding hoegenaamd regstreeks of onregstreeks vir sodanige aandele gegee het nie. [Paragraaf (b) van die voorbehoudsbepaling by artikel 9B (1)]; en

(c) die oordrag van aandele van 'n geregistreerde versekeraar aan 'n ander versekeraar ingevolge die oordrag van versekeringsbesigheid soos bedoel in artikel 25A van die Versekeringswet, 1943. [Paragraaf (d) van die voorbehoudsbepaling by artikel 9B (1) soos ingevoeg deur artikel 9 van die Inkomstebelastingwet, 1992.]

Aandele wat dus ingevolge 'n regte-uitgif verkry is, se tydperk van eienaarskap volg dus nie outomaties die tydperk van eienaarskap van die onderliggende aandele wat aanleiding tot die regte-uitgif gegee het nie, aangesien die verkryger van die aandele ingevolge 'n regte-uitgif normaalweg vergoeding gee vir die aandele daaronder verkry.

Waar 'n begunstigde aandele verkry vanweë die verdeling van die bates van 'n trust, word eienaarskap in die aandele deur die trustee en daarna deur die begunstigde nie as aaneenlopend beskou om te bepaal of die aandeel 'n geaffekteerde aandeel is nie. Waar die eienaarskap in die aandele egter reeds vanaf die stigting van die trust in die begunstigde gevestig het (soos in die geval van 'n bewind-trust) en die trustee slegs vir die administrasie van die bates (aandele) verantwoordelik was, sal eienaarskap as eenlopend beskou word.

4. THE ELECTION IN TERMS OF SECTION 9B (2)

As already mentioned in paragraph 2 above, the taxpayer exercises his election in terms of the provisions of subsection (2) of section 9B of the Act. The proviso to that subsection also provides that where the taxpayer died or has no capacity to act, the election may be exercised by the executor of his deceased estate or the curator of his insolvent estate (the liquidator in the case of a company in liquidation), as the case may be.

Section 9B (3) provides that a taxpayer **must** exercise his election in terms of section 9B (2) when he disposes of his first affected share on or after 14 March 1990. The exercise of the election is thus compulsory and it is exercised by the taxpayer in his return of income in respect of the year of assessment in which he disposes of his first affected share. The annual return of income also contains an appropriate question in this regard, where the taxpayer must indicate whether he wishes the provisions of section 9B to be applicable to him or not.

In terms of the provisions of section 9B (4), the election exercised in terms of section 9B (2) is binding in respect of every subsequent affected share which is disposed of by the taxpayer in the relevant and every subsequent year of assessment. Despite the fact that every annual return of income contains a standard question with regard to the section 9B (2) election, the election is exercised only once **i.e. when the first affected share is disposed of by the taxpayer.** It is also important to note that the election is binding in respect of **all** affected shares disposed of by the taxpayer and not only with regard to the taxpayer's shareholding in the relevant listed company in respect of which he disposed of his first share. For example, where a taxpayer holds 1 000 shares in company A and 2 000 shares in company B for longer than five years and disposes of 500 A shares in year 1, he must exercise his election in year 1 and that election is not only binding in respect of company A, but also in respect of the shares held in company B.

Where a taxpayer disposes of an affected share but fails to exercise his election in his return of income, the provisions of section 9B will not apply to him.

5. SUBSTITUTION OF SECTION 9B (2) ELECTION IN TERMS OF SECTION 9B (3A)

As already mentioned in paragraph 4 above, the election in terms of section 9B (2) is final and binding. By reason of the reduction in the period of ownership from 10 years to five years in respect of shares disposed of on or after 18 March 1992, taxpayers are, however, afforded the opportunity to alter their election in terms of section 9B (2).

4. DIE KEUSE INGEVOLGE ARTIKEL 9B (2)

Soos reeds in paragraaf 2 hierbo genoem, oefen die belastingpligtige sy keuse uit ingevolge die bepalings van subartikel (2) van artikel 9B van die Wet. Die voorbehoudsbepaling by daardie subartikel maak ook voorsiening daarvoor dat waar die belastingpligtige oorlede is of nie handelingsbevoeg is nie, die keuse deur die eksekuteur van sy bestorwe boedel, of die kurator van sy insolvente boedel (die likwidateur in die geval van 'n maatskappy in likwidasie), na gelang van die geval, uitgeoefen kan word.

Artikel 9B (3) bepaal op sy beurt dat 'n belastingpligtige sy keuse ingevolge artikel 9B (2) **moet** uitoefen wanneer hy sy eerste geaffekteerde aandeel op of na 14 Maart 1990 vervreem. Die uitoefening van die keuse is dus verpligtend en dit word uitgeoefen deur die belastingpligtige in sy opgawe van inkomste ten opsigte van die jaar van aanslag waarin hy sy eerste geaffekteerde aandeel vervreem het. Die jaarlikse opgawe van inkomste bevat dan ook 'n gepaste vraag in hierdie verband, waar die belastingpligtige moet aandui of hy die bepalings van artikel 9B op hom van toepassing maak al dan nie.

Ingevolge die bepalings van artikel 9B (4) is die keuse uitgeoefen ingevolge artikel 9B (2) bindend ten opsigte van elke daaropvolgende geaffekteerde aandeel wat deur die belastingpligtige in die betrokke en elke daaropvolgende jaar van aanslag vervreem word. Ongeag die feit dat elke jaarlikse opgawe van inkomste 'n standaardvraag met betrekking tot die artikel 9B (2) keuse bevat, word die keuse slegs eenmalig uitgeoefen, **dit wil sê wanneer die eerste geaffekteerde aandeel deur die belastingpligtige vervreem word.** Dit is ook belangrik om daarop te let dat die keuse ten opsigte van **alle** geaffekteerde aandele deur die belastingpligtige vervreem, bindend is en nie net ten opsigte van die belastingpligtige se aandeelhouding in die betrokke genoteerde maatskappy ten opsigte waarvan hy sy eerste aandele vervreem het nie. Waar 'n belastingpligtige bv. 1 000 aandele in maatskappy A en 2 000 aandele in maatskappy B vir langer as vyf jaar hou en hy 500 A-aandele in jaar 1 vervreem, moet hy sy keuse in jaar 1 uitoefen en is daardie keuse nie net ten opsigte van maatskappy A bindend nie, maar ook ten opsigte van die aandele gehou in maatskappy B.

Waar 'n belastingpligtige 'n geaffekteerde aandeel vervreem het, maar versuim om sy keuse in die betrokke jaar van aanslag se opgawe van inkomste uit te oefen, is die bepalings van artikel 9B nie op hom van toepassing nie.

5. VERVANGING VAN ARTIKEL 9B (2) KEUSE INGEVOLGE ARTIKEL 9B (3A)

Soos reeds in paragraaf 4 hierbo genoem, is die keuse ingevolge 9B (2) finaal en bindend. Vanweë die vermindering van die periode van eienaarskap vanaf 10 jaar tot vyf jaar ten opsigte van aandele wat op of na 18 Maart 1992 vervreem word, word belastingpligtiges die geleentheid gegun om hul keuse ingevolge artikel 9B (2) te wysig.

The provisions of section 9B (3A) of the Act, which were inserted by section 9 of the Income Tax Act, 1992, therefore, now affords the taxpayer the opportunity to alter the otherwise binding election in terms of section 9B (2). The new election exercised in terms of section 9B (3A) must likewise be exercised in respect of the disposal of the first affected share on or after 18 March 1992 and such election **must** be exercised in the taxpayer's return of income in respect of the year of assessment in which he disposed of the said first affected share. This election is once again binding on the taxpayer in respect of all affected shares which are disposed of by him thereafter and in this regard section 9B (3A) (b) provides that the provisions of subsections (2), (3) and (4) shall *mutatis mutandis* apply to the replacement election. To enable the taxpayer to either alter or confirm his election an appropriate question will be included in the return of income.

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Should a taxpayer, therefore, have made a positive election under the 10 year rule and he does not want the 5 year rule to apply to him, he has the opportunity to withdraw that election and replace it with a new election when he disposes of his first effected share on or after 18 March 1992 that the provisions of section 9B should not apply to him. Likewise, a taxpayer, if he did not make the provisions of section 9B applicable to him under the 10 year rule but as a result of the 5 year rule wishes that the provisions should be applicable to him, has the opportunity to make the provisions applicable to him when he disposes of his first affected share on or after 18 March 1992.

However, should a taxpayer have elected that the provisions of section 9B should be applicable to him in terms of the 10 year rule and he wishes to remain within the provisions of the section, notwithstanding the reduction in the holding period to five years, the reduced holding period of five years will automatically be applicable to him in respect of affected shares which are disposed of by him on or after 18 March 1992.

6. THE INFLUENCE OF SECTION 9B ON SECTION 24A

With the original insertion of section 9B into the Act, subsection (5) of that section provided that the provisions of section 9B would not be applicable to shares which were acquired by means of an exchange in terms of section 24A. Subsection (5) of section 9B was, however, repealed by section 11 of the Income Tax Act, 1991, which has the effect that the provisions of section 9B are applicable to affected shares which were acquired in terms of a section 24A arrangement where such shares are disposed of on or after 12 July 1991.

Die bepalings van artikel 9B (3A) van die Wet wat ingevolge artikel 9 van die Inkomstebelastingwet, 1992, ingevoeg is, bied dus 'n belastingpligtige nou die geleentheid om sy andersins bindende keuse ingevolge artikel 9B (2) te wysig. Die nuwe keuse uitgeoefen ingevolge artikel 9B (3A) **moet** eweneens uitgeoefen word ten opsigte van die eerste geaffekteerde aandeel wat op of na 18 Maart 1992 vervreem word en daardie keuse word uitgeoefen in die belastingpligtige se opgawe van inkomste ten opsigte van die jaar van aanslag waarin hy genoemde eerste geaffekteerde aandeel vervreem het. Hierdie keuse is weereens bindend vir die belastingpligtige ten opsigte van alle geaffekteerde aandele wat daarna deur hom vervreem word en in hierdie verband bepaal artikel 9B (3A) (b) dat die bepalings van subartikels (2), (3) en (4) *mutatis mutandis* van toepassing is op die vervangende keuse. 'n Gepaste vraag sal weer eens in die opgawe van inkomste opgeneem word om die belastingpligtige in staat te stel om sy keuse te wysig al dan nie.

Sou 'n belastingpligtige derhalwe 'n positiewe keuse ingevolge die 10-jaarreël uitgeoefen het en hy nie die 5-jaarreël op hom van toepassing wil hê nie, het hy die geleentheid om daardie keuse terug te trek en te vervang met 'n nuwe keuse (wanneer by sy eerste geaffekteerde aandeel op of na 18 Maart 1992 vervreem) dat die bepalings van artikel 9B nie op hom van toepassing moet wees nie. Eweneens het 'n belastingpligtige, indien hy nie die bepalings van artikel 9B ingevolge die 10-jaarreël van toepassing gemaak het nie, maar hy vanweë die 5-jaarreël die bepalings op hom van toepassing gemaak wil hê, die geleentheid om die bepalings op hom van toepassing te maak wanneer hy sy eerste geaffekteerde aandeel op of na 18 Maart 1992, vervreem.

Indien 'n belastingpligtige egter ingevolge die 10-jaarreël reeds die keuse uitgeoefen het om die bepalings van artikel 9B op hom van toepassing te maak en hy nieteenstaande die vermindering in die hou-tydperk tot vyf jaar, steeds binne die bepalings van die artikel wil bly, is die verkorte hou-tydperk van vyf jaar outomaties op hom van toepassing ten opsigte van geaffekteerde aandele wat op of na 18 Maart 1992 deur hom vervreem word.

6. DIE INVLOED VAN ARTIKEL 9B OP ARTIKEL 24A

Met die aanvanklike invoeging van artikel 9B van die Wet het subartikel (5) van daardie artikel bepaal dat die bepalings van artikel 9B nie van toepassing is nie op aandele wat deur middel van 'n ruiling ingevolge artikel 24A van die Wet, verkry is. Subartikel (5) van artikel 9B is egter deur artikel 11 van die Inkomstebelastingwet, 1991, geskrap wat die uitwerking het dat die bepalings van artikel 9B van toepassing is op geaffekteerde aandele wat ingevolge 'n artikel 24A reëling verkry is, waar sodanige aandele op of na 12 Julie 1991 vervreem is.

7. Recoupment of costs and losses

In terms of subsection (6) of section 9B, any costs or losses which were allowed to a taxpayer in respect of an affected share, will be recouped in the hands of the taxpayer on disposal of an affected share if he has elected that the provisions of section 9B should apply to him. This recoupment also includes any reduction in the cost price of the share in terms of the provisions of section 22 (1) of the Act, but excludes any costs or losses which have been allowed as a deduction in the determination of the taxpayer's taxable income from dividends. In cases where no records of costs are available because the affected shares disposed of were, for instance, acquired many years ago, the relevant Receiver of Revenue may be approached in this regard. Each such case will, therefore, have to be dealt with on its own merits.

8. The application of the FIFO method on disposal of affected shares

To determine whether a share has been held for the qualifying period of five years so as to be classified as an affected share, subsection (7) of section 9B of the Act provides that where a taxpayer holds affected shares in a specific company which he acquired on various dates and disposes of any of such shares, the FIFO method must be applied.

Example

Facts

Mr A purchased and sold the following shares in B Ltd:

Purchases	***Sales***
500 shares on 30 June 1980	400 shares on 30 June 1991
1 000 shares on 30 June 1985	1 400 shares on 30 June 1992
1 500 shares on 30 June 1988	

Solution

Should Mr A have elected that section 9B be applicable to him—

(a) the 400 shares disposed of on 30 June 1991 will represent affected shares because, under the FIFO method, they form part of the 500 shares purchased on 30 June 1980 and where thus held for a continuous period of 10 years; and

(b) with regard to the second disposal, only 1 100 of the 1 400 shares represent affected shares, namely the remaining 100 shares which were purchased on 30 June 1980 plus

7. Verhaling van onkoste en verliese

Ingevolge subartikel (6) van artikel 9B word enige onkoste of verliese wat aan 'n belastingpligtige ten opsigte van 'n geaffekteerde aandeel toegestaan is, by die vervreemding van 'n geaffekteerde aandeel in die hande van die belastingpligtige verhaal indien hy die bepalings van artikel 9B op hom van toepassing gemaak het. Hierdie verhaling sluit ook in enige vermindering in die kosprys van die aandeel kragtens die bepalings van artikel 22 (1) van die Wet, maar sluit uit enige onkoste of verliese wat as 'n aftrekking by die vasstelling van die belastingpligtige se belasbare inkomste verkry uit dividende, toegelaat is. In gevalle waar geen rekord van kostes meer beskikbaar is nie aangesien die geaffekteerde aandele wat vervreem is byvoorbeeld baie jare gelede aangekoop is, moet die betrokke Ontvanger van Inkomste in hierdie verband genader word. Elke sodanige saak moet dus op grond van die meriete van die geval behandel word.

8. Die toepassing van die EIEU-metode by die vervreemding van geaffekteerde aandele

Ten einde vas te stel of 'n aandeel vir die kwalifiserende tydperk van vyf jaar besit is om as 'n geaffekteerde aandeel geklassifiseer te word, bepaal subartikel (7) van artikel 9B van die Wet dat waar 'n belastingpligtige geaffekteerde aandele in 'n bepaalde maatskappy hou wat op verskillende datums deur hom verkry is en hy enige van daardie aandele vervreem het, die eerste in eerste uit (EIEU)-metode toegepas moet word.

Voorbeeld

Feite

Mnr. A het die volgende aandele in B Bpk aangekoop en verkoop:

Aankope	***Verkope***
500 aandele op 30 Junie 1980	400 aandele op 30 Junie 1991
1 000 aandele op 30 Junie 1985	1 400 aandele op 30 Junie 1992
1 500 aandele op 30 Junie 1988	

Oplossing

Sou mnr. A die bepalings van artikel 9B op hom van toepassing maak, sal—

(a) die 400 aandele vervreem op 30 Junie 1991 wel geaffekteerde aandele verteenwoordig, aangesien dit ingevolge die EIEU-metode aandele is wat afkomstig is uit die 500 aandele wat op 30 Junie 1980 aangekoop is en dus wel vir 'n ononderbroke periode van 10 jaar besit was; en

(b) wat die tweede vervreemding betref, slegs 1 100 van die 1 400 aandele, geaffekteerde aandele verteenwoordig, naamlik die oorblywende 100 aandele wat op 30 Junie 1980 the 1 000 shares purchased on 30 June 1985. The 1 000 shares qualify as "affected shares" as the disposal took place after 18 March 1992 and the 5 year rule (and not the 10 year rule) applies. The proceeds from the disposal of the 1 100 shares will thus be considered to be of a capital nature in terms of section 9B. The remainder (1 400–1 100) will be treated according to general tax principles (i.e. capital *v* revenue) and not in terms of the provisions of section 9B.

9. TAX TREATMENT OF SHARE TRANSACTIONS WHERE NO AFFECTED SHARES ARE INVOLVED

It is important to note that where listed shares which have not been held by a taxpayer for five years (in other words, shares which are not affected shares) are disposed of, the proceeds received from the disposal of such shares will not summarily be subjected to tax. Receipts and accruals of this nature will be treated according to the normal guidelines which have been set down by South African case law over the past years. Similarly the ordinary rules will also apply in respect of the disposal of shares by a taxpayer who has not made the provisions of section 9B applicable to him.

ISSUED BY THE COMMISSIONER FOR INLAND REVENUE, PRETORIA.

No. 678 **23 April 1993**

16 PER CENT LOAN LEVY, 1994: CERTIFICATES No. 16000 FOR R8 800 ISSUED IN FAVOUR OF PACKAGING DEVELOPMENT MANUFACTURING

Application having been made to the Department of Finance for duplicates 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, duplicate as applied for, will be issued.

DEPARTMENT OF NATIONAL EDUCATION

No. 635 **23 April 1993**

NATIONAL MONUMENTS ACT, No. 28 OF 1969

DECLARATION OF PROPERTIES TO BE NATIONAL MONUMENTS

By virtue of the powers vested in me by section 10 (1) of the National Monuments Act, 1969 (Act No. 28 of 1969), I, Pieter Gabriel Marais, Minister of National Education, hereby declare the properties as fully described in the Schedule hereto to be national monuments.

aangekoop is, plus die 1 000 aandele wat op 30 Junie 1985 aangekoop is. Die rede waarom die 1 000 aandele as geaffekteerde aandele kwalifiseer, is omrede die vervreemding na 18 Maart 1992 plaasgevind het en die 5-jaarreël (en nie die 10-jaarreël nie) van toepassing is. Die opbrengs met betrekking tot 1 100 van die aandele sal dus ingevolge artikel 9B as van 'n kapitale aard beskou word. Die res (1 400–1 100) sal ingevolge die gewone belastingreëls (kapitaal *v* inkomste), en nie ingevolge die bepalings van artikel 9B nie, beoordeel word.

9. BELASTINGBEHANDELING VAN AANDELETRANSAKSIES WAAR GEEN GEAFFEKTEERDE AANDELE BETROKKE IS NIE

Dit is belangrik om daarop te let dat waar genoteerde aandele wat nog nie vyf jaar in die besit van 'n belastingpligtige is nie (met ander woorde, aandele wat nie geaffekteerde aandele is nie), vervreem word, die opbrengs verkry vanweë die vervreemding van sodanige aandele, nie summier aan belasting onderwerp sal word nie. Ontvangstes en toevallings van hierdie aard sal ingevolge die gewone riglyne wat oor die afgelope jare in die Suid-Afrikaanse regspraak neergelê is, behandel word. Net so sal die gewone reëls ook van toepassing wees ten opsigte van die vervreemding van aandele deur 'n belastingpligtige wat nie die bepalings van artikel 9B op hom van toepassing gemaak het nie.

UITGEREIK DEUR DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

No. 678 **23 April 1993**

16 PERSENT LENINGSHEFFING, 1994: SERTIFIKAAT No. 16000 VIR R8 800 UITGEREIK TEN GUNSTE VAN "PACKAGING DEVELOPMENT MANUFACTURING"

Aangesien daar by die Departement van Finansies aansoek gedoen is vir duplikate 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 NASIONALE OPVOEDING

No. 635 **23 April 1993**

WET OP NASIONALE GEDENKWAARDIGHEDE, No. 28 VAN 1969

VERKLARING VAN EIENDOMME TOT NASIONALE GEDENKWAARDIGHEDE

Kragtens die bevoegdheid my verleen by artikel 10 (1) van die Wet op Nasionale Gedenkwaardighede, 1969 (Wet No. 28 van 1969), verklaar ek, Pieter Gabriel Marais, Minister van Nasionale Opvoeding, hierby die eiendomme in die Bylae hiervan volledig beskryf, tot nasionale gedenkwaardighede.

BUSINESS

BDAY 23/4/93,

Tax burden 'will worsen debt'

ANDREW KRUMM

THE heavy tax burden would push people deeper into debt this year, Credit Guarantee senior economist Luke Doig said yesterday. 320

"Many individuals are incurring debt or running down their savings to meet daily living expenses. Yet, in its 1993/'94 budget, government requires the private consumer to provide some 42% of total tax revenues, up from 32% five years ago."

Company contributions to the fiscus had dropped from 23% in 1988 to less than 14% this fiscal year — more a result of a decline in profits during the recession than any beneficial tax structure.

Doig said four interest rate cuts in the past year had given the individual a measure of relief, but little additional respite could be expected in the near term.

In 1992 insolvencies rose 24% to more than 5 000. Default and consent judgments against individuals rose 25% to R2,8bn.

The high individual tax burden would depress consumer demand which, with protracted negotiations and labour unrest, would impair business confidence, investment plans and performance. Company liquidations and civil default judgments against firms were expected to remain at uncomfortably high levels in 1993.

In the first two months of this year liquidations were 16% higher than in the corresponding year-earlier period. Civil default and consent judgments against businesses were virtually static at R27m.

"There exists the real possibility of a fourth successive year of economic decline, unless a dramatic turnaround occurs in the next three months. Credit analysts will have to exercise extreme caution well into 1994," Doig said.

Unregistered hauliers face prosecution

BDAY 23/4/93.

TRACY SCHNEIDER

ROAD transport operators not registered in terms of the Road Transport Quality System (RTQS) would be prosecuted after July 1993, NPA Road Traffic Inspectorate deputy chief John Schnell said yesterday.

Schnell told the Outlook for Trucks seminar in Johannesburg operator registration had been poor, reflecting a lack of awareness and urgency. Since July 1992, 11% of the 40 000 operators had registered. He blamed this on lack of information about requirements and the purpose of RTQS which was to create an environment of safety and quality in road transport deregulation.

Operator registration was a key element to ensure performance, compliance and safety were placed with proper officials.

Legislation required all operators to be registered by July 1993.

"Given the present tempo of registration, it is clear that many operators will not comply," said Schnell.

SA low on productivity

BDAY 23/4/93

PRETORIA — SA's competitiveness and productivity were rated among the lowest of 14 newly industrialised countries, the Swiss-based International Institute for Management Development said recently.

Its report also found SA to be a forerunner in alcohol and drug abuse, divorce and road accidents. SA employees were not motivated and attitudes and values were not conducive to competitiveness and high productivity.

In the study SA was compared with 13 other newly industrialised countries, including Mexico, Singapore, Korea, Greece, Pakistan and Venezuela.

Factors looked at were science and technology, management quality, infrastructure, the role of government, human resource development and motivation. — Sapa.

Limited growth in '93 predicted

BDAY 23/4/93 (320)

TIM MARSLAND

THE economy was likely to show growth — albeit limited — during 1993, according to two economic reviews released yesterday.

Nedbank forecast in its Monthly Economic Profile real growth of 0,75% for 1993, while Absa said in its Quarterly Economic Monitor it expected real growth of 0,5%.

Nedbank pointed to the better agricultural crop, improved prospects for global economies and the weaker rand exchange rate as being positive factors for the economy.

It said the the estimated 8-million ton maize crop raised the possibility of increased maize exports. Growth in major global economies improved the prospects for commodity prices, which would benefit SA. The unshackling of the rand/dollar rate boded well for some export industries, notably gold mining, which brought about an improvement in earnings and profitability.

However, it said economic activity in most other sectors was likely to remain subdued, at least for the next few months, as the budgetary effects of the higher VAT rate and other taxes resulted in lower retail sales.

It said that while political violence continued to affect business and consumer confidence, the assassination of SACP leader Chris Hani could "turn out to be a force for good by highlighting the urgency of political change".

It said monetary policy was unlikely to ease in 1993 as the foreign exchange reserve position remained precarious ahead of the expiry of the foreign debt standstill arrangements.

Absa said it was possible the Bank rate would decline by one percentage point later in the year. It said money market rates had tended to move sideways of late. But weak demand for bank credit and a possible improvement in the current account surplus in the second half of 1993, accompanied by a moderate decline in the inflation rate, could lead to a modest fall in money market rates, paving the way for a Bank rate cut.

It said that while inflation was likely to rise to double digits again in 1993 — because of the VAT and other tax hikes — the downward trend in "core" inflation remained intact.

The dramatic downturn in the country's foreign exchange reserves position had heightened the need for a strong export performance in the year ahead, to accommodate continued capital outflow.

TAX AMNESTY

A hard case

FM 23/4/93

(320)

The exclusion of provisional ~~taxpayers~~ taxpayers from the amnesty for defaulters announced by Inland Revenue (*Economy* April 16) raises an important issue.

Most provisional taxpayers are independent operators or professional men, whose earnings are not subject to Paye. However, a few, who are essentially salary earners (so subject to Paye), also qualify as provisional taxpayers because of other income.

This means that late payment of tax — regardless of when an assessment is issued — will be fully subject to interest under 89quat. Even modest interest income — now about R3 000 a year, but previously less depending on the year of assessment — requires a taxpayer to register as provisional.

Matters are even worse for double-income households for the period of joint taxation of spouses — up to 1989-1990. Both incomes will have borne Paye. However, aggregation of the wife's income raises the marginal tax rate, so extra tax will be payable.

In these circumstances, a defaulter will face a bill for section 89quat interest for underpayment of provisional tax from the date of the third provisional payment — the August 31 following the year of assessment.

Though all provisional taxpayers must be treated the same in law, there is a practical case for making an exception. This could be done in the amendment to the Income Tax Act that gives effect to the amnesty. ■

Flight to Britain no refuge from SA's taxman

Review | Law Suppl to W/Mail 23/4-29/4/93. 320

An English court has allowed South African tax officials to seize a former kwaZulu man's assets in Britain. This landmark case means insolvents can no longer flee to England to avoid their creditors, reports CARMEL RICKARD

THE legal chase to obtain a fortune owed the South African Receiver of Revenue by a kwaZulu official, has led to a major development in English law. The case hinges on an Italian engineer, Dr Mario Fargion, and his strategems to ensure the Receiver's office did not get its hands on his wealth.

Employed by Ulundi at a modest salary, Fargion managed to put together about R3,8-million between 1982 and 1985. He claims his father died in Italy, leaving him plant and machinery which he later exchanged for plant and machinery in Swaziland, a deal which netted him great wealth in local currency. Officials of the Receiver's office however say his accounts show large sums being paid into a company he set up. They believe he used his position in the Ulundi government to allocate bogus contracts. Payments for this work was then paid into his accounts.

However it was obtained, this was taxable income which he did not declare. It was only unearthed after the Receiver carried out a thorough investigation of Fargion's affairs. According to trustees of Fargion's estate, he made the search more difficult by laundering funds though companies and a trust. For example, he deregistered the company into which funds were first paid to try to cover the audit trail back to the original source of income.

While Fargion delayed and frustrated Revenue trying to pursue their claim, he began secretly removing his assets from the country — valuable paintings and Persian rugs, diamonds, Krugerrands, silver, coins and cash. Among his art works were paintings by Raoul Dufy, Edouard Vuillard and others. Initially they hung on the walls of his Durban home, but they were secretly replaced by copies inserted into the original frames while the authentic pictures were exported.

During 1992 the court granted judgment in favour of the Receiver for arrear taxes, interest and penalties of R8,6-million. However, when the sheriff asked Fargion to point out his assets, he signed a document stating under oath that he did not possess any removable assets.

The Receiver then began to sequestrate Fargion's estate. However, Fargion had arranged for a bond to be registered over a property owned by a family trust and three days before he was due to be sequestrated, he received R320 000 cash from the bond holders.

A week later he and his wife left the country for England, taking the R320 000 and other valuables with them.

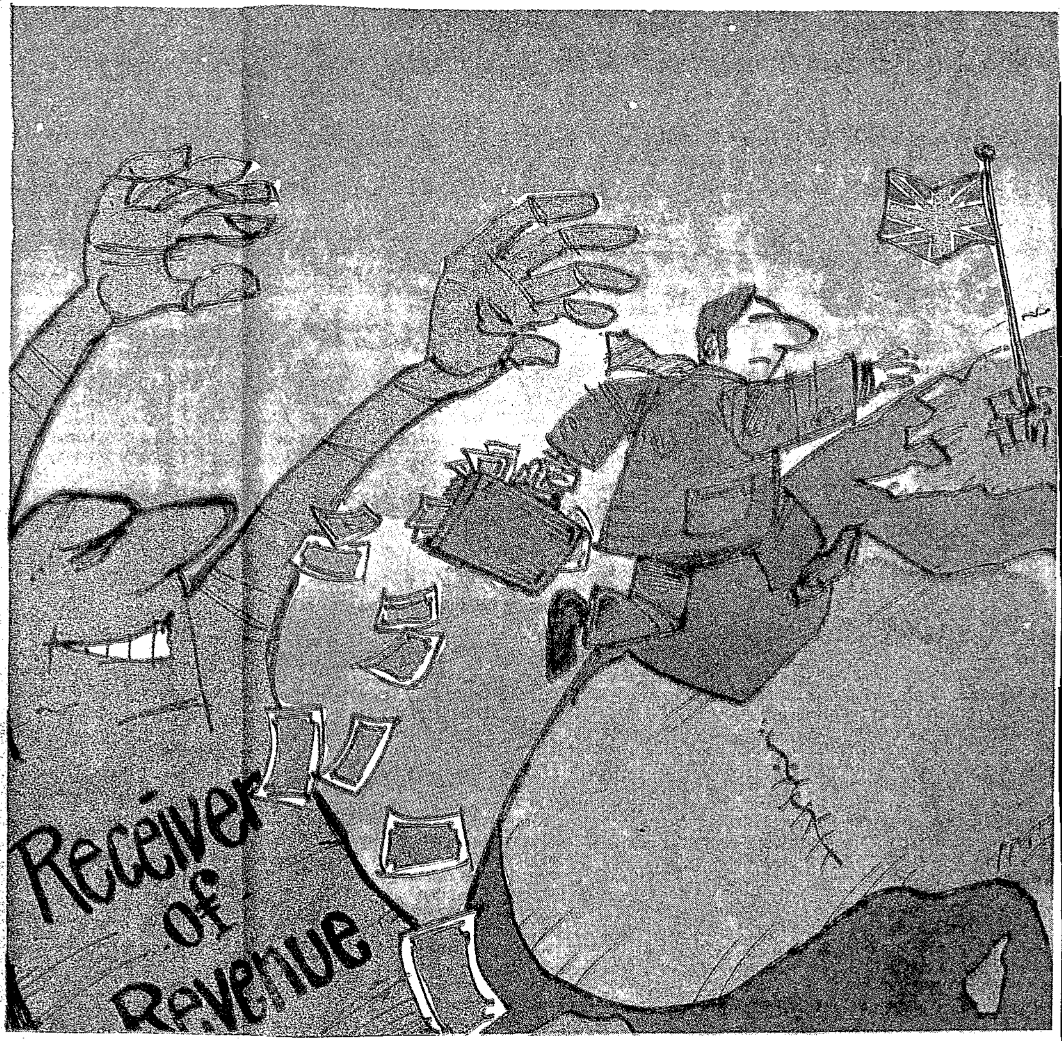
In theory, under international insolvency law, the assets of a South African insolvent vest in the trustee appointed by the Master of the South African Supreme Court, wherever in the world the insolvent person may be.

In practice, however, it is difficult to trace assets overseas. One of the biggest difficulties is having the trustee's powers recognised.

South African trustees are at a disadvantage in England: only certain foreign countries are recognised in terms of the English Bankruptcy Act and are given powers similar to those of an English trustee. This country is not one of them.

Initially, English counsel advised that Fargion's South African trustees could not be recognised in England. However, the High Court of Justice, Chancery Division, was persuaded to make new English law. The court granted a far reaching order which empowers the South African trustees to take into their possession all Fargion's assets in England. The court also granted an injunction to stop him disposing of his assets and compelling him to file an affidavit setting out his financial position.

A further order was granted after he filed an inadequate explanation of his financial position. Under this order he had to appear in the High Court of Justice in Bankruptcy to be examined about his movable property. This gave the trustees the opportunity to cross-examine Fargion under oath. They had the added advantage of the particularly strict English attitude to perjury, which regards it as a serious offence if a bankrupt is caught lying under oath.



In effect, the South African trustees in the Fargion case persuaded the English court that it had an inherent common law power to recognise foreign trustees and give them the right to exercise in the United Kingdom, those powers that they would have in South Africa or elsewhere.

This decision could have implications for trustees from any other country, trying to catch insolvents fleeing to England to evade their creditors.

It had an immediate effect in the Fargion case: had the trustees been forced to follow conventional English procedure there would have been considerable delay and cost, and many of the assets involved could have disappeared. Instead, the new law allowed the trustees to interrogate Fargion very quickly. Following this cross-examination, it became clear that Fargion could not hold to his claim that he did not possess any moveable assets. Instead, his lawyers have proposed a settlement of R850 000 payable to the trustees. However, the trustees are holding out for more and discussions are continuing in London.

●Trustees for Fargion are EM Fey of Coopers Theron Du Toit, who cross-examined him, BStC Cooper of Cooper Trust and AJ McEwen of KPMG Aiken & Peat. The attorneys acting for the trustees are Cox Yeats of Durban who instructed Paisner & Co of London.

Star 24/4/93

Our taxpayers shouldn't grumble

(320)

BESIDES straight tax, overseas workers also chip in for medical care, pensions and the dole, writes NEIL BEHRMANN from London.

IT MAY surprise some, but South Africa's overall tax burden compares favourably with its major trading partners.

The latest SA Budget says tax accounts for 24 percent of gross national product — worse than Japan (20,5 percent), Switzerland (20,8 percent), the United States (21,4 percent) and France (22,4 percent).

Taxation accounts for around 25 percent of Germany and Italy's gross domestic product. For the UK it is 27 percent, 32 percent for Canada and 35,7 percent of Sweden's economy.

Yet this is only part of the story. Individuals in SA's major trading partners must make social security payments, mainly towards unemployment insurance, State pensions and health.

Benefits are free medical treatment, social services for the poor and the dole for the jobless.

Tax and social security deductions as a percentage of GDP are thus 51 percent for Sweden, 44 percent for France and Germany, 41 percent for Italy, 38 percent for Canada, 33 percent for the UK, 31 percent for the US and 29 percent for Japan.

From these figures it can be seen that South Africa has some way to go to match the welfare payments made in leading industrial coutries.

Comparing actual tax rates, the South African burden on individuals is much greater than the UK.

Middle managers, general practioners, average accountants and senior journalists earn between £35 000 and £50 000 (R171 500 and R245 000) in the UK.

In the UK, the individual must make social security payments which rise next year to 10 percent from 9 percent.

The scale of the national insurance take is also limited to a maximum of 10 percent up to incomes of £21 000 (R102 900). Thus a married person with a taxable income of £40 000 (R196 000) would be paying 4,5 percent on national insurance contributions.

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

AVOID PENALTIES: *Pay before September*

Saving grace from taxman

Star 26/4/93

(320)

THE concession comes after Finance Minister Derek Keys said he would like to promote co-operation between taxpayers and the tax collection department. MAGNUS HEYSTEK reports.

THE taxman has extended a hand of friendship to erring taxpayers. Clear up all your arrear tax matters before August 31 this year and no penalties will be levied, a notice from the tax authorites declared this week.

According to the Commissioner for Inland Revenue, otherwise known as your friendly taxman, this concession has been extended to all personal taxpayers who have either omitted to complete returns or have never before registered as taxpayers.

This comes after Minister of Finance Derek Keys, speaking in his Budget debate in Parliament, announced he would like to promote co-operation between taxpayers and the tax collection department. The hoped-for result would be increased efficiency in tax collecting.

The statement by the tax authorities this week reads as follows: "The Commissioner for Inland Revenue intends not to impose penalties for the late rendition of income tax returns for the 1993 and previous years of assessment which are submitted before August 31 1993, and in respect of returns already received and for which assessments have not yet been raised.

"This concession will also apply to taxpayers who have neglected to register for income tax purposes and who submit their returns during this period."

According to a spokesman at Inland Revenue the following procedure will apply:

- No penalty will be imposed for the late rendition of an income tax return for the 1993 and previous years of assessment as long as all the returns are submitted before the end of August.
- During this period, no penalties will be imposed for the rendition of income tax returns in respect of the 1993 and previous years. This also applies to taxpayers who have never applied for an income tax return and who were never registered for income tax purposes.
- The same ruling applies to all people who are registered with Inland Revenue but who, for a variety of reasons, cannot be traced.

However, the spokesman stressed that this period of grace does not extend to any outstanding income tax or interest on outstanding tax. Only the penalty, which amounts to R100 per tax form, will be waived.

Taxpayers who received assessments with a "date issued" later than the date on which the Minister made his announcement, ie April 2, and on which the penalties for the late rendition of a return are shown, must contact their local Receiver of Revenue for a remission of such penalties.

A spokesman for Inland Revenue said this period of grace should clear up the backlog of late income tax returns and might even "show a profit".

1993

DIAGONAL STREET

Mostly winners under dual tax

St Times (Buss. Times)

25/4/93

By Zilla Efrat

DEREK KEYS's new dual tax system has brightened the boardrooms of some major companies and added to the gloom in others.

As with most things in life, there will be winners and losers from the system which entails a drop in company tax from 48% to 40% and introduces a secondary tax on companies (STC) of 15% on dividend payouts.

But analysts believe the winners could be in the majority — a factor which may not augur well for the fiscus.

No doubt the changes are keeping many an accountant up late at night. At this stage, most companies are reluctant to estimate how the changes will affect their earnings.

Generally speaking, those smiling are companies with high tax rates and high dividend cover. The lower their profit distribution, the less STC they will pay. Some may even see their earnings rise by between 5% and 10%.

On the other hand, those companies with lower tax rates — possibly capital-intensive producers with large exports — and lower dividend cover are likely to suffer. They may find up to 10% shaved off their profits.

Companies that should score from the changes include First National Bank, Trans-Natal, Rusplats, Santam, Premier, Murray & Roberts, Safren, Afrox, Tiger, Nampak and Edgars.

Among those which may suffer are Engen, Amgold, Amcoal, Anamint, Gold Fields of SA, NBS, Tongaat and Sasol.

Much will depend on how companies structure their dividend payouts. Some may choose to pass their dividends or pay in scrip which is not subject to STC.

Dividend cover, which has traditionally ranged between two and three times in SA, is expected to shoot up.

In deciding their options some companies will have to take note of the different needs of their major shareholders. Many institutions may be prepared to live with scrip dividends, but some parent companies may need the cash to fund other projects.

Another factor is the effect on the company's share price.

An exercise by Frankel Pollak Vinderine (FPV) suggests the dual tax system would not have had much effect on overall industrial company share prices had it been in place for the last financial year.

The broking firm took the latest company yearend results and, maintaining historical dividend cover, adjusted them to show the effects of the lower tax rate and STC.

It found that on pre-Budget ratings for industrial shares, as reflected in dividend yields, about as many shares would have risen as fallen. In most cases, the changes in price would have been marginal.

On the other hand, if industrial companies increased their dividend cover as the STC is designed to encourage them to do — by 10% in FPV's exercise — this would have been bearish for the price of almost all their shares.

Recent results are starting to reflect the winners and losers of the new system.

Of note is Gencor's mining financial company Beatrix which said when it announced its results this week that it had received a R1,7-million windfall in the six months to February.

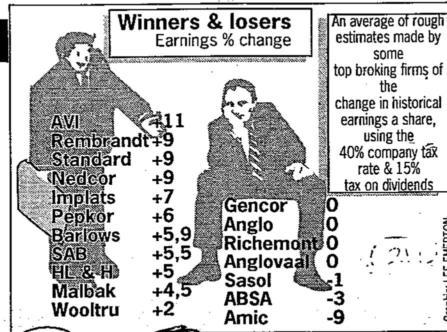
According to Gengold chairman Gary Maude, it reverted to a 40% tax rate, but had declared a dividend before the tax change came into effect.

In addition, chemical group Sentrachem had its earnings boosted by more than seven percentage points. With the new system profits are up 25,6% for the six months to February. Without it, the rise would have been 18%.

On the losing side is Sappi which had to fork out R18-million in STC to cover its final dividend — reduced by a third — for the year to February.

The paper and pulp giant enjoyed a tax rate of 0,6% (3,2%). It did not include STC in its tax charge, but provided for it with the dividend in the income statement even though this does not conform with the latest guide from the Institute of Chartered Accountants.

Although uncertainty about the new tax system abounds, it is expected to boost domestic and foreign investment and, over time, the JSE and employment levels. The hope is that in the long run, SA will be the winner.

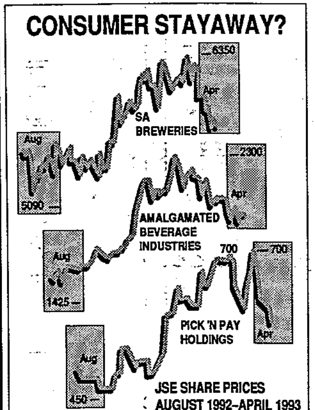


320

Buyers' blues hit industrials

St Times (Buss. Times)

25/4/93



SOME blue-chip consumer companies are feeling a double pinch — from their customers and from investors.

Counters such as SA Breweries, Amalgamated Beverage Industries, Pick 'n Pay and Suncrush have come off fairly sharply after reaching highs earlier this year.

They appear to have peaked ahead of their time on expectations of a recovery which is now looking further away.

These price corrections seem to highlight confusion about when trading conditions and the economy will start to pick up.

The uncertain time perspectives of a turnaround are discouraging. South African investors often climb into highly rated shares a year, or even two years, ahead of an improvement. This is the result of steadily rising decision making lead times because of the JSE's poor liquidity.

Analysts say these highly rated consumer stocks, many of them tightly held, now offer little room for upside movement.

Given the gloomy news coming from their trading environments, they are not expected to produce the earnings growth demanded by their high price:earnings ratios.

Their previous ratings were discounting better earnings prospects which are now looking dimmer. The horizon is littered with factors which could further dampen disposable income and consumer spending.

They include costlier petrol and the higher-than-expected VAT rise announced in the Budget. The increased costs are expected to add to the inflation rate in the near term.

A threat to confidence and markets is the proposed rolling mass action campaign which could last until the end of May.

In general, any major improvements in the consumer market is not expected until a political settlement is in place.

Not all highly rated consumer-related counters have come off lately. The share prices of companies like Utico, Wooltru and Foschini are holding up well.

Analysts say blue-chip industrials, including the consumer stocks, have for some time been regarded as the only places to be invested in.

Unlike mining and commodity shares, they were showing reasonable earnings growth in spite of the recession. Industrials are now being seen as fully rated, even expensive and possibly vulnerable.

Many investors are switching to mining counters, some of which look inexpensive and many of which should benefit from the weakening rand-dollar exchange rate.

Many consumer shares have traditionally traded at a premium to the market. A major reason is that they are expected to benefit from rising population growth rates, increasing urbanisation and the emerging black market in the long term.

Some, especially the beer and beverage companies, trade in markets which usually show continuing real growth.

ABI's market for carbonated soft drinks has grown 9% annually for the past 30 years. On the other hand, SA Brews last year suffered a drop in per capital beer consumption for the first time in decades — a reflection of unrelenting recession.

SA Brews is not forecast to produce any meaningful real earnings growth in its 1993 and 1994 years. These expectations can be seen in its share price. It bottomed at 5 050c a share last August, hit a high of 6 350c in March and is now trading about 5 775c.

A similar trend can be seen in other companies that serve the consumer market.

ABI reached its yearly low of 1 450c last July, edged up to 2 300c in January, only to fall to its current 1 900c.

Pick 'n Pay Holdings moved from its August low of 463c to peak at 700c in March before falling back to 560c. After a sustained rise, Suncrush peaked at 50 000c in January and is now trading at about 43 500c.

Cadbury Schweppes has followed a similar trend, but its share price has not fallen so steeply in recent months. Some analysts, however, do not expect it to deliver the same rate of earnings growth as in the past.

Although these shares are coming off a premature rise, most analysts believe they will not lose their high status in the long run. They offer management strength, strong brands and markets with growing long-term potential.

PEOPLE'S LIVES *Safe way to reduce blood pressure*

Tax hits married women hard

320

Sowetan 28/4/93.

8838A

By Sizakele Kooma

■ **NO BREAKTHROUGH** *Live together unmarried to avoid heavy taxation.*

MARRIED WOMEN pay 24 percent more tax than their husbands and 50 percent more than single women, but they continue to be discriminated against despite recent changes in the Income Tax Act.

Separate taxation of married couples, which was hailed by many as a breakthrough, has been proved to be a major disadvantage for married women.

According to an article in the May issue of *Femina* magazine, the women have found the various subdivisions which were created for couples married in community of property and for couples married under any marital regime to be more complex than the previous system which taxed them jointly with their husbands.

A wife, who is married in community of property and chooses to be taxed with her husband, and is classed "married person", will pay less tax than the wife who does not choose to be taxed with her husband, and is classified "married woman".

In rands and cents the wife classified as "married person" will be taxed on the same scale as her husband.

On a taxable income of R20 000 she would pay R2 525 while the wife, classified as a "married woman" will pay R3 150. Best is still the couple who decide not to marry and are taxed singly.

> **'Best is the couple who decide not to marry and are taxed singly.'**

A single woman or man in the above category will pay R2 100 less than a married woman on a taxable income of R20 000.

A tax consultant quoted in the magazine said the above advantages only occur in certain tax brackets.

In some brackets it is better to be taxed as a married person and in others as married woman.

Reduced tax rate lifts FNB results

BIDAY 29/4/93

(320)

SHARON WOOD

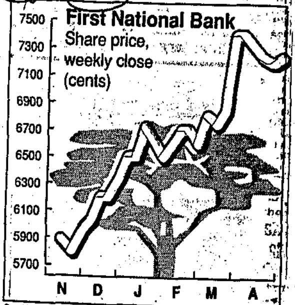
A LOWER tax rate was behind a better than expected earnings performance from FNB, with earnings a share up 20,3% to 310,1c in the six months to end-March from the previous 257,7c.

The group's tax rate dropped to 40% from 48%, in line with the new company tax regulations, and this resulted in a 2,2% decline in tax paid to R156,5m from R160,0m. In addition, there was a deferred tax rate adjustment of R139,6m, which was added to income after tax.

Dividends were raised 10% to 55,0c a share from 50,0c a share.

Interest income for the group improved by 17,4% to R1,08bn (R920,6m). The increase stemmed from a 5,9% fall in interest expenditure, while interest earned remained stagnant because of lower interest rates in the period under review.

Bad and doubtful debt provisions advanced by 15,1% to R184,8m (R160,5m). But



Graphic: RUBY-GAY MARTIN Source: I-NET

senior GM Viv Bartlett said if Henry Ansbacher's bad debts were stripped out of the results, provisions for bad debts in the SA operation would have been flat in spite of

□ To Page 2

FNB

BIDAY 29/4/93

(320)

□ From Page 1

continued economic recession. He said this could be attributed to a quicker recognition of potential bad debts.

Bartlett said Ansbacher would contribute to FNB's profits before the financial year-end.

He was still concerned that the economy was under stress and that political issues were exacerbating the problem.

Income before tax rose 22,4% to R421,5m (R344,3m). Net income surged 79% to R332,6m (R187,8m) because of the deferred tax. Attributable earnings jumped 78,1% to R334,5m (R187,8m).

An extraordinary item of R88,9m was paid because of the finrand premium on the acquisition of foreign subsidiaries.

FNB showed a healthy increase in advances because of the inclusion of Ansbacher results. Total advances grew 18,6% to R32,06bn (R38,01bn).

Growth in advances for the SA operations was about 13% year on year and Barlett predicted this would increase to about 15%, excluding Ansbacher, by the end of the financial year.

FNB had made some progress during the period in increasing its market share in the home loan and instalment markets.

President pays no tax and has no plans to do so

BIOM 29/4/93 (320)

CAPE TOWN — President F W de Klerk pays no income tax as head of state and he is not planning to follow the British Monarch by becoming a taxpayer.

Deputy Finance Minister Theo Alant said yesterday it had always been the position in the republic that the head of state paid tax on his income from private sources. The exemption, in terms of the Income Tax Act, was restricted to salary and emoluments paid by the state.

In reply to a question in Parliament from Northern Cape MP Desmond Lockey, Alant said any change to this dispensation could be made only during negotiations and if this happened an adjustment would have to be made to his salary to compensate for any tax he would have to pay.

Lockey raised the same issue during question time, with De Klerk stating that removing exemption would also affect the President in a new dispensation.

Lockey had asked whether it was fair in hard economic times for the President to refuse to pay a cent of his "royal" income of R21 090 a month.

De Klerk said his salary was determined by Parliament. "If they feel I am getting too much they are welcome to reduce it."

Sapa reports that in answer to another question, De Klerk said government would seriously consider sensible initiatives for progress in negotiations if it appeared that the multiparty talks were close to a dead end at the end of May.

Political Staff

But government was not thinking of "absolutely unilateral action", and there had never been any intention of setting up a specific six week deadline for progress.

Green Point MP Hennie Bester had asked whether government would consider setting up an interim multiparty executive if the talks did not achieve specific goals. De Klerk said this would depend on the progress made in the next five weeks.

In answer to a question from Sandton MP Dave Dalling, De Klerk said government had never threatened the TBVC states to give up their independence.

A recent government document on reincorporation had been drawn up not as a threat, but as a basis for discussion, because government believed it would be better for them to become part of a SA in a strong system of regional government.

Dalling also asked whether De Klerk believed it was correct for the SA taxpayer to foot the bill for illegitimate governments which were blocking negotiations.

De Klerk said by focusing on the Ciskei and Bophuthatswana, and not mentioning Transkei, Dalling showed that his concerns were politically inspired, and not genuinely concerned with the TBVC states.

The TBVC governments were not illegitimate, as they had been brought into existence in terms of SA's laws and constitution.

standard interest rate applicable from 1 May 1993 and until further notice, to loans granted by the State out of the State Revenue Fund, at fifteen comma five nil per cent (15,50%) per annum.

The above-mentioned standard interest rate is applicable from 1 May 1993 and until further notice to all drawings of loans from State moneys, except loans in respect of which other rates of interest are specifically authorised by legislation of the Minister of Finance and of Trade and Industry.

No. 707 **30 April 1993**

REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF FINANCE: INLAND REVENUE

OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 19

Date: 30 April 1993

INCOME TAX: DEDUCTION IN RESPECT OF WEAR AND TEAR OR DEPRECIATION IN TERMS OF SECTION 11 (e) OF THE INCOME TAX ACT: MACHINERY, PLANT, IMPLEMENTS, UTENSILS AND ARTICLES (INCLUDING VEHICLES AND EQUIPMENT) (EXCLUDING LEASED ITEMS AS CONTEMPLATED IN PRACTICE NOTE No. 15 DATED 16 MARCH 1992) 320

1. In terms of the provisions of section 11 (e) of the Income Tax Act (the Act), such amount [hereinafter referred to as "the section 11(e) deduction"] as the Commissioner may think just and reasonable as representing the amount by which the value of any machinery, plant, implements, utensils and articles (excluding machinery, plant, implements, utensils and articles in respect of which a deduction may be granted in terms of section 12B or 12C of the Act) used by the taxpayer for the purpose of his trade, has been diminished by reason of wear and tear or depreciation during the tax year, will be allowed as a deduction.

2. The section 11(e) deduction is normally calculated on the diminishing value of an asset, i.e. on the value remaining after the deduction of wear and tear or depreciation in respect of previous tax years. However, subject to the satisfaction of the requirements set out in paragraph 3 below, a taxpayer could be allowed to calculate the section 11(e) deduction on the straight-line basis on the cost of the asset to the taxpayer. [***Note:*** Cost in relation to an asset for the purposes of the wear and tear allowance is deemed to be the cost price which, at the discretion of the Commissioner, would have been incurred had such asset been acquired in terms of a **cash transaction** negotiated at arm's length, including the direct cost of installation or erection, but taking into account

1975), die standaardrentekoers van toepassing vanaf 1 Mei 1993 en tot nadere kennisgewing, op lenings deur die Staat toegestaan uit die Staatsinkomstefonds, op vyftien komma vyf nul persent (15,50%) per jaar vasgestel het.

Bogenoemde standaardrentekoers is van toepassing vanaf 1 Mei 1993 en tot nadere kennisgewing op alle trekkings van lenings uit staatsgelde, uitgesonderd lenings ten opsigte waarvan ander rentekoerse spesifiek deur wetgewing of die Minister van Finansies en van Handel en Nywerheid gemagtig is.

No. 707 **30 April 1993**

REPUBLIEK VAN SUID-AFRIKA

DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 19

Datum: 30 April 1993

INKOMSTEBELASTING: AFTREKKING TEN OPSIGTE VAN SLYTASIE OF WAARDEVERMINDERING INGEVOLGE ARTIKEL 11 (e) VAN DIE INKOMSTEBELASTINGWET: MASJINERIE, INSTALLASIE, GEREEDSKAP, WERKTUIE EN ARTIKELS (INSLUITEND VOERTUIE EN TOERUSTING) (UITSLUITEND VERHUURDE ITEMS SOOS BEOOG IN PRAKTYKNOTA No. 15 GEDATEER 16 MAART 1992)

1. Ingevolge die bepalings van artikel 11 (e) van die Inkomstebelastingwet (die Wet) word 'n bedrag [hierna verwys as "die artikel 11(e)-aftrekking"] wat volgens die Kommissaris se oordeel billikerwys en redelikerwys die bedrag voorstel waarmee die waarde van masjinerie, installasie, gereedskap, werktuie en artikels (behalwe masjinerie, installasie, gereedskap, werktuie en artikels ten opsigte waarvan 'n aftrekking ingevolge artikel 12B of 12C van die Wet toegestaan mag word), deur die belastingpligtige vir doeleindes van sy bedryf gebruik, verminder is ten gevolge van slytasie of waardevermindering gedurende die jaar van aanslag, as 'n aftrekking toegelaat.

2. Die artikel 11 (e) aftrekking word normaalweg op die verminderende waarde van 'n bate bereken, dit is op die waarde wat oorbly nadat die aftrekking vir slytasie of waardevermindering daarop ten opsigte van vorige jare van aanslag afgetrek is. 'n Belastingpligtige kon egter, onderworpe aan bepaalde vereistes, soos in paragraaf 3 hieronder uiteengesit, toestemming verleen word om die artikel 11 (e) aftrekking op die vaste paaiement-metode op die koste vir die belastingpligtige van die bate, te bereken. [***Nota:*** Koste met betrekking tot 'n bate vir doeleindes van die slytasietoelae word geag die kosprys te wees wat na oordeel van die Kommissaris aangegaan sou word indien sodanige bate verkry is ingevolge 'n **kontanttransaksie** waarin die uiterste

any recoupment in terms of section 8 (4) (e) of the Act. In this regard, see proviso (vii) to section 11 (e) of the Act. Where an asset has been acquired by the taxpayer by way of a donation or bequest, the value (cost) shall be deemed to be its retail value at the time of such donation or bequest.] It has always been the practice that, where a taxpayer preferred that the value of an asset be reduced on the straight-line basis, he had to submit such a request to his Receiver of Revenue. Each request was then considered on its merits. 320

3. It has now been decided that where a taxpayer elects to depreciate the cost of an asset acquired by him on the straight-line basis, it will not be necessary for him to obtain the Receiver of Revenue's permission. He will, however, be required to comply with the following requirements in respect of the assets to which such method will be applied:

3.1 Adequate records must be maintained.

3.2 The straight-line method must be applied to all assets of the same class.

3.3 The annual tax return must include a schedule disclosing the following information in respect of **each** asset disposed of during the year:

3.3.1 The date of acquisition as well as the original cost.

3.3.2 The income tax value at the end of the immediately preceding tax year.

3.3.3 The price realised on disposal or scrapping as well as the tax value of any profit or loss.

3.4 An asset written off in full must be brought into account at a residual value of R1 for record purposes.

3.5 The records to be maintained must be such that it will be possible for the afore-mentioned details of an asset to be established at any point in time.

4. Where a taxpayer applies the straight-line basis, the asset must be written off in equal annual instalments over its estimated useful life. **The section 11 (e) deduction must be reduced proportionately if the asset was acquired and commissioned during the year.**

5. The attached schedule contains examples of write-off periods acceptable to Inland Revenue. Where a taxpayer is of the opinion that another period should apply to an asset mentioned in the Schedule, prior consent wil have to be obtained in writing from the relevant Receiver of Revenue. In

voorwaardes beding is, met inbegrip van die regstreekse koste van die installering of oprigting daarvan, maar met inagneming van enige verhaling kragtens artikel 8 (4) (e) van die Wet. In dié verband, kyk na voorbehoudsbepaling (vii) by artikel 11 (e) van die Wet. Waar 'n bate by wyse van 'n skenking of erflating deur 'n belastingpligtige verkry is, word die waarde (koste) geag die kleinhandelsmarkwaarde daarvan ten tye van sodanige skenking of erflating, te wees.] Dit was nog altyd die praktyk dat waar 'n belastingpligtige verkies dat die waarde van 'n bate op die vaste paaiement-metode verminder moet word, hy so 'n versoek tot sy betrokke Ontvanger van Inkomste rig. Elke versoek is dan op eie meriete beoordeel.

3. Daar is nou besluit dat waar 'n belastingpligtige verkies om die koste van 'n bate deur hom verkry, op die vaste paaiement-metode te verminder, dit nie meer vir hom nodig sal wees om by die betrokke Ontvanger van Inkomste daarvoor aansoek te doen nie. Daar sal egter van hom verwag word om aan die volgende vereistes ten opsigte van die betrokke bates te voldoen:

3.1 Volledige rekords moet bygehou word.

3.2 Die vaste paaiement-metode van toepassing sal wees op alle bates van dieselfde klas.

3.3 Die jaarlikse belastingopgawe 'n bylae bevat wat, ten opsigte van **elke** bate gedurende die jaar van die hand gesit, die volgende inligting sal openbaar:

3.3.1 Die datum van verkryging sowel as die oorspronklike koste.

3.3.2 Die inkomstebelastingwaarde daarvan aan die einde van die onmiddellike voorafgaande jaar van aanslag.

3.3.3 Die prys gerealiseer tydens die van die handsetting of skrapping van die bate, asook die belastingwaarde van enige wins of verlies daarvan.

3.4 'n Bate wat ten volle afgeskryf is, moet teen 'n oorblywende waarde van R1 vir rekorddoeleindes in berekening gebring word.

3.5 Die rekords wat bygehou moet word, moet sodanig wees dat dit moontlik is om gemelde besonderhede van 'n bate op enige tydstip te kan bepaal.

4. Waar 'n belastingpligtige die vaste paaiement-metode toepas, moet die bate in gelyke jaarlikse paaiemente oor die beraamde nuttige lewensduur van sodanige bate afgeskryf word. **Die artikel 11 (e) aftrekking moet proporsioneel verminder word indien die bate gedurende die jaar verkry en in gebruik geneem is.**

5. Die meegaande bylae bevat voorbeelde van afskrywingstydperke wat vir Binnelandse Inkomste aanvaarbaar is. Waar 'n belastingpligtige van oordeel is dat 'n ander tydperk vir 'n bate in die bylae genoem, moet geld, moet skriftelike goedkeuring daarvoor by die betrokke Ontvanger respect of any asset not included in the schedule the proposed write-off period must be motivated in writing upon submission of the tax return for the relevant tax year to enable the Receiver of Revenue to decide whether or not the period is justified. It is, however, recommended that taxpayers obtain approval for such other period or, if the asset does not appear in the schedule, for the proposed write-off period, from the Receiver of Revenue concerned before submitting their tax returns. (320)

6. Where a taxpayer acquires "small" items (loose tools etc.) at a cost of less than R250 per item he may write such assets off in full during the year of acquisition. For this purpose a "small" item is regarded as an item which normally functions in its own right and is not an individual item that forms part of a set. For example, a table and six chairs which plainly form part of a set cannot be divided into individual independent items costing less than the specified amount. Where the cost of such a set amounts to more than R250, it cannot be written off in full in the year in which it is acquired.

7. Where an asset is used for more than one shift, resulting in the life thereof eventually being less than the periods mentioned in the schedule, a fully motivated application for a shorter write-off period may be made to the Receiver of Revenue concerned.

8. Where a taxpayer has claimed a deduction on **existing** assets in terms of the diminishing balance method, but has elected that the balance of such assets be written off on the straight-line basis in future, such assets will have to be written off over the remaining period (as laid down in the schedule). In other words, where in terms of the schedule an asset may be written off over a period of five years on the straight-line basis, but R360 (R200 + R160) has already been written off against an original cost of R1 000 on the diminishing balance method, the balance of the cost (R640) must be written off in equal annual instalments over the remaining three years. Where the original cost of an asset amounted to less than R250, the balance on change-over to the straight-line basis may be written off in full in the year of change-over (subject to the provisions of paragraph 6 above).

9. The write-off periods will apply in respect of all tax returns submitted on or after the date of issue of this practice note. It is, however, not the intention to reopen assessments already issued and in which some other write-off period was used.

van Inkomste verkry word. Ten opsigte van enige bate wat nie in die bylae verskyn nie moet die beoogde afskrywingstydperk met die indiening van die opgawe van inkomste vir die betrokke jaar van aanslag skriftelik gemotiveer word ten einde die Ontvanger van Inkomste in staat te stel om te bepaal of die tydperk geregverdig is, al dan nie. Dit word egter aanbeveel dat belastingpligtiges goedkeuring vir sodanige ander tydperk, of indien die bate nie in die bylae verskyn nie die beoogde afskrywingstydperk, van die betrokke Ontvanger van Inkomste sal verkry voordat 'n belastingopgawe ingedien word.

6. Waar 'n belastingpligtige "klein" items (los gereedskap ens.) teen 'n koste van minder as R250 per item verkry, sal hy toegelaat word om sodanige bates ten volle gedurende die jaar van aankoop af te skryf. Vir hierdie doel word 'n "klein" item beskou om 'n item te wees wat normaalweg in sy eie reg funksioneer en is dit derhalwe nie 'n individuele item wat deel van 'n stel uitmaak nie. Byvoorbeeld, 'n tafel en ses stoele wat duidelik deel van 'n stel uitmaak, kan nie in afsonderlike onafhanklike items met 'n koste van minder as die voorgeskrewe bedrag verdeel word nie. Waar so 'n stel se koste meer as R250 beloop, kan dit nie ten volle in die jaar van verkryging afgeskryf word nie.

7. Waar 'n bate vir meer as een skof gebruik word, wat tot gevolg sal hê dat die lewensduur van sodanige bate korter sal wees as die tydperke in die bylae genoem, kan aansoek met volle motivering vir 'n korter afskrywingstydperk aan die betrokke Ontvanger van Inkomste gerig word.

8. Waar 'n belastingpligtige 'n aftrekking kragtens die verminderende saldo-metode op **bestaande** bates geëis het, maar hy verkies dat die saldo van sodanige bates voortaan op die vaste paaiement-metode afgeskryf word, sal dié bates oor die oorblywende tydperk (soos in die bylae vervat) afgeskryf moet word. Met ander woorde, waar 'n bate volgens die bylae oor 'n tydperk van vyf jaar op die vaste paaiement-metode afgeskryf kan word, maar daar reeds R360 (R200 + R160) op 'n oorspronklike koste van R1 000 op die verminderende saldo-metode afgeskryf is, moet die restant van die koste (R640) in gelyke jaarlikse paaiemente oor die oorblywende drie jaar afgeskryf word. Waar die oorspronklike koste van 'n bate minder as R250 bedra het, mag die saldo in die jaar waarin daar na die reguitlyn-metode oorgeskakel word, ten volle afgeskryf word (onderworpe aan die bepalings van paragraaf 6 hierbo).

9. Die afskrywingstydperke sal van toepassing wees ten opsigte van alle belastingopgawes ingedien op of na die datum van uitreiking van die praktyknota. Dit is egter nie die bedoeling om aanslae wat reeds uitgereik is en waarin 'n ander afskrywingstydperk gebruik is, te heropen nie.

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10. Where used assets are acquired by a taxpayer, such assets may be written off over the expected life of those assets taking into account the condition thereof. Such assets must be detailed clearly in a separate schedule and submitted with the tax return to the Receiver of Revenue concerned.

11. When a taxpayer changes the calculation of the section 11 (e) deduction in respect of any such asset from the diminishing balance method to the straight-line basis, he must notify the Receiver of Revenue in writing to that effect upon the submission of his return of income for the relevant year.

COMMISSIONER FOR INLAND REVENUE, PRETORIA.

SCHEDULE TO PRACTICE NOTE No. 19

WRITE-OFF PERIODS ACCEPTABLE TO INLAND REVENUE

Item	*Period of write-off (number of years)*
Adding machines	6
Air conditioners (window type, moving parts only)	6
Aircraft: Light passenger/commercial/helicopters	4
Arc welding equipment	6
Balers	6
Battery chargers	5
Bicycles	4
Bulldozers	3
Burglar alarms (removable)	10
Calculators	3
Cash registers	5
Cheque writing machines	6
Cinema equipment	5
Cold drink dispensers	6
Compressors	4
Computers (main frame)	5
Computers (personal computers)	3
Computers software (main frames):	
Purchased	3
Self-developed	1
Computers software (personal computers)	2
Concrete transit mixers	3
Crop sprayers	6
Curtains	5
Debarking equipment	4
Delivery vehicles	4
Demountable partitions	6
Dental and doctors equipment	5
Dictaphones	3
Drilling equipment (water)	5
Drills	6
Electric saws	6
Electrostatic copiers	6
Engraving equipment	5
Excavators	4
Fax machines	3
Fertiliser spreaders	6
Fire extinguishers (loose units)	5
Fishing vessels	12
Fitted carpets	6

10. Waar gebruikte bates deur 'n belastingpligtige aangeskaf word, kan sodanige bates, met inagneming van die toestand daarvan, oor die verwagte lewensduur van daardie bates afgeskryf word. Sodanige bates moet duidelik in 'n aparte skedule saam met die belastingopgawe aan die betrokke Ontvanger van Inkomste verstrek word.

11. Wanneer 'n belastingpligtige die berekening van die artikel 11 (e) aftrekking ten opsigte van enige sodanige bate vir die eerste keer vanaf die verminderende saldo-metode na die vaste paaiement-metode omskakel, moet hy, met die indiening van sy opgawe van inkomste vir die betrokke jaar van aanslag, die Ontvanger van Inkomste skriftelik daaromtrent inlig.

KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

BYLAE TOT PRAKTYKNOTA No. 19

AFSKRYWINGSTYDPERKE AANVAARBAAR VIR BINNELANDSE INKOMSTE

Item	*Tydperk van afskrywing (aantal jare)*
Afkondigingstelsels	5
Afleweringsvoertuie	4
Baalpersers	6
Bandspelers	5
Batterylaaiers	5
Betonmengervragmotor	3
Bioskooptoerusting	5
Bokkrane	6
Boogswystoerusting	6
Boortoerusting (water)	5
Bore	6
Brandblussers (los eenhede)	5
Brandkluise (draagbaar)	25
Breimasjiene	6
Broeikaste	6
Diefalarms (verwyderbaar)	10
Diktafone	3
Draaibanke	6
Elektriese sae	6
Elektrostatiese kopieerders	6
Faksmasjiene	3
Fotokopieertoerusting	5
Fotografiesetoerusting	6
Freesmasjiene	6
Gassnytoerusting	6
Gasverhitters en kooktoestelle	6
Geïnstalleerde matte	6
Gemotoriseerde betonmengers	3
Gemotoriseerde grassnyers	5
Gemotoriseerde kettingsae	4
Gimnasiumtoerusting	10
Gordyne	5
Graafmasjiene	4
Graveertoerusting	5
Guillotines	6
Haarkapperstoerusting	5
Handboeke	3
Hengelvaartuie	12
Hittedroërs	6
Hyserinstallasies (goedere)	12
Hyserinstallasies (passasiers)	12
Kasregisters	5
Kitswasserytoerusting	5

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Item	Period of write-off (number of years)
Fork-lift trucks	4
Front-end loaders	4
Furniture and fittings	6
Gantry cranes	6
Garden irrigation equipment (movable)	5
Gas cutting equipment	6
Gas heaters and cookers	6
Gear shapers	6
Graders	4
Grinding machines	6
Guillotines	6
Gymnasium equipment	10
Hairdressers equipment	5
Harvesters	6
Heat dryers	6
Heating equipment	6
Incubators	6
Ironing and pressing equipment	6
Kitchen equipment	6
Knitting machines	6
Laboratory research equipment	5
Lathes	6
Laundromat equipment	5
Lift installations (goods)	12
Lift installations (passengers)	12
Medical theatre equipment	6
Milling machines	6
Mobile caravans	5
Mobile cranes	4
Mobile refrigeration units	4
Motorcycles	4
Motorised chain saws	4
Motorised concrete mixers	3
Motor mowers	5
Musical instruments	5
Neon signs and advertising boards	10
Ovens and heating devices	6
Ovens for heating food	6
Paintings (valuable)	25
Pallets	4
Passenger cars	5
Patterns, tooling and dies	3
Perforating equipment	6
Photocopying equipment	5
Photographic equipment	6
Planers	6
Pleasure craft etc.	12
Ploughs	6
Portable concrete mixers	4
Portable generators	5
Portable safes	25
Power tools (hand operated)	5
Public address systems	5
Radio communication equipment	5
Refrigerated milk tankers	4
Refrigeration equipment	6
Refrigerators	6
Sanders	6
Scales	5
Seed separators	6
Sewing machines	6
Shop fittings	6
Solar energy units	5
Special patterns and tooling	2
Spin dryers	6
Spot welding equipment	6
Staff training equipment	5

Item	Tydperk van afskrywing (aantal jare)
Koeldrankuitmeters	6
Kombuistoerusting	6
Kompressors	4
Kraggereedskap (handbediening)	5
Kragopwekkers (draagbaar)	5
Kunsmisstrooiers	6
Laaiborde	4
Laaigrawe	4
Laboratoriumnavorsingstoerusting	5
Lugversorgers (vensterraam tipe, slegs bewegende dele)	6
Mediese teatertoerusting	6
Meubels en toebehore	6
Mobiele hyskrane	4
Mobiele karavane	5
Mobiele verkoelingseenhede	4
Motorfietse	4
Muntoutomate (insluitende videospeletjie-toestelle)	6
Musiekinstrumente	5
Naaimasjiene	6
Neonreklame en advertensieborde	10
Oesbespuiters	6
Oesmasjiene	6
Ontbassingstoerusting	4
Oonde en verhittingstoerusting	6
Oonde vir verhitting van kos	6
Opmeters:	
Instrumente	10
Terreintoerusting	5
Optelmasjiene	6
Padskrapers	4
Passasiersvoertuie	5
Patrone, werktuie en stempels	3
Personeelopleidingstoerusting	5
Plesierjagte ensovoorts	12
Ploeë	6
Ponstoerusting	6
Puntsweistoerusting	6
Radiokommunikasietoerusting	5
Ratarmskaafmasjiene	6
Rekenaars (hoofraam)	5
Rekenaars (persoonlike rekenaar)	3
Rekenaarsagteware (hoofraam):	
Aangekoop	3
Self ontwikkel	1
Rekenaarsagteware (persoonlike rekenaar)	2
Rekenmasjiene	3
Ruspergraafmasjiene	4
Saadverdelers	6
Skale	5
Skawe	6
Skilderye (waardevol)	25
Skuurmasjiene	6
Sleepwaens	5
Slypmasjiene	6
Sonenergie-eenhede	5
Spesiale patrone en werktuie	2
Stootskrapers	3
Stryktoerusting	6
Tandheelkundige en geneeskundigetoerusting	5
Telefoontoerusting	5
Televisie- en advertensiefilms	4
Televisiestelle, videomasjiene en dekodeerders	6

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Item	Period of write-off (number of years)
Surveyors:	
Instruments	10
Field equipment	5
Tape-recorders	5
Telephone equipment	5
Television and advertising films	4
Television sets, video machines and decoders	6
Textbooks	3
Tractors	4
Trailers	5
Traxcavators	4
Trucks (heavy duty)	3
Trucks (other)	4
Truck mounted cranes	4
Typewriters	6
Vending machines (including video game machines)	6
Video cassettes	2
Washing machines	5
Water distillation and purification plant	12
Water tankers	4
Water tanks	6
Weighbridges (movable parts)	10
Workshop equipment	5
X-ray equipment	5

No. 717 **30 April 1993**

TRANS-CALEDON TUNNEL AUTHORITY

CERTIFICATES NOS. C3 AND C4 EACH FOR R100 000 ISSUED IN FAVOUR OF SENBANK (ABSA BANK) DATED 17 DECEMBER 1991

The above-mentioned certificates have been lost or mislaid by the beneficiary, notice is hereby given that these certificates are now cancelled and both the Trans-Caledon Tunnel Authority and ABSA Bank do not accept any liability in respect of Certificates Nos. C3 and C4 each for R100 000 issued in favour of Senbank dated 17 December 1991.

DEPARTMENT OF JUSTICE

No. 692 **30 April 1993**

MAGISTRATES' COURTS ACT, 1944

APPOINTMENT OF A PLACE IN THE DISTRICT OF NEWCASTLE AS A PLACE FOR THE HOLDING OF A COURT

Under section 2 (1) (h) of the Magistrates' Courts Act, 1944 (Act No. 32 of 1944), I, Hendrik Jacobus Coetsee, Minister of Justice, hereby, in respect of the District of Newcastle, appoint Dormie House in the above-mentioned district as a place for the holding of a court for that district.

H. J. COETSEE,

Minister of Justice.

Item	Tydperk van afskrywing (aantal jare)
Tikmasjiene	6
Tjekskryfmasjiene	6
Trapfietse	4
Trekkers	4
Tuimeldroërs	6
Tuinbesproeiingstoerusting (roerend)	5
Verhittingstoerusting	6
Verkoelde melktenkwa	4
Verkoelingstoerusting	6
Vervoerbare betonmengers	4
Verwyderbare afskortings	6
Videokassette	2
Vliegtuie (ligte passasiers/kommersiële/helikopters)	4
Vragmotorgemonteerde krane	4
Vragmotors (swaardiens)	3
Vragmotors (ander)	4
Vurkhysers	4
Wasmasjiene	5
Waterdistillering- en -suiweringstoerusting	12
Watertenks	6
Watertenkwaens	4
Weegbrûe (bewegende dele)	10
Werkswinkeltoerusting	5
Winkeltoebehore	6
X-straaltoerusting	5
Yskaste	6

No. 717 **30 April 1993**

TRANS-CALEDON TONNELOWERHEID

SERTIFIKATE NOS. C3 EN C4 ELK VIR R100 000, UITGEREIK TEN GUNSTE VAN SENBANK (ABSA BANK) GEDATEER 17 DESEMBER 1991

Aangesien die bovermelde sertifikaat verloor of verlê is, deur die begunstigde, word hiermee bekendgemaak dat die betrokke sertifikate hiervolgens gekanselleer word en dat beide die Trans-Caledon Tonnelowerheid en ABSA Bank geen aanspreeklikheid aanvaar ten opsigte van Sertifikate Nos. C3 en C4 elk vir R100 000 uitgereik ten gunste van Senbank gedateer 17 Desember 1991.

DEPARTEMENT VAN JUSTISIE

No. 692 **30 April 1993**

WET OP LANDDROSHOWE, 1944

BEPALING VAN 'N PLEK IN DIE DISTRIK NEWCASTLE AS 'N PLEK VIR DIE HOU VAN HOFSITTINGS

Kragtens artikel 2 (1) (h) van die Wet op Landdroshowe, 1944 (Wet No. 32 van 1944), bepaal ek, Hendrik Jacobus Coetsee, Minister van Justisie, hierby ten opsigte van die distrik Newcastle, Dormiehuis in gemelde distrik as 'n plek vir die hou van hofsittings vir daardie distrik.

H. J. COETSEE,

Minister van Justisie.

Taxman calls it a day on films

S/Times [Buss] 2/5/93

(320)

By TERRY BETTY

A PLAN has been devised to end the seven-year, R2-billion tax wrangle involving investors in film schemes.

An offer by Finance Minister Derek Keys says taxpayers will be allowed to deduct for income tax 1,5 times the amount they invested in any film scheme before February 28 this year.

Taxpayers have until September 30, 1993, to accept the settlement in writing. But they have to pay outstanding amounts to the Receiver of Revenue before May 31, 1993.

Part of the settlement is that all interest will be waived provided payment is made before May 31, says Acting Commissioner for Inland Revenue Trevor van Heerden.

He says those who have paid their tax in full will be refunded the difference. They will receive interest of 14% from the date of payment until September 30, 1992.

Those who paid tax after that will be refunded without interest.

Mr van Heerden says the condition of the settlement is that investors prove to Inland Revenue that a film was made and that it was released in an export country.

The film had to be available for sale even if it was unsuccessful, says Fisher Hoffman Stride tax partner Anthony Chait.

The treaty was adopted at a meeting between Inland Revenue, the film industry and partners in large accounting firms.

The talks were initiated and mediated by Tax Advisory Committee chairman Michael Katz.

Mr van Heerden says the settlement is unprecedented.

"But it is in the spirit of Mr Keys' intention to improve the degenerating relationship between taxpayers and the Receiver's office."

The settlement is peculiar to film schemes.

"It sets a precedent in that it shows the Receiver is willing to get such issues cleared up. But that does not mean that similar settlements will be arrived at for the aircraft, bloodstock and plantation tax schemes."

Even though many investors have paid full tax and are due for a partial refund, Mr van Heerden expects the Receiver to have a huge cash inflow.

He says that before the scheme was stopped, investors stood to get about R3 to R7 in tax deductions for every rand invested.

"There were even some schemes that were geared up to 38:1."

Altron group corporate relations executive Jacques Sellschop says: "We welcome the intimation of a settlement offer as a positive step to improving the relationship between the taxpayer and fiscus."

Unfair

Intertax director Peter Gower says: "The deal is not unreasonable. It is important that the matter has been brought to a head because much unproductive time was devoted to it.

"But it may be unfortunate for investors who genuinely paid marketing and production costs out of their pockets."

Kessel Feinstein tax partner Ernest Mazansky says although it is the best that can be expected in the circumstances, the deal is unfair to honest taxpayers who became involved on the strength of rulings given by Inland Revenue and public assurances by then Finance Minister Barend du Plessis.

"Many of those people have had the rug pulled from under their feet and are not even coming out square."

Mr Mazansky expects the offer to be generally accepted.

"I doubt that there will be enough rejections among the 38 000 people involved to form a power bloc to fight the matter.

"Investors run the risk of losing the case and not being allowed any write-offs."

Mr Mazansky says that even accounting firms which marketed the schemes will urge their clients to accept the offer.

Bittersweet ending to ill-starred film schemes

Star 3/5/93

(320)

By Leigh Hassall

Taxpayers have scored a tainted victory over the tax authorities in the eight-year battle over the deductibility of their investments in film schemes.

The Commissioner for Inland Revenue (CIR), over the weekend, proffered an olive branch to 38 000 taxpayers who invested in 150 film partnership schemes in the mid-1980s.

As a compromise, the CIR will allow investors a one-and-a-half-rand deduction from taxable income for every one rand of the net investment amount, as defined.

In other words, for a R10 000 film investment, where no other income has been received, a deduction of R15 000 will be allowed.

A significant aspect of the settlement package is that interest due on the taxes unpaid to date has been waived in full.

Some taxpayers have an accrued interest bill running into hundreds of thousands of rands.

The settlement offer is not compulsory and taxpayers have until September 30 to decide whether to exercise their option.

A quirk of the settlement offer is that nothwithstanding the September deadline, interest will only be waived if taxes are paid before May 31.

The offer represents a bittersweet victory for investors.

Many taxpayers invested in film schemes in the hope of obtaining a tax deduction of, on average, five times. They were assured of these deductions by the written rulings and oral assurances given by the tax authorities.

The CIR's settlement offer falls far short of the promised returns. However, the carrot in the settlement package is the total waiver on interest due.

The interest waiver, the one-and-a-half-times deduction, as well as the taxpayer having enjoyed the use of the unpaid tax money should, generally speaking, put investors into the posi tion they were before the advent of the film schemes.

These factors should ensure that many individuals accept the CIR offer. Some large corporate investors, however, might see fit to test their cases and go for the larger deduction.

Fiona Peart of attorneys Hofmeyr van der Merwe advises individuals to accept the settlement offer.

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"Litigation is expensive and can be protracted. Acceptance of the offer will set the investor's tax affairs on a more even keel," she says.

Before election of the offer can be made, the taxpayer must prove that his film partnership met the overriding requirement of the CIR settlement offer.

The CIR requires that the film must have been made and released for commercial viewing in an export country. The onus is on the taxpayer to prove the claim.

This requirement rules out those who invested in films which were not completed or marketted. Films screened at film festivals but never distributed will be an issue for debate.

An important aspect of the offer is that the one-and-a-half deduction is not applied to the rand amount invested in the film partnership, but applied to a defined "net amount".

This net amount is defined as the contributed amount of the film investment, less any income received by the investor until February 28 1993.

Those who invested in successful films will be seriously penalised by this condition.

Another important aspect is that the deduction is only allowed in the year of assessment in which the investment was made.

This stipulation foils the many films which were structured in such a way as to take advantage of a three-year spread of tax deductions.

Significant to those taxpayers who have export activities, the turnover relating to films will not be allowed to be taken into account in determining the export tax allowances.

Interest will only be waived if the taxpayer pays his outstanding tax bill on or before May 31 this year. This extremely short period could present many taxpayers with cash flow problems.

Those taxpayers who have already paid their assessments on the previously disallowed film deductions will receive interest on the amount overpaid from the Receiver.

Overall, the CIR's settlment offer is likely to be well bid.

It should also serve to lessen the red faces of all those who starred in the whole debacle — the tax authorities, and the financial advisers who advised their clients on the film schemes.

Receiver 'willing to settle tax schemes'

BDM 3/5/93 (320)

PETER DELMAR

GOVERNMENT's offer to settle the R2bn film subsidy dispute could soon be followed by moves to end controversies over other tax schemes involving hundreds of millions of rands.

Fisher Hoffman Stride tax partner Anthony Chait said yesterday Internal Revenue officials had indicated a willingness to start negotiations on disputed tax schemes involving timber plantations, game farms, aircraft and bloodstock.

Chait, who was involved in talks brokering the film deal, said the offer, approved by Finance Minister Derek Keys, had "sounded the deathknell for tax avoidance schemes in general".

Acting Commissioner for Inland Revenue Trevor van Heerden said yesterday film investors would be allowed an income tax deduction equal to 1,5 times net investments made in film schemes before February 28 this year.

Van Heerden said: "The purpose of the offer is to resolve a dispute which has disrupted the administration of the Income Tax Act. The offer is a compromise."

Inland Revenue set a deadline of September 30 by which investors had to confirm their acceptance of the offer.

Chait said the plan was likely to be accepted by most of the estimated 38 000 film investors. They could refuse the offer and pursue further legal action, but by doing so would forfeit the right to take up the offer.

In the case of plantations, the Appellate Division is due later this month to consider an appeal which could have an important influence on the dispute. It is believed that more than R100m is involved.

Star 3/5/93

Long-term prospects for inflation brighten

By Sven Lünsche

Although the inflation rate is expected to show a VAT-induced rise above 10 percent in April, economists are convinced that it has decisively broken the 10 to 17 percent range of the past 18 years.

The Central Statistical Service reported on Friday the March inflation rate increased to 9,7 percent compared with nine percent in February. On a monthly basis the consumer price index (CPI) rose by 1,5 percent despite a 0,6 percent decline in the cost of food.

The larger-than-expected rise was mainly due to soaring education costs. The CPI for education surged 64 percent between February and March this year, reflecting an increase in Model C school and university fees.

The increase in VAT from 10 to 14 percent, higher excise duties, more expensive fuel and rising postal rates are expected to return inflation to between 10 and 11 percent in April.

Nevertheless, economists expect a continuation of the longer-term downward trend once these short-term effects have been absorbed.

In Southern Life's latest Quarterly Economic Comment economist Mike Daly says inflation was expected to average about 10 percent this year compared with 14 percent in 1992.

"Once the impact of VAT falls out of the year-on-year comparison in April 1994, the rate is expected to fall quite sharply to seven percent.

"Inflationary pressures are not expected to pick up significantly until the latter part of 1994 at the earliest," Daly says.

Sanlam economist Johan Louw says the factors that contributed to the sharp deceleration in inflation in the past nine months will still be present this year.

Labour costs

320

These factors include:

- The continued recession.
- The lower rate of increase of real labour costs as a result of slower wage rises and higher productivity.
- Improvements in agricultural conditions, leading to lower food price rises.
- The reduction in bond rates.
- The moderate inflation rates of SA's trading partners.
- The steadiness of the real effective rand exchange rate.
- Continued financial discipline, as reflected in the moderate expansion of the money supply and credit granted.

Dual tax draws flak from foreign bank

BDM 3/5/93

KELVIN BROWN

320

THE new secondary tax on distributed profits could be criticised for being economically inefficient and encouraging a greater concentration of SA industry, the Bank of Lisbon said in its April Economic Focus.

In the 1993 Budget company tax was cut to 40% and a 15% secondary tax on distributed profit was introduced.

By encouraging retention of profits, the dual profits tax would weaken the influence of SA's capital market.

"Investment resources retained by companies would not be subject to the test of the market, creating the danger that funds would not be invested efficiently."

There was also the danger that directors would treat retained earnings with less care since these were viewed as cheap capital. BDM 3/5/93.

The economy would be better served if companies were encouraged to distribute profits which they could not use effectively themselves. There would then be the chance that profits would be invested more effectively by shareholders. Capital market supporters claimed that shareholders tended to invest resources in the most economically desirable channels, the bank said.

Under the dual tax system there was the risk that some firms would put retained income into ventures that yielded a lower rate of return than if the money had been distributed to shareholders. "Some analysts argue that the average director thinks he will lose more in prestige when a project fails than he would gain when extaordinary profits accrue by taking a special commercial risk."

The dual tax system could further reduce competitive elements in SA's economy and strengthen corporate control. By encouraging retained earnings the new tax system would strengthen the position of large firms, which could use accumulated reserves to take over other companies since stringent exchange controls ruled out new foreign investments.

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180 TAX 320

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Star 5/5/93

Retail sales likely to be static

320

By Claire Gebhardt

Consumers are set to save about R1,5 billion on housing costs with interest rates on home loans two to three percent lower in 1993, according to Unisa's Bureau for Market Research (BMR).

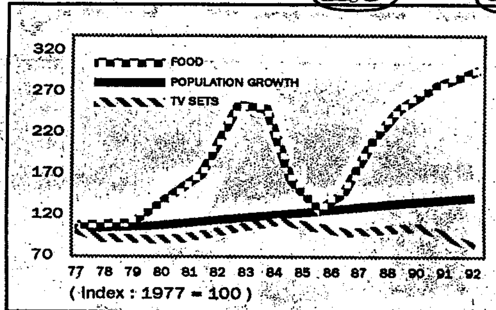
But anything they save on the housing front will probably be needed to keep the wolf from the door somewhere else.

That's the message from the BMR's Professor Marius Loubser who sees a large proportion of this spending finding its way to the retail market, boosting sales by 0,5 percent.

"However, because the informal sector is likely to expand at the expense of the formal sector, total formal retail sales will remain at much the same level as in 1992."

In its total retail sales scenario for 1993, the BMR predicts sales will average three percent lower in the first six months and three percent higher in the second six months.

The predicted upswing in the second half of the year will be the result of several factors including relief from the adverse effects of the drought, additional state expenditure on social services (R700 million for the equalisation of social pensions alone from September 1993) and the psychological boost provided by the expectation of a moderate revival in the economy in the second half of 1993.



Population growth and retail sales of food and TV sets, 1977-1992

Of the total expected sales volume of R87,6 billion, whites are expected to command R37,7 billion (43,1 percent), blacks R37,8 billion (43,1 percent), coloureds R8,1 billion (9,2 percent) and Asians R4,1 billion (4,6 percent).

Non-white population groups have a share of more than 50 percent of the market for eleven of the nineteen merchandise groups surveyed.

The BMR's 15-year survey on trends in population growth and retail sales of food and TV sets, shows that food sales have declined in each successive year from 1984 to 1987.

Thereafter, until 1990, they rose annually more or less in tandem with the increase in population growth.

The BMR says a seven percent drop in food sales in 1991, followed by a further drop of 12,4 percent in 1992 was due to a downswing in personal disposable income on the one hand and an upswing in the informal sector's activities on the other.

"The introduction of VAT on food during the last quarter of 1991 helped push down food sales in 1992 but the expansion of the list of zero-rated food items as from April 7 is expected to prevent a further drop in food sales in 1993."

The BMR expects informal food retailing to expand its share in total food sales, resulting in a 1,3 percent drop in the formal sector.

Retail sales of TV sets, after rising sharply from 1979 to 1983, showed virtually no growth in 1984 and by 1986 had plummeted to an all-time low due to poor economic conditions and high interest rates.

Accumulation of demand in 1985 and 1986, the electrificaion of black townships and a growing replacement market fuelled a strong recovery after 1986.

Sales rose by an average annual rate of about 5,5 percent between 1989 and 1992 and are expected to increase by 5,7 percent in 1993.

● The Central Statistical Services expects retail sales for April this year to total R7,64 billion — a decline of 3,7 percent in real terms on April last year.

Sales for the three months to April are also 4,8 percent lower than in the preceding three months from November 1992 to January this year.

Capital gains and land tax should boost activity

BDay 5/5/93. (320)

BOTH a capital gains and a land tax are likely to be introduced in the near future, which should boost sagging activity levels in the property valuation industry.

But the basis for valuing the properties could be problematic, as a number of different systems have been introduced worldwide, says Coopers Theron du Toit director Koos van Wyk.

While the market evaluation of land value will most likely result in a surge of activity for local valuers, it is unlikely that government will enforce private evaluations of every piece of land, as this will be very expensive.

While the taxes were not introduced in the latest Budget, it is most likely that a future government will do so, he says.

"While the administrative expense of such taxes often do not justify the revenue generated, the majority of the people will perceive it as fair because it constitutes a redistribution of wealth," he says.

SA Institute of Valuers Natal chairman Martin White says both forms of taxation must be based on value — past and present in the case of capital gains tax, to be able to identify the "gain".

Similarly, if a land tax is levied, it must be based on value. This may be capital value, municipal value, rental value or a formula devised by the legislature.

However, the services of a valuer will be required at some stage, he says.

Dunlop Heywood joint MD Ian Mitchell says that generally, property owners in developed areas already pay rates — a form of property tax.

Van Wyk says the level to which the capital gains tax will be depreciated by inflation needs to be carefully addressed.

Penalised

"Such a tax will be inequitable if inflation is not taken into account, as many apparent capital profits do not keep pace with inflation and people could thus be penalised," he says.

White says that if additional forms of taxation on the ownership of land are introduced, care must be taken to ensure that such taxes do not inhibit the development and the best use of that land.

"If the tax is to be seen as a wealth tax, then its base must be market value. Current proposals to adopt market value as the basis for all municipal valuations would suggest that these could well form part of the basis of any future taxes," he says.

This tax base could possibly be expanded by imposing a rates burden on all properties in the country.

"This process would involve the professional valuer, in acting for the authorities and for individuals wanting to contest the valuations upon which the tax would be based," he says.

BUSINESS

Anglo queries harsh aspects of new tax

Star 7/5/93

By Sven Lünsche

Anglo American has asked for aspects of the new Secondary Tax on Companies (STC) to be referred to the Tax Advisory Committee (TAC) for investigation.

The STC was introduced in the Budget as a tax on income distributions, with effect from March 17 this year, to compensate for revenue losses resulting from the lowering of the corporate tax rate from 48 to 40 percent.

However, Anglo said yesterday that serious anomalies arose for companies whose financial year ended in March because the lower tax rate applied only if the year ended after March 31.

Companies could end up paying a total tax rate on earnings of 54,78 percent if their earnings were fully distributed as dividends on or after March 17.

"Companies affected by this transitional anomaly are being taxed simultaneously under two tax systems; there is a period of overlap in terms of which the harshest aspects of the two systems coincide, namely the 48 percent tax rate and STC.

"This places such companies at a considerable cost-and-cash-flow disadvantage in relation to companies taxed under the old system, as well as companies whose year ends after March 31."

Anglo's tax consultant Marius van Blerck said the group had received sufficient clarification to declare dividends on its investment companies, Anamint, Amgold and New Central Wits.

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Cut dividend

Anamint has cut its total dividend to 312c (382c) for the year to end-March on equity-accounted earnings of 667c (857c) a share.

New Central Wits reduced its total dividend to 139c (196c) as net income plunged from R8,1 million to R2,6 million.

However, the operating companies Amcoal and Ampros are affected by the inequitable transitional measures under STC.

It is not expected that Amcoal will delay its dividend declaration, although it will make a provision for STC.

But Amcoal will have to decide whether to absorb the higher effective tax rate, reduce the dividend or both.

FM 7/5/93.

seasonally adjusted rise of 5,1% in total credit extended between the end of November and the end of February. (Figures for March are not available.) This shows consumer confidence is low but is far from being at the depressed levels indicated by M3 growth.

Another factor to be considered is that March was the end of the fiscal year and government spending is often delayed in that month to keep the figures as presentable as possible. In that case, the monthly dip would have been followed by a compensatory rise in April, which will be incorporated into that month's money supply figures.

The long-term declining trend in money supply growth is at least a harbinger of a lower rate of inflation.

Annual growth in M3 peaked in August 1988, at 27,5%. In the years that followed inflation climbed from 13,3% in January 1989 to 16,5% in October 1992. A slide in money supply growth saw inflation fall to single digits by December 1992. As both figures have been technically distorted over the period, the correlation is not perfect. But, overall, it suggests that, with 12-month growth in M3 down to 5,33% in January, 5,18% in February and an estimated 5,15% (to R198bn) in March, there can be little fundamental pressure on inflation. Which means the exchange rate should stabilise in the years ahead.

Money supply figures for February show:

- ☐ M0 rose 11,7% to R13,4bn;
- ☐ M1A 24,5% to R42,1bn;
- ☐ M1 14,17% to R70,4bn;
- ☐ M2 6,9% to R168,7bn; and
- ☐ M3 5,2% to R197,4bn.

MOVIE SCHEMES FM 7/5/93

Happy endings

The terms Inland Revenue has announced for the settlement of outstanding assessments of taxpayers, who had committed funds to so-called movie schemes, have implications for those involved in schemes based on plantations, bloodstock and aircraft.

The recent decision of the Transvaal Income Tax Special Court, in the *Jake Speed* case, gave final impetus to the movie settlement. The Income Tax Act will be amended this year to provide for it and taxpayers will have to prove that the movie was manufactured and released for viewing in an "export country" (one in relation to which the benefits under Section 11*bis* of the Act were available). (320)

The offer ~~must be~~ accepted in writing on or before September 30. The most important terms of the offer (see box) are to allow a

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deduction of 1,5 times the net amount which the taxpayer paid, as his contribution to the partnership, and to waive interest on outstanding tax for the period ending on May 31 1993, provided the tax itself is paid by then.

The willingness to waive post-assessment interest, under Section 89, and interest on underpayment of provisional tax, under Section 89*quat*, are vital. Otherwise taxpayers involved in movie schemes would have faced ruinous interest bills. Underpayments of provisional tax in some cases stretch back as far

cont → . R.T.O.

THE OFFER

FM 7/5/93.

☐ **The taxpayer** will be entitled to a deduction from income of 1,5 times the net amount of his contribution to the partnership which manufactured the movie, in the tax year it was paid. "Net amount" is defined as the amount contributed to the partnership from the taxpayer's own resources, or from an outside loan with lender's full right of recourse against the partnership — less any payment of income to the taxpayer up to February 28 1993. No further deduction will be allowed for the manufacture or marketing of the movie for the period ending on the same date; (320)

☐ Interest for ~~outstanding~~ tax under Section 89 of the Act, and Section 89*quat*, will be waived for the period ending May 31 1993, provided the tax is paid by then;

☐ Where tax has already been paid, and the terms of the offer establish a refund, Revenue will pay interest on adjusted over-assessments under Section 88 and for overpayments of provisional tax under Section 89*quat* (until September 30 1992);

☐ Where the taxpayer was engaged in other export activities his share of the partnership income from movie activity will not be taken into account in calculating his "export turnover" for the other activities under Section 11*bis*;

☐ Any taxable income derived from the movie after February 28 1993 will be subject to tax irrespective of source, so including foreign income;

☐ Where a past assessment, which has become prescribed under the three-year rule (Section 79), allows any deduction for the manufacture or marketing of the film, the deduction under the settlement will be accordingly reduced; and

☐ Details of the procedure required will be announced soon.

Anglo appeals for relief from tax 'prejudice'

320 MATTHEW CURTIN

ANGLO American has appealed to the Finance Department's Tax Advisory Committee to take action to counteract the unfavourable impact of the new company tax regime. The new dual tax system threatens to prejudice Anglo subsidiaries against those with different year-ends, adding millions of rands to their tax bills.

The reason for the anomaly is that Anglo companies will fall under both the old tax system and the new one proposed in March in the Budget. BDAY 7/5/93.

Anglo believes that without special transitional measures, subsidiaries with year-ends on or before March 31 will be prejudiced by sharply higher total tax rates of 55% or 62%.

In contrast, companies with year-ends from April 1 fall only under the new system of a 40% company tax rate and 15% levy on distributable profit — the secondary tax on companies (STC) — which will equate to a maximum tax rate of 48% if a company distributes all its earnings.

An Anglo spokesman said yesterday this placed March year-end companies "at a considerable cost and cashflow disadvantage in relation to companies ... taxed under the old system and allowed to distribute their dividend unaffected by STC, as well as companies with year-ends after March 31, taxed at the lower rate".

He said the authorities had clarified the tax position of Anglo's investment holding companies Anamint, Amgold and New Central Wits. However, "the operating subsidiary companies of Anglo are affected by the inequitable transitional measures dealing with companies with financial years ending on or before March 31 1993".

The lower 40% company tax — reduced in the Budget from 48% — takes effect from April 1. Consequently, March year-end companies fall under the old rate.

However, Finance Minister Derek Keys said STC would be introduced from March 17, leaving March year-end companies paying the old higher tax rate and STC.

The Anglo spokesman said: "If the change from the old system to the new were to be implemented in this manner,

☐ To Page 2

Anglo

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☐ From Page 1

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the consequence would be that a full distribution on or after March 17 of earnings of companies taxed at the old 48% tax rate, would be subject to a total tax rate on those earnings of 54,78% compared with the above-mentioned rate of 47,83%. In the case of non-resident shareholders subject to the standard rate of non-resident shareholders' tax the total tax rate rises to 61,56%."

Suggestions that March year-end companies would be compensated by the benefit of improved cash flows ignored the fact that all companies benefited from this.

He said Anglo accepted there had to be a cut-off date for implementing the new tax, but it was possible to design a system, with safeguards against its abuse, which could compensate for the anomaly.

● See Page 9

Higher VAT boosts cover burden

Star 8/5/93 (320)

FINANCE STAFF

SO YOU thought a 4 percent increase in VAT to 14 percent would not be so bad. There are concessions for basic foodstuffs, but what about the added price of services like insurance?

An additional 4 percent VAT will add between 7,29 and 7,78 percent to your insurance premium, depending on how it is calculated.

Apart from the obvious extra 4 percent, you will have to increase your sum insured to accommodate the extra costs incurred in replacing goods that have been destroyed, damaged, lost or stolen.

So by increasing your sum insured and adding the extra 4 percent VAT to your premium, you are going to pay at least 7,29 percent more.

Do not think you have a choice. The principle of average always applies to your sum insured. If you are under-insured, you will be under-reimbursed for your loss.

The best advice is to increase your sums insured and shop around for the best rate. This information is easily available if your broker uses a company like Compuquote or you have access to Beltel.

The good news is that not all insurers have adjusted rates to accommodate the extra VAT. Commercial Union has adjusted only its motor rates, which remain competitive. SA Eagle has increased its sums insured.

Reducing

However, the consumer is increasingly resisting increases. Insurers made huge profits in the past year, partly because there were no major natural disasters; this year is not necessarily going to be the same.

Some insurers such as General Accident are reducing their rates to become more competitive.

However, things do not stand still in an economy, and inflation and the shrinking value of the rand will add to insurers' costs when claims are made, directly affecting their bottom lines. No premium increase is the equivalent of a premium reduction by the inflation amount.

This is no consolation for South Africans, who are getting poorer while unemployment, inflation and taxes reduce disposable income.

It is not the economic *kragdadigheid* or "good planning" of Chris Stals and the Reserve Bank that is reducing the South African inflation rate.

It is rapidly increasing poverty, and there will come a time when consumers can be milked no more. Nor can businesses carry much more of a burden. Less disposable income leads to less business, which leads to less employment and less income.

In only one year — 1991-1992 — the percentage of cars stolen that were insured dropped from 25 to 22 percent.

Second home can be good tax instrument

Star 8/5/93

320

THE right gearing and claiming expenses can both be a boon to investors, but there's dangerous ground too and the Receiver will pounce swiftly if the system is abused, warns LEIGH ROBERTS.

But be sure to fall within the Act's conditions

BUYING a second house can prove to be a gem of an investment. The existing tax law provides for a heaven-sent asset — tax deductible expenditure and tax-free capital gain on the sale proceeds.

To boot, in the unfortunate event that your investment renders a loss, the loss may in certain circumstances be offset against your other income and so reduce your overall tax bill.

Your investment in a second property should, however, meet certain conditions before it proves itself as a tax-efficient vehicle.

The income you receive from the letting of your property is fully taxable as it is defined as "trade income" in the Income Tax Act. Thus, the rentals earned on your second house or South Coast cottage should be included in your tax return.

Expenses

The benefit of the second property is that this income can be reduced by the expenses incurred in its production. Acceptable expenses include the interest portion of your mortgage bond repayments, insurance, rates and taxes, cleaning and gardening services, water and lights, agent's letting fees and monthly levies.

The cost of repairs and maintenance may also be deducted, provided they are not capital improvements.

The deductibility of the interest on your bond provides an incentive for your second property to be highly geared.

The hazy area of second property investments is where the expenses incurred exceed rental income and the loss is used to reduce other taxable income, such as a salary or business.

When claiming this rental loss in their tax returns, many taxpayers have landed up with a 20-question query from the taxman.

Beric Croome, tax partner of Kessel Feinstein, says: "Technically, if the rental loss arises from trade activities — that is, it has not been incurred from private usage — the loss should be allowed."

Croome says the two areas that fall under Revenue's spotlight are the "holiday home" which is privately used for part of the year, and those investment properties on which a loss is claimed for tax purposes.

The investment property comes under the taxman's scrutiny as it begs the question that an investment should not render a loss.

Croome says a feasibility study on the investment showing that a profit is likely a couple of years down the line should stand the taxpayer in better stead to claim the loss. Factors such as the present high bond rates and the low rentals obtainable because of the economic recession should also be noted.

The holiday home comes under attack as the taxpayer clearly has a dual motive in the property — private as well as trade use. In practice, such a loss is rejected by the taxman.

However, Croome says recent changes in the Income Tax Act augur well for a portion of this loss to be claimed by the taxpayer. He adds that the revised section 23(g), the denial of expenses provision, allows for an apportionment of the expenses, and therefore the loss, between private and trade. This section is effective from the 1992/93 tax year.

What often passes unnoticed by the taxpayer, but not the taxman, is that occupational rental paid by the new owner of the house is taxable in the seller's hands. It is not tax deductible in the buyer's hands.

An issue concerning many investors is whether the proceeds on the sale of the investment will be taxable. Croome says the issue is dependent on the profile of the investor.

Gearing

It will be near impossible for an estate agent to claim the property as an investment. The gearing of the investment is important — an investor should not take a 100 percent bond but rather a bond of up to 90 percent.

The frequency of selling is an important factor in the capital versus revenue debate.

Renovators who sell every couple of years, despite having lived in the house, are also at risk of being classified as dealers in property.

Croome says that in terms of tax case law there should be "a compelling reason" to sell your investment.

The downside of investments in property is the as yet uncertain spectre of some form of wealth tax and a land

PRE-TAX RETURNS ON A SECOND PROPERTY

Assume: Purchase price of R100 000; deposit R10 000; bond R90 000; sale after 5 years at market value of R250 000.

INCOME AND EXPENDITURE (R)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Rental (10% escalation)...........	12 000	13 200	14 520	15 972	17 569	73 261
Less:						
Bond repayments (no change in rate)................	16 800	16 800	16 800	16 800	16 800	84 000
Expenses (15% inflation).......	2 400	2 760	3 174	3 650	4 198	16 182

Getting your own VAT

S Times (C Metro)

on Europe

(320)

9/5/93.

LOCAL businessmen who travel to Europe are able to reclaim VAT charges on business expenses in many countries on their return to South Africa.

Dr Issy Bacher, managing director of Meridian, says many businesses are unaware they qualify for rebates.

"Most larger companies with big budgets make regular use of the rebate system. However, smaller businesses tend to be unaware this avenue is open to them," he says.

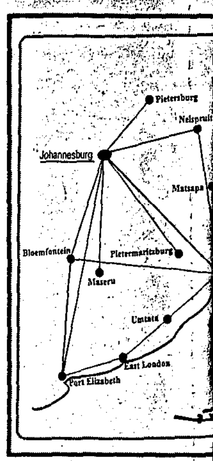
"Several conditions have to be met to submit a successful claim. The local businessman has to prove to the authorities overseas that the trip was made for business purposes. This is done by presenting a company registration number and a VAT number.

Expenses

"Forms have to be filled in and these, together with original invoices, determine whether expenses were business-related. VAT rates vary from country to country but the two main territories targeted in Europe are the United Kingdom with a VAT rate of 17,5 percent and Germany which charges VAT at 15 percent. Again, different countries allow visitors to claim on different goods and services. In Germany and the United Kingdom VAT on hotel expenses can be reclaimed but not in France, for example," says Dr Bacher. Trade fairs, telephone calls and transport are all candidates for a claim subject to laws in those countries.

"Typically, larger companies will make their claims in-house while smaller businesses obtain the help of a consultant.

"The procedure can be tricky and has to be done properly. It takes between six and nine months for claims to be settled and consultants charge a negotiable percentage of the money recovered," he said.



Waltons pays [illegible]r extra R28-m after film tax ruling

Star 11/5/93

By Sven Lünsche

Waltons Stationery has paid nearly R28 million in additional tax after last week's government ruling on tax allowances for film investments made in the 1980s.

The tax has been declared as an extraordinary item in Waltons' financial results for the year to end-February.

The group says it still feels that the allowance should have been granted, but accepts the settlement to avoid further costs.

It did, however, benefit from a lower corporate tax rate, which cut its tax bill for the year to R31,3 million (R41,6 million) and reduced the 18,4 percent fall in profits at the operating level to a 9,1 percent drop at the attributable level.

The fall in operating income from R99,3 million to R83,9 million follows a R40 million improvement in turnover to R788,1 million (R748,2 million) and is ascribed to difficult and uncertain trading conditions.

Earnings per share eased to 43,3c from 47,6c and the dividend has been reduced sharply by 21,1 percent to 15c (19c).

Holding company, Walhold, has cut its dividend from 19c to 15c.

Retailers scored in pre-VAT sales surge

Star 13/5/93

Finance Staff

Sales of durable goods in March soared on pre-emptive buying ahead of the 40 percent rise in VAT in April. (320)

Figures compiled by the Retailer Liaison Committee show that furniture sales in March rose by 25,7 percent in nominal terms on the same month in 1992.

Comparative statistics show TV sales up by 20,8 percent year-on-year, appliance sales by 24,8 percent and audio equipment sales by 16,9 percent.

Commenting on the figures, Frans Jordaan, executive director of the Furniture Traders Association, says part of the reason for the excellent sales was the pre-VAT rise.

However, sales to black consumers were also considerably higher.

"One cannot draw too many conclusions from one month alone," he says.

"January and February sales were not nearly as good as March and sales in April are bound to have been negatively affected by the many holidays and stayaways."

Buyers go on spree

(32) MARCIA KLEIN

PRE-VAT buying saw sales of furniture, appliances and TV and audio equipment rise significantly in March after a slow start to the year. BDay 13/5/93

Retailer liaison committee figures showed that during March, furniture sales grew by 25,7%, appliances by 24,8%, audio by 16,9% and TVs by 20,8% at current prices.

These sales were significantly higher than those of the previous two months.

Furniture Traders' Association executive director Frans Jordaan said that in January, sales of furniture, appliances and TV and audio equipment grew by 11,7%. In February, sales grew by only 9,5%.

Jordaan attributed the hike in March sales partly to pre-VAT buying and partly to a significant increase in sales to black consumers.

32. Sharda Devi Goordeen—420829 0103 08 9—26 Mountain View Road, Silverglen—***Maharaj.***
33. Khursheed Banoo Ghanny—490314 0094 08 8—30 Harley Street, Havenside—***Abubaker.***
34. Padmavathie Dorasamy—581115 0079 08 0—119 Crossmoor Drive, Crossmoor, Chatsworth—***Perumal.***
35. Leelawathi Budhoo—370528 0054 08 2—18 Road 609, Chatsworth—***Nundraj.***
36. Roychandh Kathwaroo Bidasee—581029 5095 08 4—7 Surcrose Road, Isipingo Hills—***Bidasee.***
37. Dropathi Baijnath—330709 0067 08 9—33 Crown Road, Kenville—***Parsuram.***
38. Khanpathi Bansi—500729 0052 08 3—23 Naik Road, Kharwastan—***Ramlall.***
39. Shaik Ebrahim Ebrahim—360824 5051 08 8—22 Valiant Place, Bombay Heights, Pietermaritzburg—***Aziz.***
40. Thara Devi Anand Ram—550604 0130 08 1—55 Road 706, Chatsworth—***Ramsurran.***
41. Salma Bee Ali—480313 0104 08 9—P.O. Box 60029, Phoenix—***Khan.***

32. Sharda Devi Goordeen—420829 0103 08 9—Mountain Viewweg 26, Silverglen—***Maharaj.***
33. Khursheed Banoo Ghanny—490314 0094 08 8—Harleystraat 30, Havenside—***Abubaker.***
34. Padmavathie Dorasamy—581115 0079 08 0—Crossmoor Rylaan 191, Crossmoor, Chatsworth—***Perumal.***
35. Leelawathi Budhoo—370528 0054 08 2—609 Weg 18, Chatsworth—***Nundraj.***
36. Roychandh Kathwaroo Bidasee—581029 5095 08 4—Surcroseweg 7, Isipingo Hills—***Bidasee.***
37. Dropathi Baijnath—330709 0067 08 9—Crownweg 33, Kenville—***Parsuram.***
38. Khanpathi Bansi—500729 0052 08 3—Naikweg 23, Kharastan—***Ramlall.***
39. Shaik Ebrahim Ebrahim—360824 5051 08 8—Valiant Plek 22, Bombay Heights, Pietermaritzburg—***Aziz.***
40. Thara Devi Anand Ram—550604 0130 08 1—706 Weg 55, Chatsworth—***Ramsurran.***
41. Salma Bee Ali—480313 0104 08 9—Posbus 60029, Phoenix—***Khan.***

DEPARTMENT OF STATE EXPENDITURE

(320)

No. 814 **14 May 1993**

Statement of Revenue collected during the period 1 April 1992 to 31 March 1993 (Preliminary).

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

No. 814 **14 Mei 1993**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Maart 1993 (Voorlopig).

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting	Month of March Maand Maart		Total 1 April to 31 March Totaal 1 April tot 31 Maart	
		1992–93	1993	1992	1993	1992
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	50 484 300 000	5 944 551 724	4 382 172 858	45 270 175 058	42 450 799 424
Loan Levy 1989–94	Leningsheffing 1989–94	—	—	—	173 464	2 032 358
Sales tax	Verkoopbelasting	21 019 700 000	12 579 951	(16 768 115)	88 145 145	10 546 590 899
Value added tax	Belasting op toegevoegde waarde	—	2 162 653 246	1 505 389 017	17 004 390 328	7 800 184 190
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	320 000 000	13 251 839	18 305 531	273 186 631	334 786 669
Non-residents' tax on interest	Rentebelasting op buitelanders	—	5	398	16 629	38 224
Undistributed profits	Onuitgekeerde winste	—	361	—	90 102	365 617
Donations tax	Geskenkbelasting	6 000 000	1 083 957	1 304 888	17 968 121	6 828 573
Estate duty	Boedelbelasting	75 000 000	6 943 898	3 544 698	84 923 283	78 537 535
Trade securities	Handelseffekte	221 000 000	12 880 896	13 738 340	164 508 406	199 755 733
Stamp duties and fees	Seëlregte en gelde	830 000 000	56 209 101	50 491 859	744 118 309	689 784 295
Transfer duties	Hereregte	1 110 000 000	98 995 929	102 111 260	1 249 504 858	915 158 384
Mining leases and ownership	Mynverhurings- en eiendomsregte	295 000 000	31 345 814	75 417 212	188 234 262	324 994 919
Interest and dividends	Rente en dividende	59 450 000	117 428 721	16 260 954	159 337 629	73 799 936
Levies	Heffings	19 000 000	22 206 421	5 813 038	45 454 633	29 155 049
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	59 550 000	29 529 433	10 805 409	96 243 341	45 604 221
Departmental activities	Departementele bedrywighede	1 129 000 000	1 279 285 295	897 891 034	2 717 560 612	1 954 829 519
Capital revenue	Kapitaalinkomste	1 120 000 000	—	—	—	—
	R	76 748 000 000	9 788 946 591	7 066 478 381	68 104 030 811	65 453 245 545
Less: Payments to self-governing territories	*Min:* Betalings aan selfregerende gebiede	1 361 300 000	113 288 947	172 256 274	1 351 577 947	1 412 589 987
Payments to TBVC Countries	Betalings aan TBVC Lande	760 700 000	58 696 802	—	699 970 552	—
Total: Inland revenue	Totaal: Binnelandse inkomste R	74 626 000 000	9 616 960 842	6 894 222 107	66 052 482 312	64 040 655 558
Customs and excise duties:	Doeane- en aksynsregte:					
Customs duty	Doeanereg	3 124 000 000	235 251 010	198 810 733	2 971 500 705	2 735 945 903
Excise duty	Aksynsreg	4 754 000 000	432 999 145	613 705 222	4 402 574 325	3 796 833 433
Surcharge	Bobelasting	1 670 000 000	125 945 679	108 392 208	1 520 294 393	1 455 690 151
Miscellaneous	Diverse	17 000 000	(5 842 653)	(53 619 200)	101 217 507	88 648 709
Fuel levy	Brandstofheffing	6 634 000 000	558 036 126	481 752 807	6 797 898 152	5 207 228 824
Ordinary levy	Gewone heffing	64 000 000	13 999 064	11 934 616	77 067 731	67 180 392
	R	16 263 000 000	1 360 388 371	1 360 976 386	15 870 552 813	13 351 527 412

Head of Revenue	Inkomstehoof	Estimate Begroting 1992–93	Month of March Maand Maart 1993	Month of March Maand Maart 1992	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1993	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1992
		R	R	R	R	R
Less:	*Min:*					
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	5 040 000 000	40 386 500	702 000	5 108 946 000	4 499 724 000
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	11 223 000 000	1 320 001 871	1 360 274 386	10 761 606 813	8 851 803 412
	R	85 849 000 000	10 936 962 713	8 254 496 493	76 814 089 125	72 892 458 970
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	–	12 486 428	–	70 280 587
			–	12 486 428	–	70 280 587
			10 936 962 713	8 266 982 921	76 814 089 125	72 962 739 557
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	–	57 211 984	68 063 597	328 234 663	257 988 372
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	–	5 661 610	2 273 609	58 628 359	32 548 625
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	–	872 419	185 731	15 908 800	7 014 511
	R	–	63 746 013	70 522 937	402 771 822	297 551 508
Grand total	Groottotaal R	–	11 000 708 726	8 337 505 858	77 216 860 947	73 260 291 065
Reconciliation with statement published by Government Notice 660 in *Government Gazette* of 23 April1993:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 660 in *Staatskoerant* van 23 April 1993:					
In Transit, 31 March 1992	In Transito, 31 Maart 1992	–	–	–	480 288 319	–
In Transit/Overremitted, 28 February 1993	In Transito/Te veel oorgedra, 28 Februarie 1993	–	(49 166 851)	–	–	–
Collections as above	Invorderings soos hierbo	–	10 998 758 238	–	77 216 860 947	–
	R	–	10 915 541 875	–	77 697 149 266	–
In Transit/Overremitted, 31 March 1993	In Transito/Te veel oorgedra, 31 Maart 1993	–	(12 318 222)	–	(12 318 222)	–
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	–	(74 488 106)	–	(339 025 809)	–
Received into Exchequer Account	In Skatkisrekening ontvang R	–	10 864 735 547	–	77 345 805 235	–

No. 836 **14 May 1993**

Statement of Receipts and Transfers from the Exchequer Account for the period **1 April 1993 to 30 April 1993.**

Treasury, Pretoria. 320

No. 836 **14 Mei 1993**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk **1 April 1993 tot 30 April 1993.**

Tesourie, Pretoria.

RECEIPTS • ONTVANGSTE

Head of Revenue	Inkomstehoof	Month of April Maand April 1993	Month of April Maand April 1992
		R	R
Exchequer Balance, 31 March 1993	Skatkissaldo, 31 Maart 1993	69 594 614	–
State Revenue Account	***Staatsinkomsterekening***		
Inland Revenue	Binnelandse Inkomste	5 051 675 678	5 056 774 005
Customs and Excise	Doeane en Aksyns	178 247 029	199 560 422
	R	5 229 922 707	5 256 334 427
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	11 786 428
	R	5 229 922 707	5 268 120 855
Other Receipts	***Ander Ontvangste***		
Treasury Bills	Skatkisbiljette	6 438 908 000	–
Bonds:	Obligasies:		
Indefinite Period Exchequer Bonds	Onbepaalde Termyn Skatkis-obligasies	60 000	–
Indefinite Period National Defence Bonds	Onbepaalde Termyn Nasionale Verdedigingobligasies	70 350	–
Internal Registered Stock:	Binnelandse Geregistreerde Effekte:		
12,5%, 1995/96 (R144)	12,5, 1995/96 (R144)	(367 400 000)	–
		–	–
10,75%, 1998 (R160)	10,75%, 1998 (R160)	550 000 000	–
		(71 852 000)	–

Head of Revenue	Inkomstehoof	Month of April / Maand April 1993	1992
		R	R
11,5%, 1999/2000 (R147)	11,5%, 1999/2000 (R147)	835 000 000	—
		(91 998 000)	—
13%, 2009/10/11 (R153)	13%, 2009/10/11 (R153)	2 141 000 000	—
		(312 035 000)	—
12,5%, 1995 (R004)	12,5%, 1995 (R004)	408 433 000	—
		(3 597 000)	—
12%, 2004/5/6 (R150)	12%, 2004/5/6 (R150)	1 426 000 000	—
		(224 134 000)	—
13,5%, 2014/15/16 (R157)	13,5%, 2014/15/16 (R157)	100 000 000	—
		(11 643 000)	—
12,75%, 1999 (R135)	12,75%, 1999 (R135)	300 000 000	—
		(29 296 000)	—
14%, 1995 (R131)	14%, 1995 (R131)	300 000 000	—
		—	—
12%, 1994 (R156)	12%, 1994 (R156)	60 000 000	—
		(278 000)	—
12,5%, 1996 (R145)	12,5%, 1996 (R145)	1 624 534 000	—
		(23 734 330)	—
12,5%, 1996 (R146)	12,5%, 1996 (R146)	47 433 000	—
		(5 474 000)	—
14%, 1997 (R119)	14%, 1997 (R119)	1 070 000 000	—
		(10 687 000)	—
	R	14 934 038 350	—
*Less Discount R.S.A. Stocks	*Min Diskonto R.S.A. Effekte	784 728 330	—
	R	14 149 310 020	—
	R	19 379 232 727	—
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	1 260 304 538	1 177 524 000
Surrenders, 1985–86	Terugstortings, 1985–86	—	140 296
	R	1 260 304 538	1 177 664 296
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***		
Transferfrom State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	523 000 000	522 000 000
	R	523 000 000	522 000 000
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	180 000 000	175 000 000
	R	180 000 000	175 000 000
Account for Provincial Services: Cape	***Rekening vir Provinsiale Dienste: Kaap***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	380 000 000	466 000 000
	R	380 000 000	466 000 000
Account for Provincial Services: Natal	***Rekening vir Provinsiale Dienste: Natal***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	221 000 000	186 000 000
	R	221 000 000	186 000 000
Account for Provincial Services: Orange Free State	***Rekening vir Provinsiale Dieste: Oranje-Vrystaat***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	118 521 000	115 000 000
Surrenders, 1989–90	Terugstortings, 1989–90	—	40 702 546
	R	118 521 000	155 702 546
Account for Provincial Services: Transvaal	***Rekening vir Provinsiale Dienste: Transvaal***		
Transfer from State Revenue Account	Oorplasing vanaf Staatsinkomsterekening	654 000 000	498 722 000
	R	654 000 000	498 722 000
	R	22 716 058 265	—
Total (including Open Balance)	Totaal (insluitende Aanvangsaldo) R	22 785 652 879	—

ISSUES • UITBETALINGS

Dienste	Service	Month of April / Maand April 1993	Month of April / Maand April 1992
		R	R
State Revenue Account (320)	*Staatsinkomsterekening*		
Votes	**Begrotingsposte**		
1. State President	Staatspresident	1 978 000	1 772 000
Statutory Amount	Statutere Bedrag	22 000	19 000
2. Parliament	Parlement	3 571 000	3 571 000
Statutory Amount	Statutere Bedrag	5 000 000	4 550 000
3. Foreign Affairs	Buitelandse Sake	640 000 000	446 000 000
Statutory Amount	Statutere Bedrag	254 000	235 000
4. Water Affairs	Waterwese	30 000 000	30 000 000
5. Administration: House of Assembly	Administrasie: Volksraad	1 260 304 538	1 177 524 000
6. Public Enterprises and Privatization	Openbare Ondernemings en Privatisering	—	623 000
7. Central Advisory Service	Sentrale Ekonomiese Adviesdiens	430 000	385 000
8. Justice	Justisie	73 000 000	58 000 000
Statutory Amount	Statutere Bedrag	4 150 000	3 500 000
9. State Expenditure	Staatsbesteding	45 000 000	60 000 000
10. Administration: House of Representatives	Administrasie: Raad van Verteenwoordigers	523 000 000	522 000 000
11. Administration: House of Delegates	Administrasie: Raad van Afgevaardigdes	180 000 000	175 000 000
12. Correctional Services	Korrektiewe Dienste	175 677 000	149 269 000
13. Defence	Weermag	740 000 000	1 040 000 000
14. Public Works and Land Affairs	Openbare Werke en Grondsake	150 000 000	160 000 000
15. Education and Training	Onderwys en Opleiding	475 000 000	499 000 000
16. Local Government and National Housing	Plaaslike Regering en Nasionale Behuising	60 000 000	38 000 000
17. Mineral and Energy Affairs	Mineraal- en Energiesake	273 785 000	242 708 000
18. Agriculture	Landbou	185 000 000	37 000 000
19. National Health and Population Development	Nasionale Gesondheid en Bevolkingsontwikkeling	150 000 000	85 000 000
20. Police	Polisie	580 000 000	576 000 000
21. Regional and Land Affairs	Streek-en Grondsake	2 535 779 800	2 234 271 000
Statutory Amount	Statutere Bedrag	62 824 000	58 293 000
22. Home Affairs	Binnelandse Sake	30 000 000	24 000 000
23. Environment Affairs	Omgewingsake	18 425 000	17 251 000
24. Commission for Administration	Kommissie vir Administrasie	5 000 000	5 000 000
25. Improvement of Conditions of Service	Verbetering van Diensvoorwaardes	—	—
Statutory Amount	Statutere Bedrag	—	—
26. Transport	Vervoer	265 000 000	164 000 000
27. Constitutional Development Service	Staatkundige Ontwikkelingsdiens	5 525 666	3 434 250
28. SA Communication Service	SA Kommunikasiediens	4 479 000	4 300 000
29. Manpower	Mannekrag	30 000 000	31 000 000
30. National Education	Nasionale Opvoeding	50 000 000	57 500 000
31. Finance	Finansies	163 685 000	105 304 000
Statutory Amount	Statutere Bedrag	954 200 000	925 839 500
*	*	(784 728 330)	(614 559 000)
32. Trade and Industry	Handel en Nywerheid	685 000 000	597 872 000
	R	10 366 090 004	9 538 220 750
*Less Discount RSA Stocks	*Min Diskonto RSA Effekte	784 728 330	614 559 000
	R	9 581 361 674	8 923 661 750
Other Issues	*Ander Uitbetalings*		
Treasury Bills	Skatkisbiljette	6297 325 000	—
Loan Levy	Leningsheffing	273	—
Currency Subscription, I.D.A	Betaalmiddele Bydrae, I.D.A	1 381 915	—
Payment in terms of section 10 (1) (d) of Act No. 66 of 1975	Betaling ingevolge artikel 10 (1) (d) van Wet No. 66 van 1975	23 080 285	—
Bonds:	Obligasies:		
Indefinite Period Exchequer Bonds	Onbepaalde Termyn Skatkis-obligasies	2 871 600	—
Indefinite Period National Defence Bonds	Onbepaalde Termyn Nasionale Verdedigingsobligasies	1 813 100	—
Indefinite Period Senior Citizens Savings Bonds	Onbepaalde Termyn Senior Burger Spaarobligasies	1 196 300	—
Internal Registered Stock:	Binnelandse Geregistreerde Effekte:		
Floating Rate	Wisselende Koers	3 971 404	—
Issues, 1992–93	Uitbetalings, 1992–93	5 000 000	—
	R	6 336 639 877	—
Total: State Revenue Account	Totaal: Staatsinkomsterekening R	15 918 001 551	—
Revenue Accounts:	*Inkomsterekenings:*		
House of Assembly	**Volksraad** R	1 260 304 538	1 177 524 000
House of Representatives	**Raad van Verteenwoordigers** R	523 000 000	522 000 000
House of Delegates	**Raad van Afgevaardigdes** R	180 000 000	175 000 000
Account for Provincial Services: Cape	**Rekening vir Provinsiale Dienste: Kaap** R	380 000 000	466 000 000
Account for Provincial Services: Natal	**Rekening vir Provinsiale Dienste: Natal** R	221 000 000	186 000 000
Account for Provincial Services: Orange Free State	**Rekening vir Provinsiale Dienste: Oranje-Vrystaat** R	118 521 000	115 000 000
Account for Provincial Services: Transvaal	**Rekening vir Proviniale Dienste: Transvaal** R	654 000 000	498 722 000
	R	3 336 825 538	3 140 246 000
Totals	Totale R	19 254 827 089	—
Exchequer Balance, 30 April 1993	Skatkissaldo, 30 April 1993 R	3 530 825 790	—
Totals	Totale R	22 785 652 879	—

Star 14/6/93

No tax on PC pay packages

(320)

Members of the President's Council, which is to be abolished on June 30, would be compensated according to precedents set at the dissolution of the senate and provincial councils, President de Klerk said yesterday.

He said the amounts, which he did not specify, would be tax-free.

The packages would be paid out on June 30 and would not include the five percent salary increase envisaged for political officials from July 1. — Sapa.

Star 15/5/93

Education needs a lift – make it tax deductible

NOTEBOOK

CHRIS
Gibbons

320

A GREAT deal of attention has been focused on education in recent weeks. Should black pupils be expected to pay exam fees or not? If so, how much? If they don't pay, where will the money come from?

Why has the Government chosen this sensitive time to dig its heels in over exam fees?

These are all no doubt important, but they miss a far more important point, crucial to a future South Africa.

Why is the tax system so inimical towards education? As things stand at the moment, employers are allowed only a tiny tax deduction for the most basic kind of primary education. Individuals are allowed not a single cent.

This is madness.

In a land with such massive educational backlogs and underfunding, surely everyone — companies and individuals alike — should be encouraged to pour as much as possible into schemes to benefit youngsters and learning?

About 70 percent of the population will be aged 15 or younger by the year 2000. Unless this mass of humanity is properly educated, South Africa will sink slowly into a primitive morass.

Over and above that, we will also have kissed farewell to any chance of becoming a slightly competitive, let alone winning, nation.

Bear in mind that the Government has called on the private sector to get involved in education, as well as other areas such as housing, for many years. But where is the incentive?

From a tax point of view, there is none, so one must ask: Are the authorities just incompetent or do they fail to understand what motivates business and employees?

A more sinister interpretation is to suggest the Government is saying one thing and instructing its tax collectors to do another.

In other words, it might well want to give the impression of caring about the illiterate masses, while keeping them in exactly that position.

If you think I'm being too (overly) cynical in this respect, remember for a second or two how often Ministers responsible for black education have promised that school textbooks were on the way to black schools. The books often never arrived.

If you search for an example, there's Taiwan. A long-range, intensive education programme was started soon after the isolation of the island-state in 1949. It was the golden key to future prosperity.

What South Africa needs is a system of meaningful tax breaks for companies to fund education programmes for the children of employees.

The system should also be structured so that not only the more philanthropically inclined, but also you and I, can pay education costs for children outside the family circle — and receive a tax benefit.

At present, parents pay tax and school fees — and grumble about both. Change the tax structure, and the grumbles will stop.

Employers will suddenly see the benefit of giving rands for learning to employees and their offspring.

● *The author is programme director of news and sport at Radio 702.*

New tax guide is aimed at farmer, businessman

STimes (C Metro) 16/5/93

SANLAM's Tax Guide for the Agricultural and Small Business industries was launched this week and should prove a useful aid to the farmer and small businessman.

(320)

The tax guide, which previously focused on the farmer specifically, includes for the first time this year, authoritative information for people running small businesses.

The guide waa written by Fran du Plessis, a senior lecturer in the Department of Mercantile Law and Accountancy at Stellenbosch University.

Mr Mauritz Bekker, agricultural economist at Sanlam, said :"The booklet will guide both the farmer and the small business entrepreneur through the various facets of tax legislation.The logical and elementary approach used to explain this complicated matter should enable everyone to understand it."

First ever earnings decline at Tiger

Star 17/5/93

By Stephen Cranston

For the first time in Tiger Oats' history, earnings per share have fallen.

Despite stronger contributions from pharmaceuticals and fishing, there was a three percent fall in earnings to 106c in the six months to March.

The interim dividend has been maintained at 28c.

The contribution from Tiger Foods was down 11 percent to R103,4 million, despite the inclusion of six of months trading from Colman Foods, acquired at the end of 1991.

Sales from the food manufacturing subsidiaries increased by just 6,5 percent and volumes fell by an average of three percent.

Turnover increased by 11 percent to R4,95 billion, but operating profit was up just one percent to R320,5 million.

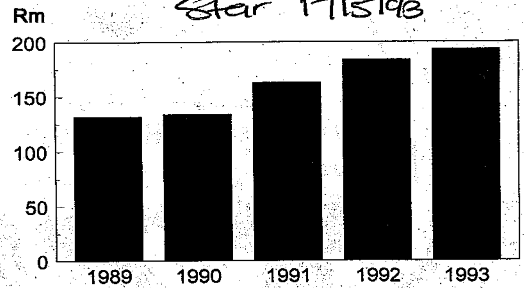
Margins

Chairman Robbie Williams says margins were squeezed, there were lower volumes in some divisions, and losses from the broiler and egg operations.

The depreciation charge was also up after last year's R652 million capital expenditure programme.

Interest paid was down from R40,4 million to R37,9 million. The changes in company tax reduced the tax bill by R22 million, including R9,7 million of deferred tax.

Attributable earnings were up three percent to R159,1 million, but there was an increase in the weighted average number of shares because of the 1992 rights issue. (320)



After-tax profit — five-year interim history

Williams says there were difficulties in the processing of poor-quality imported yellow maize, which led to lower manufacturing yields and a high level of stock returns because of consumer resistance.

Tiger will continue to press the Government to allow imports of yellow maize for animal feed production in the Cape as the current system prejudices Cape livestock and broiler producers.

Yellow maize landed at Cape Town, where major animal feed production facilities are located, is up to R135 a ton cheaper than the product railed from the Transvaal.

There were also unforeseen operational problems at the new oil extraction plant in Kansas in the US.

But Williams argues that the offshore investment will prove a major strength.

Tiger has bought another vegetable oil extraction plant and a sunflower seed confectionery plant in the US.

The contribution of the Langeberg food canning operation was lower due to weaker export prices and reduced local demand.

Langeberg's earnings were down 14,2 percent and the fact that the company must for the first time absorb tax in the current financial year may affect its prospects for the second half.

Tastic Rice had good returns in a competitive market and is "well-positioned to face new competition" in the shape of Uncle Ben's Rice.

Beacon's results improved, although they were affected by reduced consumer spending, as the new facilities in Jacobs, Durban were bedded down.

The distribution interests, particularly Spar, continued to improve profits and market share. The baking and animal feeds interests also improved earnings.

The contribution from fishing increased by 88 percent to R9,4 million and that from pharmaceuticals was up 40 percent to R46,3 million.

Williams feels the results are reasonable, given most difficult trading circumstances, but says the inherent strength of Tiger Oats will ensure continued growth.

Operations

Cash generated from operations increased by ten percent to R442 million, but cash requirements increased by R82,2 million, compared with a R120,9 million increase in the same period last year.

Last year, Tiger enjoyed the benefits of a R385 million rights issue.

Williams says the policy of continuing to invest, despite a declining, difficult economy, will pay off in better times.

But he says 1993 is proving to be a difficult year and an increase in earnings is not expected.

Symbolism a real factor in devising economic policy

B/Day 16/6/93

GRETA STEYN (49)

HOME-OWNERS with swimming pools should pay a special "pool" tax as part of an innovative approach to wealth tax. A tennis court in the garden should also attract a charge, while owning both a pool and a court would really see the home-owner's tax bill rise.

The suggestion, made by a non-economist attending an economic policy conference in Stellenbosch last week, might be crazy but it illustrates an important aspect of economic policy — symbolism. The need to make up for past injustices — or to be seen to be doing so — will increasingly feature in official economic policy as well as in private sector decisions.

The discussion about the swimming pool tax followed a paper on capital gains and wealth taxes by Finance Department unit for fiscal analysis researcher Martin Grote. Grote was quick to point out that government did not support the idea of a capital gains or wealth tax for SA. But, realising the symbolic value of such a tax in a new dispensation, the Finance Department was studying every aspect of it. It was a pre-emptive move rather than a sign of the present government's thinking.

Grote started off by pointing out that capital gains tax was not a revenue spinner. A capital gains tax would raise only about 0,1%-0,3% of GDP, or R330m-R1bn. By contrast, government could raise R4bn-R5bn by introducing a national lottery and taxing gambling. The motivation for introducing a wealth tax would mainly be a response to SA's highly skewed income distribution — or on the grounds of "equity".

SA's absence of a capital gains tax was the exception. An analysis of 112 countries showed that 78 taxed capital gains, either by including it in income, or by treating it separately.

But the introduction of such a tax raised many complex issues. Should capital gain be taxed on accrual or on realisation?

Grote said realised capital gain appeared preferable, as accrual might force owners of capital into liquidating their assets. But taxing realised capital gain raised the issue of people "stalling" tax payments.

There was also the question of symmetric treatment of gains and losses, and the possibility that people would take the benefit of big losses while postponing gains. There had to be limits on the offsets for losses.

Other issues included the specific tax rates corporates and individuals had to pay, and the possibility of also varying tax rates depending on the length of time an asset was held.

The paper drew the comment that a tax on realised capital gain would dampen stock exchange liquidity and could even generate delistings.

Taxation of accrued capital gain raised the problematic issue of valuation. Indexation to take account of the effect of inflation on asset prices was an option, but would create difficulties in an overall policy against inflation.

Grote's paper, and the discussion that followed, highlighted the difficulties in implementing the tax. If the practical problems could be overcome, what would the effect of the tax be on capital formation and economic activity? Will there be an economic cost attached to the symbolic gesture? In the trade-off between equity and efficiency, will the loss in efficiency and hence long-term economic growth outweigh any benefits in attaining greater equity?

Grote noted empirical observation suggested the taxation of capital gains was "not a major disincentive" to economic activity. High rates of economic growth were not uncommon in countries with the tax. He added the argument for a capital gains tax could be "depoliticised" in the context of the trend towards broadening the tax base and lowering the marginal income tax rate.

MBOWENI

The debate about capital gains tax illustrates how efficiency considerations are being weighed up against the need to address past injustices. Managing the trade-off between equity and efficiency is the key challenge facing the fiscal authorities.

The head of the Finance Department's unit for fiscal analysis, Frederick Fourie, presented a paper calling for the development of a philosophy of the fiscal authority in which "no goal stands alone or automatically elevated above the others". Macroeconomic objectives have a relative importance, given development objectives — and vice versa. "The question is not to balance the budget, or balance the economy, but to achieve a balance between competing considerations and interests."

But it is not just government that faces the need to show that it is doing something about past injustices. The private sector cannot turn a blind eye to the calls for black economic empowerment.

Davis Borkhum Hare economist Jos Gerson, delivering a paper on anti-trust and unbundling, started off by saying: "Symbolism and perceptions are part of the reality. We have to address these issues even if it is only symbolic." His view was that the debate on anti-trust and unbundling was "relatively exotic", given the "real" economic challenges the country faced.

If anti-trust was pursued to attain economic growth and reduce inequalities of wealth and opportunity, it was not at all obvious from an economist's perspective that these objectives would be attained.

Anti-trust did not normally concern itself with those questions; it was concerned with consumer welfare and the threat to consumer welfare that the abuse of market power might pose.

These policies could be sold in the US by appealing to the common feeling among ordinary people that they were being "ripped off" by the rich and powerful. Populist resentment in the US of the power of tycoons such as John D Rockefeller and J P Morgan, was a powerful driving force behind the 1911 break-up of Standard Oil and the '30s suppression of pyramids. It was against "the American spirit" to have concentrations of power.

Equality was a red herring, Gerson argued, in the context of breaking up pyramids. A collapse of pyramids in SA would merely redistribute voting power away from the controlling families and towards the financial institutions. It would do nothing to advance the position of blacks or to address the inequality of wealth in this country. "These decisions should not be taken on the basis of symbolism."

However, ANC deputy head of economics Tito Mboweni disagreed with Gerson's view that there were no sound economic arguments in favour of anti-trust. Lumping anti-trust policy with black economic empowerment confused the issue, he said. Firms dominating markets and erecting barriers to entry were an important issue that had to be dealt with for economic and not symbolic reasons.

One man's symbolism is clearly another's economic principles. Economics is unfortunately not an exact science yielding clear-cut answers. Past injustices that encouraged a skewed distribution of income and economic power will continue to haunt economic decision-makers in the public and private sectors for some time to come.

Slow tax payment dents revenue

BDay 17/5/93 (220)

TIM MARSLAND

GOVERNMENT's revenue collection for the first month of the financial year was lower than expected, but this could be due to delays in tax payments, economists said at the weekend.

The Central Statistical Service (CSS) said on Friday R5,229bn revenue had been collected in April, 5,9% of the year's expected collections. In April last year, R5,297bn, or 1,3% more, tax was collected.

CSS said Inland Revenue's contribution had dropped 0,9% from April last year while income from Customs and Excise fell 10,7%. Government spending was on target at R9,581bn compared with R8,923bn last year.

April's deficit before borrowing and debt repayments was 16,6%, or R4,22bn, of the expected deficit for the year, compared with 20,2%, or R3,219bn, for April last year.

Nedcor Bank chief economist Edward Osborn said the low revenue collection was serious but could be explained by unusual delays in payment of VAT and fuel taxes. The new 14% VAT rate came into effect only on April 7. Orders placed before April 7 but delivered before April 28 qualified for the 10% VAT rate.

The drop in income from customs was partly due to a quarterly payment of about R1,2bn to other members of the SA Customs Union.

There could also have been a delay in government receiving taxes generated from the higher fuel taxes, since these were routed through the Central Energy Fund.

Osborn said it was "too early in the year to draw meaningful conclusions on the state of government's finances".

Tax income shock for government

Star 17/5/93

By Sven Lünsche

Tax income will once again be below budgeted targets in the 1993/4 fiscal year, judging from government revenue and expenditure figures for April.

With expenditure rising ahead of budgeted estimates, the deficit before borrowing is once again worryingly high.

If continued, the trend will be an embarrassment for Finance Minister Derek Keys, who has committed the Government to a curb in spending and sound financing policies.

(320)

Central Statistical Services (CSS) figures released over the weekend show that revenue in April at R5,24 billion was 1,3 percent below the same figure for April last year.

For the year as a whole, the Government has budgeted for a 16,5 percent rise in revenue to R88,9 billion from the R76,3 billion it collected in 1992/3.

April's income therefore accounts for only 5,9 percent of expected revenue, a figure which will send alarm bells ringing at the Department of Finance.

Breaking down the revenue figure, the CSS says inland revenue (income taxes and VAT) showed a 0,9 percent year-on-year decline in April and customs and excise duty a surprising 10,7 percent drop.

Government spending in April amounted to R12,2 billion, 10,7 percent higher than in the corresponding month last year — an overall 8,8 percent rise in spending has been targeted for 1993/4.

Spending in April has thus exceeded income by R7 billion, or 80,1 percent, with the result that the deficit before borrowing at R5,3 billion already accounts for 16,6 percent of the year's budgeted limit of R32,1 billion.

Sowetan 18/5/93

August tax returns deadline

THE Department of Inland Revenue has extended to August 31 the submission of 1993 income tax returns for taxpayers who do not receive their IRP5 certificates and IT returns in ~~time for~~ the June 8 deadline. (320)

The department said yesterday there was no longer a shortage of the certificates and returns and employers and bureaux which had been affected would soon start printing and distributing. It said it was possible some taxpayers would not receive them in time to submit their 1993 income tax returns on or before June 8.

Star 18/5/93

Reprieve for taxpayers

Taxpayers unable to submit their tax returns in time owing to a shortage of IRP5 certificates and IT3(a) returns will not be penalised, the Department of Inland Revenue said yesterday. Taxpayers who do not receive the certificates and returns in time to submit them by June 8 will have until August 31 to return the forms. — Staff Reporter.

(320)

Plea for tax on frozen vegetables

Star 19/5/93

Consumer Reporter 246

In an unsual turn of events, the Housewives' League has written a letter to the Commissioner of Inland Revenue, requesting that frozen fruit and vegetables be removed from the list of zero-rated items. (320)

League president Jean Tatham said in the consumer body's latest newsletter, Rands and Sense, that to include this category of foodstuffs in the list of zero-rated items was totally contrary to the spirit of the concessions which were purely to assist the poor. (3) Vegetables

"If you have a freezer you can afford to pay the VAT on frozen produce," she said.

Tatham said the league would like the regulations to be amended urgently to exclude both frozen fruit and vegetables (although there is no frozen fruit on the market). (3) Fruit

"If any other exemptions are contemplated, baked beans, plain or in tomato sauce, would be welcomed," Tatham said.

this nasty little lawsuit. | Pretoria Correspondent. | sitting next to him in the Reporter.

Star. 20/5/93

VAT rise not as painful as expected

320

By Zingisa Mkhuma

Food prices apparently have not increased as much as expected following the rise in value-added tax from 10 to 14 percent on April 7.

Prices were slightly up from March at two of the four supermarkets surveyed in our April Consumer Basket of 16 listed items — and surprisingly had dropped at the other two.

The price of the items went up by only 26c (0,25 percent) at the Eloff Street branch of OK Bazaars, from R92,82 in March to R93,08, and by 98c (1,1 percent) at Pick 'n Pay West Street, from R88,62 to R89,60 in April.

The total cost of the goods at Spar and Checkers dropped by R3,41 and R5,39, respectively. Checkers advertised more specials than the other supermarkets.

The stores claim credit for the low prices and attribute them to decisions taken to absorb the 4 percent VAT increase.

But Econometrix director Tony Twine said the lower food prices — at the time the survey was taken on April 28 — could be the result of the big retailers introducing specials at month-end, when most people are paid.

Twine said the real answer could be provided by comparing these figures with those of the Central Statistical Services for supermarket food inflation. The CSS figures will be available after the end of the month.

16 ITEMS	OK Eloff Street	PICK 'N PAY West Street	SPAR Newgate	CHECKERS Yeoville
Frozen Chicken 1 kg	Rainbow 6,69	Festive 7,19	Festive 7,65	Rainbow 6,59 SPECIAL
I & J Hake Fillets 800 g	11,79	11,28	12,29	8,99
Rindless Back Bacon 250 g	Escort 5,75	Escort 3,99 SPECIAL	Renown 3,89	Escort 5,54
Tastic Rice 1 kg	3,08 SPECIAL	3,59	2,49 SPECIAL	3,59
Floro Margarine 500 g	3,72 SPECIAL	4,65	4,65	3,89
Butter 500 g	Mooiriver 6,75	Farmerspride 4,99	Mooiriver 4,99	Mooiriver 6,29
Bliss Milk 1 litre	2,26	1,99	1,99	1,81 SPECIAL
Cornflakes 500 g	7,99	7,24	6,29	6,10
Frisco Instant Coffee 250 g	4,45	5,06	4,99	4,39
Iwisa Mealie Meal 2,5 kg	3,99	4,29	4,25	3,89
Bliss Yoghurt 500 ml	3,62	3,16	2,95 SPECIAL	3,00
Omo 1 kg	7,97	7,24	7,2[illegible]	7,24
Handy Andy 750 ml	3,99	3,82	3,[illegible]	3,59
Toilet Rolls 1 doz	Twinsavers 10,35	Twinsavers 10,59	Ca[illegible] 9,[illegible]	Twinsavers 7,79 SPECIAL
Cooking Oil 750 ml	Black Cat 2,79	Black Cat 2,53	Spa Brand 2,90	Black Cat 2,63
Five Roses Tagless Teabags 250 g	7,89	7,99	8,79	7,24
	93,08	89,60	88,91	82,57

FOR THE RECORD

A report in The Star on Tuesday incorrectly stated that an SAP statement on a meeting between western Transvaal farmers and security forces on Monday was issued by Major Hannes Wehrmann. The statement was in fact made by regional SAP commissioner Major-General S P Nienaber, and Wehrmann merely faxed the statement on his behalf. The Star regrets the error.

SHARE DISPOSALS (320)
FM 21/5/93.

Safe haven pitfalls

The safe haven provision of the Income Tax Act (Section 9B) is riddled with traps for the unwary taxpayer, whether individual or corporate.

The concession enabled a person to realise the proceeds, tax-free, of a quoted share held for 10 years or longer.

This was valued by many taxpayers because a vexing issue in SA's tax law is whether realising an investment asset, such as shares or property, represents income or tax-free capital gain.

Many shareholdings, including those of conglomerates, were immobilised for fear that the proceeds might be taxable as share-dealing income.

The 10-year safe haven rule was introduced in 1990 but the qualifying holding period was reduced to five years in 1992.

Yet the fine print of Section 9B has mousetrapped many taxpayers who have made decisions, often by default, which have pre-

FM 21/5/93.

vented them from benefiting. Deloitte & Touche tax partner Willem Cronje identifies two main issues. (320)

The more important concerns the technicalities of election through the IT12 form (for individuals) or the IT14 (for companies) — in other words, the tax return. Since the section's inception, the forms have contained a box which asks the taxpayer to elect whether to take advantage of the safe haven rule. (A taxpayer might not want to claim the protection of Section 9B where he holds quoted shares that have dropped in price; it would suit him to present himself as a dealer and claim a deduction for a realised loss if he decides to sell.)

Many taxpayers have not realised that failure to fill in the box requiring the election constitutes a waiver of the right to claim safe haven status. This is made clear by Practice Note No 18, issued last month by Revenue.

Right to elect

Fortunately, the 1992 amendment to section 9B provides a renewed right to elect and to override any earlier decision. The renewed right of election arises in the first year of assessment, on or after March 18 1992, in which the first disposal of quoted shares takes place. The election then becomes binding in relation to all disposals of "affected shares" by that taxpayer. (Affected shares are quoted shares held for longer than five years.) This includes shares in companies other than the holding which triggered the election.

Cronje argues that some form of relief should also be given to taxpayers who failed to fill in the box calling for election, after the 1992 amendment, as most of them, in his experience, did not understand that default is deemed to be an election not to claim the safe haven.

One way to do this would be through a temporary amnesty, available to defaulters (though not to those who elected not to choose safe haven status). Furthermore, argues Cronje, the tax forms should be changed to provide for a third option, that of deferring a decision. Then trivial sales of affected shares would not force an untimely decision on the taxpayer.

Other points of importance dealt with in the practice note are:

☐ Transfer of shares, within a group of companies, as defined by the moratorium provisions in the Taxation Laws Amendment Act, does not interrupt the passage of time for safe haven purposes. The same applies to the subdivision of shares or the issue of capitalisation shares. But shares issued under a rights issue cannot benefit because these are paid for by the shareholder and so

cont →

FM 21/5/93 (320)

count as a fresh acquisition;

☐ When shares held by a trust are distributed to a beneficiary, he may not add the trust's period of holding to his own period unless its terms vested ownership in the beneficiary from the date of inception of the trust;

☐ Last year's amendment has a roll-over provision to protect share dealers from tax in the event of a swap;

☐ Section 9B provides for writing back costs and losses previously allowed to a taxpayer in relation to quoted shares (on the assumption that the proceeds would be taxable as income) now placed within the safe haven; and

☐ Where a taxpayer has over time acquired more than one parcel of shares in a particular quoted company, the fifo (first in, first out) rule must be applied to calculate the holding period of any parcel.

Revenue also points out that a taxpayer who disposes of quoted shares held in a portfolio for less than five years will not be prejudiced by his election. The proceeds will not be summarily subjected to tax but will be dealt with according to the general guidelines for distinguishing capital and income which have been built up in the case law over many years. The ordinary rules will also apply to a taxpayer who has elected not to choose safe haven status. ■

DEPRECIATION ALLOWANCE

FM 21/5/93.

A major concession

(320)

Businesses that want to switch their ~~depreci~~ation of fixed assets to a straight-line method will find their path eased by Revenue's Practice Note No 19, dated April 30 1993.

The note relates to assets other than manufacturing plant and machinery, for which guidelines have always been clear, with straight-line write-off at 20% since December 1989. The rate of depreciation for all other assets such as vehicles, computers and office equipment has been at the discretion of Revenue, which has always preferred the reducing balance way. Permission to use straight-line depreciation was granted case-by-case on application.

Now taxpayers can notify Revenue of intention to change when they submit a return.

The practice note includes a long schedule of approved periods over which various classes of assets may be written off.

Kessel Feinstein tax partner Ernest Ma-

FM 21/5/93.

(320)

zansky explains that it takes ~~longer to~~ write off the cost of an item using the reducing balance method than it does with straight-line depreciation.

If the same rate is used, the write-off is the same in the first year using either method. But straight-line depreciation permits a faster write-off thereafter.

To benefit, the taxpayer must maintain "adequate" records. Any asset written off in full must be brought into account at a residual value of R1.

His tax return — in the case of disposals — must include a schedule disclosing:

- ☐ Date and cost of acquisition;
- ☐ Depreciated value at the end of the preceding tax year; and
- ☐ Price realised on the disposal or scrapping of an asset, as well as the value for tax purposes of any profit or loss.

The deduction to be claimed (under Section 11(e) of the Income Tax Act) must be reduced proportionately if the asset was acquired and commissioned during the tax year. Mazansky notes this treatment is not consistent with the tax treatment of manufacturing plant or machinery, where the full 20% allowance is granted irrespective of the time of year the asset is brought into use.

If a taxpayer feels a shorter period should be applied to his asset or if an asset is not listed, an application must be made to Revenue, preferably before the taxpayer submits the return.

Where a piece of equipment is used for more than one shift, so that its operating life is shortened, the taxpayer should make a detailed application to Revenue to reduce the write-off period.

Revenue has allowed a further concession. Where reducing balance write-offs have been applied, the asset may be written off over the period set out in the straight-line schedule as if depreciation had commenced on that basis.

This is allowed even if it throws up an effective higher rate of straight-line depreciation over the remaining period than the rate allowed in the schedule.

The new practice applies to returns submitted after April 30. ■

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Cradle is not off limits to taxman

320

22/5/93

Some gain and some lose, but few will escape his net

LEIGH ROBERTS

TAX and nappies are seldom mentioned in the same breath, yet your gurgling bundle of joy could be a taxpayer in his or her own right. Whereas reaching the age of 18 can get you a driver's licence, there is no such minimum age for paying tax.

As soon as an unmarried person under the age of 63 receives a gross income of more than R10 600 a year (for the 1993 tax year) he or she is liable to pay his dues to the taxman.

A married woman is hit at the even lower income level of R5 100 as she bears the burden of thinner tax rebates than her husband and unmarried friends.

A taxpayer who is classified as "married", which includes husbands and divorced or single parents, will need to pay the taxman only when gross income exceeds R12 400 while he or she is under the age of 63.

Benefit

Once over the age of 63, higher income thresholds apply because of the bigger rebates so generously allowed by the taxman. A taxpayer between the age of 63 and 65 is liable to meet the taxman when his gross income exceeds R11 100 if he is unmarried and R13 000 if he is married.

A benefit of being over the age of 65 is that an unmarried taxpayer need pay tax only after R21 300, a married taxpayer after R24 600 and a married woman is still penalised with a lower income threshold of R17 100.

A person who is safely within a particular threshold could however, be required to submit a tax return. An overriding requirement of the Income Tax Act is that a person who is issued with a tax return must submit it irrespective of income level.

The usual sources of gross income are from trade activities, interest, rental income, employment, royalties, pensions, annuities and beneficial amounts from testamentary trusts. It is of no concern to the taxman that the monies flow from ill-gotten means. Legal or illegal, he wants his share.

Many taxpayers who earn more than their thresholds are not required to submit a yearly income tax return, provided they receive less than R2 000 in interest and their income is subject to SITE (Standard Income Tax on Employees).

This withholding of tax is applicable to employees whose "net remuneration", that is salary less contributions to pension and retirement annuity funds, is less than R50 000 per year.

Beric Croome tax partner of Kessel Feinstein notes, however, that if the employee receives other income which is not subject to SITE, such as a travel allowance or study allowance, he is obliged to render an annual tax return.

Receipts from retirement annuities should also be included in the tax return, Croome says, because through a recent amendment to the Act, such receipts are no longer subject to SITE.

Croome summarises the situation, saying: "As long as a pension of less than R50 000, interest of less than R2 000 and no other income is received, an income tax return is not required to be submitted."

Obligation

Croome stresses that SITE taxpayers must inform their employers of any change in marital status or number of children.

"SITE taxpayers are taxed at the worst-case scenario, that is unmarried with no children, unless their details are given to their employers.

"It must be emphasised that the onus is on the taxpayer to register for tax purposes and not the employer or anybody else," says Croome. He adds that recent tax-law changes require sole traders, partners, persons deriving investment income from rentals, interest and royalties, and members of a close corporation and directors of companies to register as provisional taxpayers as well.

"It should be remembered that Inland Revenue has granted a blanket extension to August 31 1993 for the submittance of the 1993 assessment," advises Croome.

In a cash-only environment it is difficult to catch those people who fail to register for tax. Apart from living with the guilt, such indivduals also live with the fear their friends and enemies could turn them in to the taxman and claim the 10 percent reward.

THE WEEK AHEAD by Simon Willson

Rise in April inflation may be muted

B/DAY 24/5/93.

320

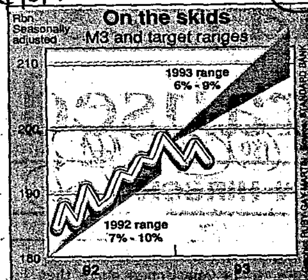
THE full effect of the VAT increase announced in the Budget may not be reflected in the April inflation rate, due for release at the end of this week.

Initial market projections of a sharp rise in inflation last month were based on the assumption that the full impact of higher VAT would hit the April consumer price index (CPI). But the rise in April inflation from March's 9,7% could fall short of the 2,5-3 percentage point jump that has been widely expected.

Forecasts of a three-point leap in April inflation were encouraged by the date — April 7 — on which VAT rose from 10% to 14%. The monthly CPI survey by the Central Statistical Service (CSS) monitors prices in the first week of the month, and the effective date for the VAT hike looked conveniently set to catch the higher tax effect in the CPI.

Furthermore, the CSS carefully changed its survey procedure to ensure that April's inflation rate built in the VAT increase. Instead of monitoring prices on any day in the first week of April, the survey covered solely prices effective on April 7 — supposedly those including the higher VAT.

However, it seems many of the most influential respondents to the CPI survey quoted prices with VAT at 10% instead of 14%. Apparently most of the large retailing chains extended lower VAT-rate prices on high-volume lines over the long Easter weekend that followed the raising of VAT.



This ensured that outlets and items with the biggest weightings in the CPI basket excluded higher VAT as a factor.

Service industries and smaller retailers in the CPI survey evidently quoted prices inclusive of higher VAT, but their weightings in the basket are smaller than those accorded the high-turnover national grocery chains and retailing multiples. Price restraint therefore looks likely to receive a much higher than expected profile in the April inflation figure.

The other higher prices arising from the Budget may also have a muted effect on the year-on-year inflation rate. The raised excise duty on alcoholic drink and the higher fuel ~~levy will~~ show up in higher ~~monthly~~ inflation in April rather than March, but should make little difference to the annual rate. This is because the Budget in 1992 contained almost identical increases in petrol and drink prices.

The April money supply figures are also due this week. As the chart shows, a sluggish annual rate of expansion in the M3 aggregate has dragged broad money supply's growth trend some way below the Reserve Bank's 6%-9% guideline range for the year. Last year, by contrast, M3 was seldom far from the Bank's 7%-10% range. In March annual M3 growth, at 5,15%, was little changed from February's 5,16% but the change from the base of the guideline year slipped to -1,79% from March's 0,68%.

Monetary stagnation has coincided with a five-month run of declining foreign reserves, which has helped drain foreign exchange from the economy. The upturn in the reserves in April and the bull trend in the gold price may now contribute to a higher rate of broad monetary growth. To the extent that higher gold proceeds have been lodged with banks, the gold boom could show up as higher private sector deposits. Any increase, however, would be net of loan repayments by mining houses.

Internationally, the rally in US statistical releases from poor first-quarter showings should continue this week. US durable goods orders for April are published on Wednesday, and will be hard pushed to repeat their March fall of 3,7% — the biggest drop in 15 months. The March figure seemed to be affected by the adverse US weather in the first quarter since the change was not concentrated in the volatile transportation sector but was based across industry. A rebound is due.

Tomorrow US consumer confidence for May is released, having already ended successive monthly falls throughout the first quarter by bouncing up 4,5 points in April to 67,7, consumer sentiment's best showing since January. Reversing first-quarter falls is plausible, but not much has happened yet in the slow US recovery to enable the confidence index to improve to its December highs above 78.

On Friday the first quarter is examined when first-quarter US GDP is given its first revision. Instead of rising a preliminary 1,8%, the economy would have shrunk 0,3% without a solid contribution from inventory accumulation, which tripled its rate of the previous quarter. Subsequent data for the March quarter have shown consumption to have been so lacklustre that stocks could be revised up again, which would boost growth in the revision at the expense of subsequent quarters.

Towards the end of the week Japanese April unemployment is out, and may show why the Bank of Japan has been intervening to cap the yen's rise. Headline unemployment was 2,3% in March but trends show joblessness will rise.

■ Funding the future: **HIGH COSTS** of schooling can be met with insurance

Scrapping of law will ease education funding

Star 25/5/93

(320)

The impending scrapping of the sixth schedule allows investors greater flexibility in structuring policies to fund education.

"THE ability of parents to provide their children with a good education is becoming very difficult from a financial point of view," says Liberty Life's legal and technical marketing expert, Helita Mankowitz.

Mankowitz says fees at some government schools have quadrupled over the past five years.

"The current cost of a three-year degree is R18 765. Assuming a 15 percent inflation rate, the same three-year degree will cost R152 700 in 15 years' time."

The impending scrapping of the sixth schedule allows investors greater flexibility.

The abolition of a minimum life cover requirement enables investors to maximise their investments. Previously policy holders were limited to a maximum annual premium of R1 500 or R125 a month in respect of pure investment policies.

That restriction has now been removed and policies may be taken out on the lives of parents or children for educational funding purposes.

"The problem of exceeding the maximum amounts of cover, in respect of policies with large premiums, on children's lives under the age of 14 has been overcome as life cover is no longer required," says Mankowitz.

Affordable education . . . The current cost of a three-year degree is R18 765. Assuming a 15 percent inflation rate, the same three-year degree will cost R152 700 in 15 years' time.

Grandparents can contribute

AN ideal opportunity exists for grandparents who wish to provide for their grandchildren's education.

Donations of R20 000 a year can be made without paying donations tax. This amount can be invested in a policy on the grandchild's life with the grandchild as the owner of the policy.

The policy could be structured in various ways: An endowment with an annual premium of R20 000, a single premium policy of R20 000 or a series of single premium policies.

The R20 000 can be divided equally among grandchildren as the R20 000 is cumulative.

The grandfather and grandmother can each donate R 20 000 a year because they are separate taxpayers.

By excluding collation in their wills and by structuring the policies as set out above, the policies will be excluded from estate duty on the grandparents' deceased estate.

Charter Life's portfolio soars

Star 25/5/93

THE Charter Life Managed portfolio performed well with an average of 18,7 percent for the taxed portfolio in the last four years — this is above the rate of inflation which averaged 14,3 percent during the same period.

"This performance was in spite of the need to fund guarantees of 4,5 percent," says Nobert Mureriwa, the manager of legal and technical services at Charter Life.

Charter Life is marketing its Charter Life Pure Endowment Policy, which, like other endowment policies, offers investors the following advanatages:

● TAX ADVANTAGES: The policy holder receives the proceeds tax free as the tax is paid by the life assurer.

This is an ideal way for older people to accumulate tax-free income over a short time span.

● GUARANTEED RETURNS: Most life assurers offer a minimum of 4 percent guaranteed return on endowment policies but the Charter Life policy offers 4.5 percent.

● FLEXIBILITY: The flexibility of the policy allows for inflation proofing through automatic premium increases of up to 20 percent every year.

Single premium policies are also allowed without any tax penalties.

● PERSONAL FINANCIAL PLANNING TOOL: The amazing flexibility of this type of policy makes it a lot easier for personal financial planning as many of the previous restrictions have now been lifted.

● COMPULSORY SAVINGS INSTRUMENT: Endowment policies encourage people to save and the funds can then be used for medium-term projects.

The maximum quoted interest rate by the industry is 15 percent but in reality it could be much higher.

● EDUCATION NEEDS: It is now possible to invest more in a policy for a child's education without incurring the higher cost of life cover on a parent's life which used to happen in the past.

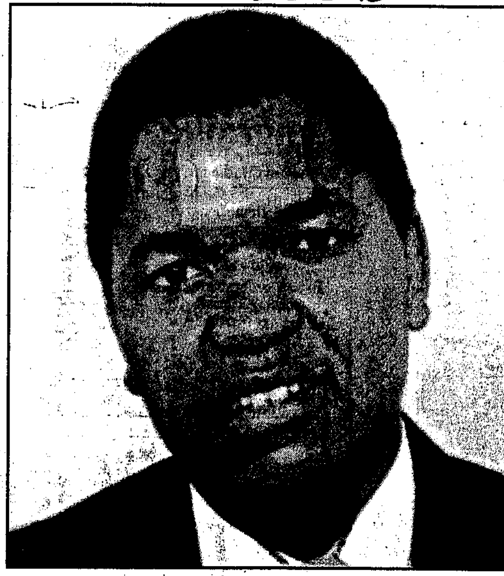
● LIFE COVER: It is possible to add life cover to an endowment policy should the individual needs change, which means the policy will cater for both investment needs and life cover.

The proportion of life cover to investment will depend on individual needs.

● ADDITIONAL BENEFITS: If the life cover is added to an endowment policy, additional benefits such as disability benefits may be added to suit the policy holder's needs.

● CORPORATE: Close corporations and companies may invest in five-year endowment policies without any tax disadvantages — even though the premiums may not be tax deductible the policy is a convenient way to accumulate funds which could be used to repay a debt or for other expenses.

● SECURITY: The investment portfolios of life offices have consistently beaten inflation and they provide a secure base for investors funds giving a high interest rate of 18,7 percent.



Nobert Mureriwa . . . manager of legal and technical services at Charter Life.

The four fund tax approach

Star 25/5/93

(320)

TO implement the tax advantage life offices will now have to keep four separate funds:

● Retirement funds — the income will be exempt from tax.

● A fund for individually owned life policies — the income will be taxed at the rate of 30 percent, which is the average marginal rate paid by individuals.

● A fund for corporately owned life policies — the income will be taxed at the corporate rate of 40 percent.

● A fund representing the balance of the insurer's assets — where the income will be taxed at the corporate tax rate.

The date of when this will become effective has still to be decided by the industry.

In the meantime tax paid by assurers will remain the same for two years after the changes have been made.

What do the new rules mean?

Star 25/5/93

WHAT are the new rules?

"They provide for a minimum five-year term, single or recurring premiums, with premiums able to be increased up to 20 percent of the premium paid in the previous year. Benefits are tax free, although loans and surrenders during the first five years are restricted," says Michael Belling, BA, LLB, Fellow of the Institute of Life and Pension Advisers (FILPA), senior manager marketing Sage Life.

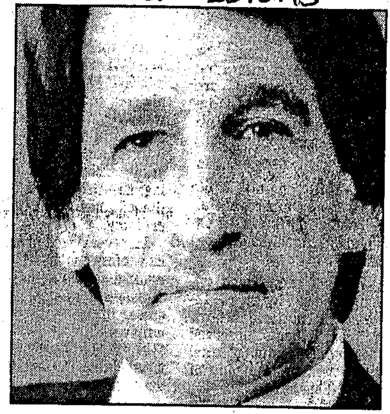
"The changes apply to new policies and existing policies. This means that premiums on old policies may be increased up to 20 percent a year and payouts will be tax free."

(320)

With life cover no longer necessary it is now easier to use a policy as a longer-term savings vehicle. People who were previously uninsurable can now take a pure investment policy, without any restriction on the premium.

"Single premium investments can now be made by individuals or companies and the benefits will be tax free," says Belling.

However, he warns that shorter term policies won't always provide greater returns. He says the longer the term of the policy the better the potential returns.



Michael Belling . . . senior manager marketing Sage Life.

6th Schedule

New opportunity for life assurers

A Star advertising feature

The scrapping of the sixth schedule of the Income Tax Act has created a market for more flexible shorter term investments. The Star takes a look at the background of the law, the implications of the new regulations and some of the products on offer. Jenny Hunter Blair reports. Advertising: Wendy Schultz.

New tax opens up investment opportunities

Star 25/5/93

"The new life assurance tax has created exciting marketing opportunities for investment products," says Gavin Came, deputy general manager marketing and legal services Liberty Life.

"The only minor restriction is that the maximum benefit payable within five years is a return of contributions paid plus five percent per annum compound, with the balance remaining invested until the end of five years."

According to Came, Liberty Life is marketing four excellent investment products: the Lifestyle endowment policy, the Capital Bond, Systematic Part Redemption system, Lifestyle Income & Capital Builders.

THE LIFESTYLE ENDOWMENT POLICY: This popular product is designed for investment objectives with a term of only five years.

It is aimed at people who will require capital in five years' time to finance housing bonds, children's education and retirement. (320)

No life cover is required and the minimum premium is R125 a month.

THE CAPITAL BOND: This product is for anyone with R5 000 or more to invest.

This single premium policy can be used for many purposes, such as capital growth, with no tax to be paid by the policy holder.

SYSTEMATIC PART REDEMPTION SCHEME: This is an attractive option for policy holders as it is a very flexible investment.

It can be left to grow for a number of years, Systematic Part Redemptions or cash sums can be drawn from it tax free, or the whole investment can be matured tax free at any time after five years.

LIFESTYLE INCOME AND CAPITAL BUILDERS: These back-to-back annuity funded products are available for five-year terms with a minimum contribution of R10 000.

For a combination of income and growth, the Income Builder is the perfect supplement to a Capital Bond because the income is guaranteed by Liberty Life for five to 10 years.

The policy holder is assured of his income regardless of fluctuations in the bonus rate.

The Capital Builder will be preferred to a Capital Bond by the client who prefers a more stable investment.

The advantage of the Builder is the rand cost averaging inherent in a back-to-back product and the capital is protected to a higher degree from a fall in investment values.

Law created to regulate industry

Star 25/5/93

THE sixth schedule was intro- duced into the Income Tax Act in 1972 to demarcate the boundary between business conducted by banks, building societies and life offices.

Investments of less than five years, with the exceptions of retirement annuities and life policies underwriting pension and provident funds, are strictly the domain of banks and building societies.

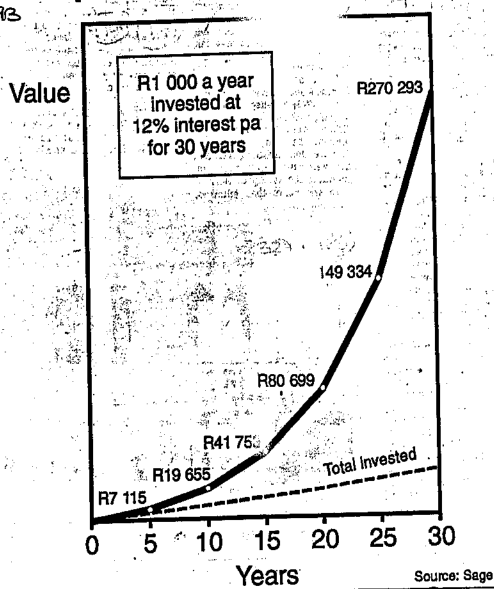
In 1988 the Registrar of Insurance banned life offices from providing guaranteed maturity, loan or surrender values within the first five years. The life offices agreed not to sell policies with a term of less than five years.

The government taxed life offices on policy holders' money at the same rate as investments made by private taxpayers. The sixth schedule, which was a form of double taxation, became an outdated way of regulating the industry.

In 1992 the Jacobs Committee recommended that the sixth schedule be abolished and replaced by regulations incorporated into the Insurance Act.

By agreement with the Government and the Life Offices Association (LOA) interim rules have been introduced to replace the existing laws.

The power of compound interest



Source: Sage Life

WELCOME RELIEF in sight for insurance industry

Axing of law will be a boost for industry

Star 25/5/93 Star 25/5/93

(320)

Unworkable: The sixth schedule was intended to level the playing fields between banks, building societies and life offices, but practically it became an unworkable regulation, says Louis Shill former chairman of the Sage Group.

By Jenny Hunter Blair

ONE of the most dramatic announcements for the insurance industry in the last Budget was the pending abolition of the notorious sixth schedule to the Income Tax Act.

The sixth schedule laid down the rules for the proceeds of tax-free life policies.

It also prevented the insurance industry from selling investment products without life cover and tax-effective products with a life of less than 10 years.

This raised a question as to the role which banks, building societies, life offices, played in the mobilisation of savings.

With bank interest standing at 12 percent and money depreciating by 15 pecent, shrewd investors realised they would reap higher returns on life insurance products than leaving their money in the banks.

But the banks and building societies suffered as their funds were depleted yet each had their own important market niche — from short and medium term to long-term forms of savings.

"The sixth schedule was intended to level the playing fields between banks, building societies and life offices, but practically it became an unworkable regulation," says Louis Shill former chairman of the Sage Group.

Unfortunately it developed into a "patchwork" of legislation with many anomalies and became a costly nightmare as few people understood its complexity.

Louis Shill . . . Former chairman of the Sage Group says the sixth schedule had become a costly nightmare.

Inflation rate set to shoot up

Star 26/5/93

Finance Staff

The inflation rate for April is set to shoot back into double digits because of the increase in VAT, Reserve Bank Governor Dr Chris Stals warned yesterday. (320)

Speaking at a conference in Somerset West, Stals said inflation could rise from 9,7 percent in March to about 12 percent in April, as a result of the 40 percent rise in the VAT rate to 14 percent.

But he was confident inflation could sink back to single digits later in the year.

"The only danger is that it could escalate if there are higher wage demands as a result of the temporary rise in inflation," he said.

Despite the possibility of a short-term hike in inflation, Sanlam's chief economist Johan Louw is optimistic that the favourable trend in the gold price could lead to a drop in interest rates later this year.

The higher gold price and better agricultural conditions should in time contribute to a marked improvement on the current account of the balance of payments, Louw says in Sanlam's latest Economic Review.

A surplus of at least R4 billion is expected for the year, compared with R4,27 billion last year.

This, together with possible improvements in the capital account, may lead to lower interest rates later this year.

However, a marked recovery in the economy this year remained unlikely, Louw writes, as indications of an approaching upswing remain limited.

Domestic investment — the engine of economic growth — had decreased by more than a third over the past four years. Real consumption spending by private individuals was also dropping sharply now.

Despite considerable improvements in the outlook for agriculture and a recent rise in export values, it therefore remained unlikely that the economy would improve markedly this year.

Factors agitating against an upswing included weak foreign economies, the dampening effect of the budget, continued monetary discipline, and the continuous violence, labour unrest and political uncertainty.

Tax write-back helps Crookes

BDM 27/5/93 (320)

MARCIA KLEIN

THE drought and poor export fruit prices put pressure on agricultural group Crookes Brothers in the year to March.

However, a write-back of a deferred tax provision enabled the company to report a 4% rise in earnings to 62,6c (60c) a share for the year.

MD Dudley Crookes said drought in the summer rainfall areas had "a material effect on agricultural production".

Cane production dropped 24% to 314 083 tons after adjusting for the sale of the Isonti farm on Natal's south coast.

Nevertheless, sugar cane continued to produce the major portion of the group's profits.

Crookes's income from exports declined as heavy competition in European markets saw citrus prices remain at 1992 levels and apple prices decline.

Turnover decreased 2% to R43,3m (R44m), and operating profit dropped 22% to R6,2m from R7,9m previously.

Income from investments rose 10% to R942 000, and the interest bill was halved. This resulted in a 16% drop in pre-tax income to R6,7m from R8m.

A write-back of the deferred tax provision saw income after tax rise 4% to R7,5m from R7,2m.

A final dividend of 13,5c a share was declared, maintaining the full year dividend at 21c a share.

Crookes said the company incurred considerable capital expenditure on banana expansion in the eastern Transvaal and on improvements to its deciduous fruit farm in the Cape.

It had eliminated a deferred tax provision of nearly R1,6m by providing for deferred tax on the partial method.

REPUBLIC OF SOUTH AFRICA — REPUBLIEK VAN SUID-AFRIKA

Government Gazette
Staatskoerant

Vol. 335 — PRETORIA, 28 MAY/MEI 1993 — No. 14823

17 MAY 1993

PRESS RELEASE

EMPLOYEES TAX

(320)

ISSUING OF CONTINUOUS IRP 5 CERTIFICATES AND IT 3 (a) RETURNS

Owing to the shortage of continuous IRP 5 certificates and IT 3 (a) returns experienced by Inland Revenue, certain employers and bureaux have not yet been able to make these certificates and returns available to their employees or clients.

An adequate supply of certificates and returns is, however, now available and employers and bureaux which were effected by the shortage, will soon be able to start printing and distributing them to taxpayers. It is possible that some taxpayers will not receive these certificates and returns in time to submit their 1993 income tax returns on or before 8 June 1993. Taxpayers who, for this reason, are unable to submit their returns in time, will not be penalised for the late rendition of their returns if such returns are submitted on or before **31 August 1993.**

Issued by: The Acting Commissioner for Inland Revenue.

Contact person: D. J. Nel.

Telephone number: (012) 315-5635.

17 MEI 1993

PERSVERKLARING

WERKNEMERSBELASTING

UITREIKING VAN AANEENLOPENDE IRP 5-SERTIFIKATE EN IB 3 (a)-OPGAWES

As gevolg van die tekort aan aaneenlopende IRP 5-sertifikate en IB 3 (a)-opgawes wat deur Binnelandse Inkomste ondervind was, kon sekere werkgewers en buro's hierdie sertifikate en opgawes nog nie aan hulle werknemers of kliënte beskikbaar stel nie.

Voldoende sertifikate en opgawes is egter nou beskikbaar en werkgewers en buro's wat deur die tekort geraak is, sal binnekort met die druk en verspreiding daarvan aan belastingpligtiges kan begin. Dit is moontlik dat sommige belastingpligtiges nie hierdie sertifikate en opgawes betyds sal ontvang om hulle 1993-inkomstebelastingopgawes voor of op 8 Junie 1993 in te dien nie. Belastingpligtiges wat nie hulle 1993-inkomstebelastingopgawes as gevolg hiervan betyds kan indien nie, sal nie beboet word vir die laat indiening van opgawes nie, indien sodanige opgawes voor of op **31 Augustus 1993** ingedien word.

Uitgereik deur: Die Waarnemende Kommissaris van *Binnelandse Inkomste.*

Kontakpersoon: D. J. Nel.

Telefoonnommer: (012) 315-5635.

PENSIONS FM 28/5/93 (320)

Tax deal that works

Revenue and pension fund administrators have reached some agreement on tax rules for funds that are accessible and can be transferred from one employer to another. They apply in particular to "parking places" where savings stay while employees seek new jobs.

The preservation of pension rights has been a sensitive issue since government tried to enforce it in the early Eighties. That attempt was unpopular among workers who, in the absence of a system of social security, relied on pension payouts to see them through periods of unemployment. After opposition from major unions and considerable labour unrest, the concept of enforcing preservation was shelved — though it was revived as an ideal in the recent Mouton report. Life offices, meanwhile, came up with schemes to bridge the unemployment gap with funds that offered preservation and some accessibility.

The arrangement now reached with the Commissioner for Inland Revenue by life offices and other fund administrators, appears partly a compromise with the tax position and a wholehearted attempt to allow preservation where the departing employee wants this.

Several fund managers create a preservation fund separate from the main pension or provident fund. Southern Life employee benefits manager Rod Stevenson describes his company's Horizon Funds as typical. He says such funds provide a haven, temporary or permanent, for a person who leaves one job without having another. When he finds employment he can transfer the preservation fund to the new employer's fund. If the new employer does not operate a fund, the employee's existing benefits can still be preserved.

Stevenson stresses that preservation funds provide an incentive to protect savings. Without such an intermediate vehicle, much of the payout from pension and provident fund savings is dissolved instead of being directed to retirement.

Last year Revenue raised objections to schemes such as Horizon: entry was optional; membership did not necessarily involve an employer-employee relationship; and members could cash benefits from the funds before retirement without withdrawals being related to leaving service. As these possibilities were contrary to the provisions of the Income Tax Act, the Commissioner threatened to withdraw tax approval.

Preservation rules have now been set. Before an employee may transfer a withdrawal benefit from another fund to the preservation fund, the employer from whose firm the employee is leaving must already be participating in a fund such as Horizon, says Stevenson. "Employees who are members of the employer's main fund will also have to be members of Horizon before any transfer of a benefit."

The agreement with the Commissioner includes rules for eligibility, the situations in which transfers may take place and taxation of transfers. If all the Commissioner's stipulations are met, there will be no taxation on transfer except where it is from a pension to a Horizon-type provident fund. Stevenson says there will be no exemption from tax for bulk transfers from pension to provident funds. "That means there's no tax exemption for the portion of the amount transferred that is attributable to the employer's contributions."

The Commissioner will accept transfer of past service under the main fund for the purpose of determining tax-free lump sums at death or retirement.

** cont->

FM 28/5/93 (320)

Stevenson says the regulations might seem restrictive "but they make a workable solution to the problem of reconciling preservation vehicles with the Act." ■

Receiver's gifts a mixed basket

Star 29/5/93

REACHING your 65th birthday can be boon in terms of taxation, with extra rebates and deductions allowed. However, a lot depends on just what your income is and how it is derived, writes LEIGH ROBERTS.

(320)

The changes on annuities have nuisance value

THE years of wisdom are definitely the years of reward when it comes to paying income tax. *However, the taxpayer scores only after his 65th birthday.*

On this day the Receiver offers the taxpayer a mixed basket of gifts — unlimited tax deductions for medical expenses and a double rebate.

When he was 64, the taxpayer's medical deduction was limited to the portion of his costs exceeding R1 000 or five percent of his taxable income.

In addition to the primary rebate of R2 225 (for married people), the 65-year-old taxpayer can knock another R2 500 off his tax bill in addition to a R120 rebate received after reaching the age of 63.

Maximum

The extra medical deduction and rebates give the 65-er the highest minimum tax threshold of all taxpayers. No tax is paid if less than R24 600 is received by the married taxpayer. This threshold is almost double the R13 000 applicable at the taxpayer's 64th birthday.

However, once the taxpayer receives income in excess of this level he is taxed at the same rate as younger taxpayers. The maximum marginal rate for a married taxpayer is 43 percent after R80 001.

An issue of contention in the taxation of people aged 65 or older is that pension income is taxed. The taxman's answer to this, according to Revenue, is two-pronged: first, that pension income is generally continued remuneration in respect of past services; second, the contributions made to the pension fund were tax deductible and reduced tax liability in those years.

"It is, therefore, only just that the pensions arising from the tax-free contributions should be taxed when they are received."

However, a few pensions do escape the taxman's clutches. They are war pensions, compensation in respect of diseases contracted while employed in mining and disability pensions paid under the Social Pensions and Workman's Compensation Acts.

SITE is automatically deducted from your pension if the total annual amount is less than R50 000. This is a benefit to taxpayers who have more than one such pension as these amounts are, in effect, taxed at the lower average rate and not the maximum marginal rate.

For example, a married taxpayer who receives two pensions of R49 000 each will pay a total SITE charge of R14 213. Were these amounts taxed at normal rates a tax of R29 820 after rebates would be due.

No such advantage pertains to receipts from retirement annuity funds. With effect from the 1993/1994 tax year annuity receipts will not be subject to SITE, making them taxable at the higher marginal rate.

This change in the treatment of annuities has nuisance value besides the higher tax charge. The taxpayer is now obliged to complete a tax return, whereas previously none would have been required under the SITE system, provided no other income was received.

Kessel Feinstein tax consultant Andi Neugarten says a further problem in this change in legislation is that annuity receipts are taxed in terms of the lower IRP 10 tax tables. The tax deducted falls far short of the total tax to be paid when the tax return is submitted because the receipts are taxed at the lower rates.

This means that in terms of the above example, if the two amounts were received from retirement annuity funds and not pension funds the taxpayer would have to fork out another R15 607 in tax on assessment. Any other income received by the elderly taxpayer *is fully taxable.*

Status

Income from investments is usually a major portion of the elderly taxpayer's income. Existing tax law does not provide any additional relief for those past 65. Interest in excess of the standard annual allowance of R2 000 is fully taxed at marginal rates. Dividends from share investments are exempt for all taxpayers.

It should be remembered that a husband who becomes a widower retains his married person status for tax purposes. A wife who is widowed will change her tax status from married woman to that of married person.

The taxpayer who turns 65 on the last day of the tax year, February 28, will be considered as 65 for the whole tax year, reaping commensurate tax rewards.

Tough stance on VAT

ARG 29/5/93

■ One of the major reasons for changing from GST to VAT was that the former lent itself to abuse. Now the Receiver is cracking down on suspected VAT abuse.

BRUCE CAMERON
Business Staff

THE Receiver of Revenue has launched a countrywide crackdown on VAT fraud firing an opening salvo against a group of Pietersburg businessmen who allegedly were involved in a R4 million VAT scam.

The Receiver's patience finally has run out and he is now prepared to make a felon of anyone involved in VAT racketeering.

Acting Commissioner of Inland Revenue Mr Trevor van Heerden said this week the policy had been changed.

"We will now lay criminal charges against anyone and everyone involved in any suspected VAT fraud."

Previously, people involved in VAT fraud were penalised with heavy fines.

Contravention of the VAT laws now can result in the forced payment of penalty taxes and stiff prison sentences.

Mr Van Heerden said it was not a matter of there being an increase in VAT fraud. The VAT system merely made it easier for suspects to be traced and prosecuted.

He pointed out that this had been one of the major reasons for the change from GST to the VAT system.

"This is the beauty of VAT. There is an audit trail which can be followed quickly.

"We can walk into any business and immediately assess whether there has been any abuse."

■ Three Pietersburg businessmen, Mr Hendrik Jacobus Swart, 45, Mr Martin Jacobus O'Reilly, 49, and Mr Ray Edward Earle, 49, appeared in the Pietersburg Magistrate's Court on Thursday on charges related to alleged tax fraud involving R4 million. They were not asked to plead and were released on bail.

How to save money on tax

ST Times (Buss) 30/5/93

By DES KRUGER and VICKI TAYLOR, of Deloitte & Touche

YOU will soon be faced with completing your 1992-93 income-tax return. Your objective — to minimise your tax liability.

This first of several articles, based on the booklet Deloitte & Touche's Pay Less Tax 1993 and published in conjunction with Business Times, is intended to help you and to highlight tax-saving opportunities.

If you have a job, your income is generally subject to employee tax each month. Your total income (remuneration) and tax (Paye and/or Site) is shown on your IRP 5 certificate. If your salary (annualised if employed for less than a year) is greater than R50 000, tax on the first R50 000 is categorised as Site and the balance is Paye.

If you earned R50 000 or less AND were subject only to Site, then you do NOT need to submit a return. However, if you receive a 1993 income-tax return (IT 12) from Inland Revenue, you MUST complete it, regardless of the amount or type of income received.

These types of remuneration are not subject to Site and you are therefore required to submit a return if you receive such income: lump-sum benefits, retirement annuities, purchased annuities, remuneration of married women who are sole breadwinners and remuneration from non-standard employment, for example, part-time employment.

Individuals entitled to the set-off of an assessed loss, directors of companies and individuals who are entitled to claim expenditure exceeding 1% of their remuneration, for example, commission agents, are subject to Paye only. A total of 25% of travelling allowances (35% with effect from July 1, 1993) are also subject to Paye and not Site. Remember, if you receive income subject to Paye you should generally submit an income tax return.

(320)

Any individual who receives interest income (including building society dividends) which exceeds R2 000 must also submit a tax return.

There are income limits below which you are not liable to submit a tax return.

You do not need to submit a return if you earn annualised remuneration NOT exceeding R50 000 which was subject only to Site and did not receive any other income; or your income is below the taxpaying thresholds AND in all of these cases you did not receive a tax return.

Generally speaking, Site is a final deduction and is not refundable. An overpayment of Site may occur where you have contributed to a retirement annuity fund and your employer has not deducted the amount when calculating your Site liability; or where you have incurred medical expenses and would, if you submitted a return, be entitled to a deduction. Under these circumstances you may apply for a tax return referred to as an IT 11. You will then be assessed and refunded the appropriate amount of Site, but will not be placed on the tax register. This means that should you be able to claim a refund in the following tax year, you will have to apply again for an IT 11. It is in your interest to ensure that your employer is kept informed of your circumstances.

● Copies of Pay Less Tax can be obtained for R35,95 (including VAT and postage) from Fernwood Press, Box 15344, Vlaeberg, 8000, Fax (021) 61-8574.

someone backstage of a

Call to change tax law on arts

CT 2/6/93 (320)

THE recently appointed director of the CTSO, Dr Jacques de Vos Malan, made an appeal yesterday for the State to review its tax legislation on donations to the arts as South Africa was the only "so-called Western country" without such incentives.

Dr Malan was speaking at a Press conference at the City Hall to outline the CTSO's new visual identity and subscription concert series.

"The attitude of doom and gloom which prevails in the arts councils and elsewhere is inappropriate to the CTSO. What is at issue is state funding for the arts, and in its 79 years the CTSO has never received funding from the central government or the province," he said.

"Our annual grant from Cape Town City Council is for services rendered to the city.

"Our strategy now is to strengthen the tradition of corporate and individual support for the arts so that future governments can address the fundamental need for a redistribution of cultural resources of all citizens.

Sponsorships

"We are calling now for the State to review the existing tax legislation on donations and sponsorships."

Among the good things lined up to increase interest in and support for the orchestra are:

- To include at least four major international stars in each season from January 1994 — "the sort of names who used to visit Cape Town before the cultural boycott".
- To take the CTSO into the international CD market in 1995. The first part of this plan would be to introduce to the orchestra a guest conductor with the reputation, repertoire and experience to collaborate with the CTSO.
- To try to engage some of the biggest black American names in the concert circuit as "role models".
- To expand considerably the music awareness which the CTSO has offered to Cape children for more than 20 years.

"We cannot sit back and expect our future audiences to come to us. And we will not see any real growth in the number of South Africans of any shade of colour in the ranks of the CTSO unless we get out there and train them ourselves."

De Vos Malan also said that a Sunday "Pops" concert, on the style of the Boston Pops, would soon "explode" in Cape Town.

Fiona Chisholm

choral music

Musical

Star 2/6/93

Saambou ditching property

By Stephen Cranston

(320)

Saambou intends to dispose of its troublesome property portfolio within three years, says group MD Johan Myburgh.

In a presentation last night to the Investment Analysts Society, Myburgh said Saambou had sold R86 million worth of its properties over two years, including its head office in Pretoria.

It was left with R148 million worth of property, including R91 million in township stands that needed to be developed before they were sold.

Saambou had tax losses worth R39,5 million, which Myburgh said would take a little over two years to use up.

But Saambou was already providing for future tax so as to prevent a sudden drop in earnings when it started paying tax.

Saambou intended to increase the level of savings accounts to 50 percent of the value of its bond book. It was now 18 percent of the bond book's value.

It also intended to increase individual deposits to 60 percent of total deposits from 37,5 percent.

In order to reduce its exposure to individual clients, Saambou limited lending to any one client to R50 million, or just over one percent of total advances.

Saambou planned to increase its high margin assets in the shape of instalment credit and personal loans.

Personal loans worth R238 million had been advanced and they accounted for 6,4 percent of total advances — up from 4,9 percent in 1992.

Consumer finance had declined from R533 million to R448 million, mainly because it had been deliberately reduced because of the problems incurred from its large exposure to motor dealers.

Myburgh said Saambou had outsourced its technology to SPL, which he said had highly skilled people whom it would take years to develop in-house.

R37-m from taxpayers to be spent on espionage

Star 2/6/93

By Martin Challenor
Political Correspondent

CAPE TOWN — About R37 million of taxpayers' money this year will be spent by the SADF on gathering information and counter information.

This emerged yesterday from Kobie Coetsee's first budget address in Parliament as Minister of Defence. Financial provision for this type of work is made in the Special Defence Account.

Coetsee said the amount of money allocated to information gathering and counter-information activities decreased because of the new positive political climate. (320) [redacted]

In the 1992/93 financial year, R71,3 million was spent on this activity. The amount for the 1993/94 financial year was only R37,5 million. This comes out of the Special Defence Account of R3 740 million.

The rest of the Special Defence Account is used to buy armaments for the SADF.

Coetsee said South Africa at present spent 2,6 percent of its GDP on military expenditure. This was "considerably" below the world average, and down from a level of 4,2 percent in 1989.

The Defence Force was presently conducting a study on the improvement of the service conditions of the part-time forces, Coetsee said. "Details will be announced later."

Sacob calls for fairer tax distribution

Buss. day 3/6/93

Business Day Reporter

A NEW local government system should entail a fairer distribution of the tax burden to enable less affluent communities to benefit from tax revenues generated by commercial and industrial undertakings located mostly in "white" local authority areas.

This recommendation was one of Sacob's submissions to the President's Council investigation into local government in a new constitutional dispensation.

Sacob urged a dynamic view of local government options which offered choices to cater for different communities.

It suggested a minimum of central control, provided government accepted financial responsibility for basic socioeconomic services and infrastructure. It said the composition of regions should be determined by local communities.

Sacob considered the most important demarcation criteria to include cost, effectiveness and efficiency in rendering services, as well as economic interdependence, including the location of tax resources and communities which had the greatest need for service upgrading.

SECONDARY TAX ON COMPANIES FM 4/6/93

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Where to draw the line

Finance Minister Derek Keys's Secondary Tax on Companies has had accountants and share analysts in a flutter over a seemingly technical issue. That is, whether the new tax (7,5% on dividends) should be accounted for above or below the line. If above, that amount of the tax must be deducted from earnings and so reflect negatively on EPS.

But the company tax rate itself is down from 48% to 40%. Not only will this benefit EPS directly, but companies that have provided a significant deferred tax reserve, because of timing benefits from capital expenditure which are regarded as temporary, will be able to claw back part of that reserve — the reserve would have been based on projected company tax rates at that time.

The SA Institute of Chartered Accountants has issued a press release dealing with a variety of accounting questions flowing from the new company tax. It says it is not a tax on dividends but forms part of the corporate tax payable by a company. Accordingly, it should be reflected as part of the company tax charge on the face of the income statement (it should be placed above the line).

Many accounting firms have taken the view that STC is not a tax on income and accordingly should be reflected with dividends declared, as an appropriation of profits. Deloitte & Touche partner Peter Wilmot says his firm has taken a strong stand against this viewpoint. It is in conflict with Keys's intention. He indicated in his Budget speech that the STC will apply irrespective of the recipient, saying "the tax is in no way a tax on shareholders."

While Wilmot accepts the calculation of the amount is based on dividends declared, and not on income before taxation, it is nevertheless an expense of the company and should be treated accordingly.

Wilmot concedes certain special cases to which the general rule should not apply — where companies distribute dividends out of previously retained earnings or out of extraordinary gains. In those cases, the tax should still be treated as an expense, but the distortion in EPS should be commented on by management. This will ensure users of financial statements are informed about the impact which dividends, declared out of prior year profits, have had on the tax rate and so on the sustainable EPS.

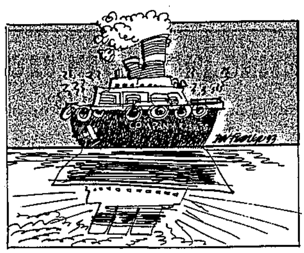
Of course, the imposition of the tax will make it less likely that companies will declare dividends out of previously retained profits, because of the tax penalty.

An indication of Arthur Andersen's approach comes from the latest financial statement issued by Tiger Oats (of which that firm is the auditor) — which places the liability for the tax above the line.

Coopers & Lybrand technical manager James Schnellen says his firm's view is that it should be treated above the line, which conforms to the conceptual framework used by accountants which regards tax as an expense, not to mention the view of the institute. This may mean the tax charge sometimes appears disproportionate to pre-tax earnings. But this occasional consequence should not be allowed to interfere with the principle, especially as it may be explained in the accounts as in the case of any other abnormal item.

Kessel Feinstein technical partner Frank Timmins says his firm will follow the institute's approach. However, if a client wants to account for the tax below the line, Kessel Feinstein will neither object nor qualify the accounts. Some clients might even want to reflect EPS on both bases.

Ernst & Young partner Ronnie Bowker says his firm will follow the institute but concedes exceptions could be made. One is in the case of companies with a March year-end, which will have to pay tax in 1993 at 48%, as well as the STC on dividends distributed. Another is the distribution, as a dividend, of a profit reflecting an extraordinary item, say the sale of a property. A third would be a dividend distributed out of a previous year's earnings.



Price Waterhouse senior tax partner Chris Frame takes a similar line, saying the general policy will be to take the tax above the line, but with exceptions.

Some share analysts are not willing to commit themselves. Simpson McKie director Tim Alsop, wants to see what the companies themselves do. Others, such as Fergusson Bros, Hall, Stewart director William Bowler, say flatly the tax should be placed above the line.

To these arguments could be added a line of reasoning based on the precedent of the long-repealed Undistributed Profits Tax. This tax was determined (if negatively) by the amount of after-tax income distributed as dividends. Yet no-one ever suggested it should be accounted for below the line.

It seems a sound principle to apply to STC. This will of course benefit those companies with high earnings retentions, such as those in the Rembrandt group, while hurting those such as Sappi with a low effective rate of company tax but with relatively high dividend distributions. But companies are always at risk from shifts in tax policy and should not shirk reflecting the occasional materialisation of that risk in their accounts. ■

GATT FM 4/6/93

SA under scrutiny

The first Gatt review of SA's trade policy and practice gives full credit for the reforms to normalise the post-apartheid economy. But, underlying the even-handed language of the Gatt secretariat's report is the clear message: SA could do better. For two days this week SA's policy has been under the microscope of the Council of the Gatt in Geneva.

An early result of the Uruguay Round these reviews have been held for 30 countries so far — and the top four exporters of Gatt's 111 members, the EC (treated as a single entity), US, Japan and Canada, which are subject to biennial scrutiny, have been through the process twice.

The purpose of the reviews is educative — both for the subject and its trading partners — rather than prescriptive. The reports presented, one by the secretariat and one by SA, are debated in the council with the aim of creating transparency and understanding of two-way problems and needs.

But implicit in these exchanges between SA and the 80-odd council members is peer pressure for reform and change. As such the secretariat's report on SA, published as the *FM* went to press at the conclusion of the review, was an indicator of the external perspective of what is being done and what more *should* be done. It acknowledges the problems of ironing out the distortions which are the legacy of apartheid and isolation.

Gatt estimates the combined cost of trade sanctions, the financial embargo and disinvestment at R40bn — or 13% of 1991 gross domestic product. But, equally bad, are the rigidities and uncompetitive, high-cost structures created by protective import-substitution policies.

The report welcomes the lowering of tariffs and reduced import controls, increased emphasis on export promotion and open-market reforms. However, it finds that the last is being only "cautiously pursued."

In addition, "the tariff structure and review mechanism underlying it are far from

cont-p

Tax boost when home breaks up

Star 5/6/93

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DIVORCED and separated women do not have to wait until the divorce is finalised before taking advantage of certain tax concessions available to them. LEIGH ROBERTS reports.

How to score if you leave your man

THE taxman provides married women with an incentive to leave their errant husbands — a tax saving that could be as high as 42 percent. A little-known fact is that the wife may claim this tax saving from the date of separation and need not wait the many months until the final decree.

Once separated from her husband, the woman enjoys an overnight metamorphosis in her tax classification. From her heavily taxed "married woman" status she either reverts to an "unmarried" classification or, if she has children who qualify for the child rebate, she becomes a "married person".

Scores

In both instances she will usually pay less tax than under her previous tax status. However, the separated woman who is classified as a "married person" scores substantially more.

The change in her tax status can be effective from the date the wife lives apart from her husband. However, the Income Tax Act requires that the separation be made in circumstances which indicate permanency. The phrasing in the Act is very broad and each case must be considered on its particular merits.

Importantly, it appears that the Act does not require that legal action be instituted as an indication of permanency. The crux appears to be the actual living apart of the spouses.

While seeing to her change in tax status may be last on the newly separated woman's list of concerns, it certainly warrants a higher priority. The potential tax savings can make a material difference to the separated woman's (usually frugal) monthly income. Which is why the woman should not wait until her divorce is finally through but rather see to it the day either spouse leaves the communal home.

The examples in the table show the potential tax savings at different taxable income levels of a woman under 63 with two dependants. The taxable incomes are stated net of pension and retirement annuity contributions.

With an income of R35 000 the tax saving is a substantial 42 percent or R3 220. This translates into an income saving of R268 a month. At R55 000 the saving is 25 percent, or R3 884, or R324 a month. At 85 000, a 12 percent or R3 301 saving is made, translating into R275 more income a month.

The potential tax savings are attributable to a number of differences. First, as a married person she receives a primary rebate of R2 225 instead of the R900 applicable to a married woman. Second, she can now receive the child rebate of R100 a child. Third, her retirement annuity deduction is increased to R1 750 from R875. Fourth, her marginal tax rates are reduced, only equating with her previous rates at a fairly high income level.

Anne-Marie Long, senior tax consultant at Price Waterhouse Meyernel, says the separated woman must complete an IRP2 form to advise her employer of her change in status. IRP2 forms are obtainable from the employer.

"By law, the employer should accept the change in the taxpayer's marital status after receipt of the IRP2. In practice, we find that certain employers do not accept the IRP2 and insist on a tax directive from the Receiver. This procedure is incorrect.

Two returns

"Where the employer is suspicious of the taxpayer's change in particulars, they should rather send a copy of the IRP2 to the Receiver for approval," Long adds.

It should be remembered that because of the change in tax classification, two tax returns need to be completed by the woman in the first year of separation. Women subject to SITE need not submit a tax return.

Rebates that can help cut the tax bill

S Times (Buss) 6/6/93

HOW TO PAY LESS TAX

DES KRUGER and VICKI TAYLOR of Deloitte & Touche

TAXPAYERS can reduce their tax liability through legitimate general deductions, exemptions and rebates.

They are highlighted in the booklet "Deloitte & Touche's Pay Less Tax 1993" published in conjunction with Business Times.

Medical and physical disability expenses (Part 3.1 of the income-tax return).

Medical expenses may generally be deducted only in so far as they exceed the greater of R1 000, or 5% of taxable income. However, if you are 65 years or older, all such expenses are deductible.

If you are under 65 and either yourself or spouse, child or stepchild is handicapped, you may deduct all medical expenses above R500 a year.

Educational donation (Part 3.3).

The deduction of any donation to universities, colleges and certain educational and trust funds is limited to the greater of R500, or 2% of your taxable income as determined before the deduction of the donations and medical expenses.

Pension fund contributions (Part 3.4).

The deduction for contributions actually made is limited per person to the greater of:

- R1 750; or
- 7,5% of remuneration from "retirement funding employment" (being essentially a person's earnings which are taken into account in determining contributions to a pension or provident fund).

Usually, there is little scope for varying contributions because you and your employer must comply with the fund rules.

Some scope may exist for increasing contributions (and therefore benefits) if your employer agrees and if your contributions are based on a lower percentage than 7,5%, or on the basis of a percentage of only part of your remuneration (some funds exclude fringe benefits or bonuses from remuneration).

Arrear contributions (Part 3,5) are deductible up to a maximum of R1 800 a year.

Retirement annuity fund contributions (Part 3.6).

The deduction for contributions actually made is limited per taxpayer, to the greater of:

- 15% of net income, excluding income derived from "retirement funding employment" (same provisions for a married woman); or
- R3 500 (R1 750 in the case of a married woman), less deductible current contributions to a pension fund; or
- R1 750 (R875 in the case of a married woman).

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

Retirement annuity fund contributions are most beneficial when a deduction from your taxable income is obtained.

Any retirement annuity fund contributions by a married woman before March 1, 1992, may at her option be deducted by her husband instead. This concession lasts until and including the February 1997 tax year. There is an obvious benefit if the husband's income tax rate exceeds his spouse's.

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Bond

Home office (Part 3.10).

If you are required to work at home and you set aside a room exclusively for this purpose, you are allowed to deduct certain expenses calculated on a pro-rata basis:

Total household expenditure x area used exclusively for business divided by the total area of your residence.

The expenses that may be claimed include bond interest, electricity bills and servants' wages. The room used for work must be used exclusively for that purpose and must also be specifically equipped to enable you to carry out your trade. If it doubles as a TV lounge, you will not get the deduction.

Retrenchment Packages.

Should your services be terminated, either because your employer has ceased to operate or because of a general retrenchment exercise, you are entitled to receive the first R30 000 of your retrenchment package free of tax. This concession is of retrospective effect for individuals laid off on or after March 1, 1992. Should you have already submitted a return or been assessed on any retrenchment payment, you should approach your Receiver for an amendment to your return or a revised assessment.

Rebates (Part 7).

Various rebates are deductible from the tax payable by you. Remember that if you are a widow or widower or entitled to a child rebate, you are also regarded as a married person and accordingly entitled to the higher married person's rebate.

A man who is married during the year is taxed as a married person for the entire year. However, a woman who married during the year has two tax periods and is treated as a single taxpayer up to the time she marries and as a married woman thereafter.

Copies of Pay Less Tax may be obtained at a cost of R35,95 (including VAT and postage) from Fernwood Press, Box 15344, Vlaeberg, 8000. Fax No: (021) 61-8574.

Another bleak month as more people eat less

ST Times [Buss] 6/6/93

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By TERRY BETTY

IT WAS a black April for retailers as food sales plummeted.

Some report a drop of as much as 20% in rand terms after the Hani assassination.

Although a few chains reported 5% growth in the rand value of sales, volumes were lower, continuing the miserable trend of the first quarter.

OK Bazaars marketing director Arthur Solomon says: "The drop was felt across the board — even bread and potatoes were seriously affected."

This is in sharp contrast to an expected retail sales increase of 1,83%.

Central Statistical Service (CSS) confirms the decline. Retail sales for the first three months of 1993 increased year on year by a mere 0,37% in rand terms.

A Tiger Oats spokesman says: "We have never had such a bad four months as those since January."

However, Tiger says there are signs that manufacturing volumes are recovering.

People did not even try to drown their miseries in alcohol.

Western Province Cellars financial director Kosie Herbst says sales were 4,5% below budget and 3% off April's in rand terms.

Beer sales were also depressed, says an SA Breweries spokesman. But the 1991 increase in excise duties had a more serious effect on volumes.

May did not bring a release of pent-up demand. Pick 'n Pay chairman Raymond Ackerman says sales remained low at the beginning of May, although they started to pick up later.

Scant retail demand is shown by lower-than-expected consumer-price index and money-supply figures.

CPI figures released on Friday show an 11% inflation rate for April.

Credit Guarantee economist Luke Doig says inflation was expected to be closer to 12% because of the 4% VAT increase on April 7.

Target

After factoring out the impact of VAT, the underlying inflation rate is closer to 9%, showing consumers are not spending money.

Mr Doig warns that VAT's full impact will be reflected in the May inflation figures because many retailers did not increase prices immediately.

Year-on-year money-supply growth rate was 3,35% in April, way below the Reserve Bank's target range of 6% to 9%. It shows a drastic decline in consumer demand for credit.

Retailers blame the aftermath of the Hani assassination as well as the number of April public holidays for poor sales.

Fedfood marketing manager Rob Paine says April had three public holidays and several trading days were lost in sensitive locations.

"Shops that were on march routes or in turbulent areas had to close doors or face looting."

Mr Herbst says some of his group's bottle stores were forced to close.

Mr Paine says that even people in areas far from the violence were too scared to go outdoors.

He says lack of confidence is also a cause of poor trade.

"People stop shopping, even for basic foods, as soon as there are reports of violence."

Many shops were unable to obtain stock.

"A normal trading month was turned into half a month in terms of trade."

Other implications of falling confidence are that people buy down or take smaller packs.

Mr Paine says: "There is less hoarding of food because families live from hand to mouth.

"Instead of a huge monthly shop, people are using baskets and buying goods as they need them."

Retailers also report declining customer loyalty. Customers shop where they believe bargains are to be had.

Consumers benefit because retailers are using discounts to gain a greater share of a shrinking market.

Receiver claims R7-m from tycoon

Star 11/6/93.

(320)

By June Bearzi
Star Line

The Receiver of Revenue is claiming R7 million in unpaid income tax from trucking tycoon Riaan Coetzee.

An investigation of Coetzee's multimillion-rand empire by tax authorities started within days of Star Line highlighting his transport investment ventures in October 1991, reliable sources say.

They say Coetzee failed over several years to declare the sums his operations generated from investors.

Coetzee, who has been condemned for building his wealth on deception, has taken millions on the pretext that investors were paying "entry fees" for the right to take part in lucrative transport schemes. But the promised rights never materialised and investors lost their cash.

After launching his first group of trucking companies — among them Truckkor and Conomy — seven years ago, Coetzee embarked on a lavish lifestyle and acquired a number of expensive upmarket homes and a stable of luxury cars worth R8 million.

One of his homes in Bassonia — an exclusive hilltop enclave south of Johannesburg — has 16 garages to house his fleet.

His dealings over the past two years have led to criminal proceedings, civil lawsuits amounting to millions, and government clampdowns.

In February he was fined R20 000 and given a four-year jail sentence for fraud, suspended on condition that he was not found guilty of fraud or theft in the next five years.

After the first Star Line exposé, the Harmful Business Practices Committee outlawed some of his business practices — used in Truckkor, Conomy, SA Rebuild and Contruck in Midrand.

Coetzee promptly moved to a luxury house in Main Road, Randburg, and started new schemes in which investors paid for the right to operate taxi routes or cartage rights.

On Wednesday, Deputy Minister of Trade and Industry David Graaff again accepted recommendations by the Harmful Business Practices Committee to outlaw some of Coetzee's business practices.

His new venture, Sun Tours, is actually a bogus luxury bus scheme.

CPI 11/6/93 320

Slipping the ratchet

Official inflation in April was 11%, with a month-on-month increase in consumer prices of 2,5%. Excluding Vat, year-on-year inflation for April was 9%; the month-on-month increase was 0,6%.

Though the four-percentage-point increase in Vat pushed overall inflation back into double digits, consumers of food benefitted from the zero rating of many items. Food inflation over 12 months fell to 8,5%. Prices in the month declined 0,4%.

Many consumers feared food retailers, who move quickly to pass on extra costs, would fail to pass on the benefit of food zero rating.

But fears turned out to be largely groundless. There were declines in the month in milk, cheese & eggs (2,7%), fruit & nuts (9,4%) and vegetables (6,3%), all of which are heavily weighted with zero-rated items. These offset rises in items not exempt such as meat (2,4%), fish & other seafood (3,7%), sugar (4%), and coffee, tea & cocoa (4,6%).

Retailers have experienced poor turnover in recent months — and increased consumer vigilance. And they face stiff competition not only from one another but from the informal sector, much of which is involved in the sale of nondurable items.

Retailer wariness of losing market share or further turnover might have accounted for the lower-than-expected increase in overall inflation (many thought it would go as high as 12%).

Retailers of many items have either decided to absorb the extra costs of Vat or postponed increases until they saw where sales volumes went in April.

Says Nedcor chief economist Edward Osborn: "As noted by Central Statistical Service, the full effect of the 14% rate of Vat has not come through for a number of reasons, notably the dispensation on durable goods bought before April 7 and delivered by April 24 as well as the 10% on sales of vehicles, maintained by many in the motor trade. The full impact of the Budget will only be felt on prices through the course of April and May. The euphoric expectation of a cut in Bank rate is therefore premature."

He argues that the increases should not be underestimated: "If one strips out mortgage interest payments, which are not subject to

 Fm 11/6/93.

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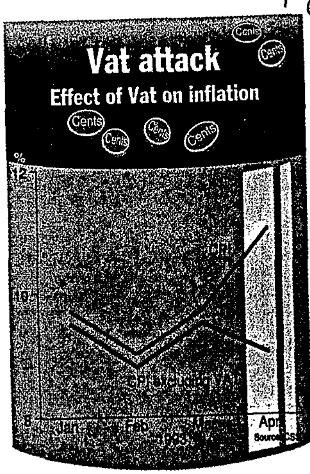

Vat, one gets an underlying year-on-year rate of 13,7%, from March's 12,2%. If one also excludes the seasonal items, such as meat and fresh food, the rate jumped from 12,9% to 15%."

□ The increase in the fuel levy announced in the Budget pushed up the running cost component of the transport index by 7,3% month-on-month or a 12-month 15,8%. ■

FM 11/6/93

STC: A tax calamity

320

Pierre du Toit is senior tax partner, Arthur Andersen & Associates

At the best of times, new legislation is tricky. When that legislation involves imaginative concepts like the new Secondary Tax on Companies (STC), the draftsman's task becomes daunting. When the creators deem it fit for that legislation to be operative before it has even reached the statute books, his task becomes desperate.

It is not uncommon for a specific anti-avoidance measure to be announced and made effective from the date of the announcement — a sort of "read today's news tomorrow, but watch your step meanwhile."

The delay in publication of the STC legislation is now however getting out of hand. We are not dealing here with a small group of tax avoiders on a specific issue, but with a general measure, fundamentally changing our corporate tax regime, and affecting every company contemplating a dividend declaration.

But it must be accepted that there are problems. Some have been highlighted, such as the impact on March year-end companies which now pay STC on profits which had already been subjected to the old, higher corporate tax rate. (Of course, every company which needs to declare dividends from retained earnings will have the same problem.) And there are debates about scrip dividends, preference shares or whether a dividend can be "paid" through a loan account.

Also, the nasty aspect of retrospectiveness has crept in: companies which had declared but not paid their dividends before March 17 will suffer the tax despite having had no warning of the consequences at the time they made the declaration.

This measure, excluding only public companies which had made an announcement at the time, is clearly aimed at the few who might have been tempted to cook the books as far as the dates of their dividend declaration is concerned.

It is a sad day when we think so little of our business community's integrity (let alone our own ability to enforce the law against wrongdoers), that we have to subject the honest majority to the ultimate fiscal iniquity of retrospectiveness.

As if these "internal" problems are not enough, there lurks also a difficult international perspective. The STC, being a "delayed corporate tax," is clearly not intended to benefit from the treaty provisions restricting tax on dividends to nonresidents. Despite some argument to the contrary, there is little doubt that the correct interpretation is indeed that treaty relief will not apply — this may be a tax on dividends, but it is not a tax directly on a resident of the other contracting state.

At the same time, as currently advertised, it looks as if many of our treaties would prevent our administration from collecting STC on a dividend, declared by an external company operating here as a branch, on its SA profits. This result is not intended.

To complicate matters further, there is a possibility that a foreign taxing authority may contend that our STC is a tax on dividends, and therefore should enjoy a treaty rate reduction. If our authorities (correctly) do not grant that reduction, the foreign authority may deny their nationals foreign tax credit relief to the extent of the perceived treaty protection not granted. All of this — including incurring a tax burden on legislation not yet published — is not calculated to encourage foreign investment.

Just to top off the international dimension, the delayed effect of the STC portion of the corporate tax is going to cause all kinds of foreign tax credit timing problems, as for example in the case of UK shareholders.

The lesson from all this? Don't tax in advance of legislation. Don't declare dividends now if you can wait until there is at least legislative language. And don't let's spoil a good idea with impossible demands on a mortal draftsman.

320

S Times (Buss) 13/6/93

Government heads for R30bn deficit shock

By CIARAN RYAN

LATEST finance figures point to a Budget deficit exceeding R30-billion this year, nearly 9% of gross domestic product.

Government borrowing is sharply up, suggesting a deterioration in the debt trap.

"Inland revenue figures for May are disappointing, reflecting yet lower retail sales, and probably lower company income tax with the introduction of the secondary tax on companies," says Nedcor Bank chief economist Edward Osborn.

Inland revenue for April and May was 2,8% below 1992 and 31% below budget pro rata. The Government budgeted for inland revenue of R76,5-billion for the year. A total of R8,6-billion was received in the first two months. The increase in VAT to 14% in April is only partially reflected in May figures.

Total revenue for April and May, including customs and excise, was R10,5-billion, only 2,1% up on 1992 and nearly 30% short of budget pro rata. The shortfall was distorted by the usual large payment to Customs Union members in April.

The Government issued Treasury bills of R12,4-billion in April and May and repaid bills of R14-billion, a net outflow of R1,6-billion. There was a sharp jump in net receipts from the Government stock issues — from R9,5-billion for April and May 1992 to R11,2-billion.

"Government stock and Treasury bill issues are disturbingly high for April," says Mr Osborn.

Treasury bill issues mopped up liquidity in April, driving the money-market shortage to R6,8-billion in April.

Fears that Budget deficit may soar

B/Day 14/6/93

TIM MARSLAND

UNEXPECTEDLY low tax collections in April and May have raised the prospect that the 1993/94 Budget deficit may soar far beyond government's target of R26bn.

Central Statistical Service (CSS) figures released at the weekend show tax collections for the first two months of the state's financial year came in at R5,3bn, less than 12% of the total budgeted for the year.

Nedbank chief economist Edward Osborn said the revenue figure was "disturbingly low". He and other economists canvassed at the weekend warned the deficit could top R30bn for the full year.

A CSS spokesman said income from inland revenue dropped 2,8% to R3,8bn in April and May from the same period in the previous financial year, while excise income rose 39,9% to R1,5bn.

Spending was on track at R8,9bn, which was 11,8% of the total amount budgeted for the year. (320)

He said that so far the deficit — the gap between government revenue and spending — before borrowing and debt repayment, and excluding other statutory appropriations, amounted to 30% (about R7,8bn)

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Deficit

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of the R26bn total voted for the full year, with 10 months still to go.

Osborn said the figures indicated that the deficit could top R30bn, compared with the budgeted R26bn.

However, he said this was a tentative conclusion, since there might have been teething problems in implementing the new VAT rate and revised company tax system, including the new secondary tax on companies (STC). (320)

Commenting on revenue, he said net customs income in April was low because of a huge payment to other members of the Southern African Customs Union, "even greater" than last year's R1,2bn.

Net revenue from excise for May, which was up by almost R500m, was not surprising since there had been two increases in fuel levies since May last year. Inland Revenue's contribution was disappointing given the higher VAT rate, which was implemented on March 7.

This was indicative of the generally low retail sales and could indicate a drop in income tax revenues as a result of the changes to company tax rules, Osborn said.

Land tax structure the future challenge

320

ARG 14/6/93

The Argus Correspondent

JOHANNESBURG. — The redistribution of wealth and rural land reform programmes are likely to have a dramatic impact on tax structures and policies.

So says Professor Riel Franzsen of the University of Pretoria's department of mercantile law.

He told delegates to the annual Property Owner's Association (Sapoa) convention that property tax was the most important tax levied at local government level.

It was likely to account for 40 percent of local government revenue and 3,7 percent of estimated total revenue for 1993/4, he said.

But property tax was currently levied only in "white" cities and towns.

There was no tax on rural land — land outside municipal boundaries — although its possible introduction was being researched and widely propagated by some political groupings.

Low-cost housing on city outskirts, including townships and squatter camps, was making more and more demands on local authorities in terms of land provision, lengthy service connections and huge bills for sprawling areas difficult to clean and maintain.

The question now was how local authorities could broaden their tax bases to include the inhabitants of informal townships or squatter settlements.

"And to what extent can the present property tax base be extended to finance mergers of white and black areas, and to upgrade public services in the latter?" asked Professor Franzsen.

Thorough research was needed on local government finance issues and should include the possible introduction of further user charges, betterment levies and a rural land tax.

Tax education plan for informal sector

GERALD REILLY

PRETORIA — Inland Revenue offices are to spend R3m this year on educating informal sector workers and entrepreneurs to have a more responsible attitude towards income tax and VAT, says a senior Finance Department official.

DP Finance spokesman Brian Goodall estimated that more than R2bn was slipping through the tax net because of the difficulties in collecting from the informal sector — especially from taxi operators, spaza shop owners and street hawkers.

The taxi industry had developed into a huge enterprise and the numbers involved in spaza shop trading and in street hawking were growing.

The recession-driven growth of the informal sector had led to a situation where government revenue loss could be significant. (320)

A Revenue Department spokesman said the department had been grappling with the problem for some time. Receivers were trying to get a maximum of informal sector workers on to the tax register.

They would be supported in their efforts by the R3m education campaign to be run on TV, radio and through the media.

On VAT collections from the informal sector, the spokesman said revenue had to exceed R150 000 a year before an operator became liable for VAT which excluded a large number of people.

However, he pointed out that VAT was included on all their purchases, so they were making some contributions to the fiscus.

Need seen for revised property tax

Star 14/6/93

By Meg Wilson

CAPE TOWN — The redistribution of wealth and rural land reform programmes are likely to have a dramatic impact on tax structures and policies.

So says Professor Riel Franzsen of the University of Pretoria's department of mercantile law.

He told delegates to the annual Property Owner's Association (Sapoa) convention last Friday that property tax was the most important tax levied at local government level.

It was likely to account for 40 percent of local government revenue and 3,7 percent of estimated total revenue for 1993/4.

However, property tax was currently levied only in "white" cities and towns.

There was no tax on rural land — land outside municipal boundaries — although its possible introduction was being researched and widely propagated by some political groupings.

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Outskirts

Low-cost housing on city outskirts, including townships and squatter camps, was making more and more demands on local authorities in terms of land provision, lengthy service connections and huge bills for sprawling areas difficult to clean and maintain.

The question was how local authorities could broaden their tax bases to include the inhabitants of informal townships or squatter settlements when their inhabitants have few occupational rights and are often mobile.

"And to what extent can the present property tax base be extended to finance mergers of white and black areas and upgrade public services?"

Thorough research was needed on local government finance issues and should include the possible introduction of further user charges, betterment levies, a rural land tax and other, new land-related taxes at local or regional level.

It would also include the possible extension of municipal boundaries to include all areas currently outside them.

Laws to curb tax avoidance

B/Day 15/6/93

TIM COHEN

CAPE TOWN — Government said yesterday more legislation to curb tax avoidance was in the pipeline, but it would permit the sanctioning of settlement agreements between the Commissioner of Inland Revenue and investors for a limited period.

In a speech in Parliament yesterday, Deputy Finance Minister Theo Alant said the Income Tax Bill, which would be published soon, would contain provisions to allow the publication of regulations for the offers of settlement. (320)

Alant said government had sympathy for taxpayers who had unknowingly invested in tax avoidance schemes, which had subsequently fallen foul of the law. Finance Minister Derek Keys had consequently been empowered to approve an agreement with taxpayers who invested in film production schemes.

Alant said in the past number of years there had been a number of other tax avoidance schemes.

The majority of the avoidance schemes and transactions now being entered into concerned the deliberate mismatching of income and expenditure in the hands of different parties.

Alant said he had therefore asked the Tax Advisory Committee to investigate the possibility of introducing legislation to ensure a better matching of income and expenditure.

Bill a shock to some taxpayers

BIDay 15/6/93

LINDA ENSOR

CAPE TOWN — Taxpayers owing large sums to the Receiver of Revenue will be hit hard by a provision of the omnibus Taxation Laws Amendment Bill, which is due to take effect from April 1 next year. (320)

The Bill, tabled in Parliament yesterday, stipulates that payments by taxpayers be used firstly to offset penalty amounts owing and secondly interest accrued, and only then the capital sum due.

Department of Finance deputy director, VAT, Peter Frank said that in the past Revenue used to offset all payments made by citizens against the capital sum first. As interest could not earn interest, the payment of the full capital amount meant no further interest would accrue on the outstanding interest owed.

Under the proposed Bill the unpaid capital sum would continue earning interest, even though the penalty and interest amounts due had been paid.

Frank said the provision was introduced on the recommendation of the auditor-general. The auditor-general, he said, believed it was more in line with normal accounting practice.

The Bill gave effect to the tax announcements made by Finance Minister Derek Keys in his Budget speech regarding, among other things, the increase in the VAT rate, and changes to transfer and stamp duties.

Frank noted that another important, unannounced amendment would prohibit the payment of VAT by a vendor by means of promissory notes or credit loan accounts.

He said the aim was to prevent abuse, such as by issuing a promissory note only due for exchange in two years time, even though the vendor claimed to have paid VAT at the time of the transaction.

Premiums paid on medical insurance policies, such as hospital plans and those covering large medical expenses would, from September 1 this year, be subject to 1% stamp duty.

Frank said stamp duties were paid on life policies, while short-term insurance policies were subject to VAT.

BlDay 16/6/93

Banks seek softer rules

GRETA STEYN

MERCHANT banks — hard hit by recent changes to banking legislation — are holding discussions with the Reserve Bank in the hope that they can convince the Bank to modify the new rules.

The changes, which increase expensive cash reserve requirements, are bad news for the smaller trading banks such as Rand Merchant Bank, Prima Bank, Securities Investment Bank and Investec. (ES)

Merchant Bankers' Association (MBA) chairman Stephen Koseff, of Investec, confirmed yesterday that a subcommittee of the MBA and General Bankers' Association was talking to the Bank on the changes to liquid asset and cash reserve requirements. "We are hoping for reasonable progress in terms of a mechanism for calculating the requirements." (E32)

Banks are required to hold cash and liquid assets in reserve against their liabilities to the public. Recent changes to the way in which liabilities are calculated raised the cost of holding reserves.

The Reserve Bank confirmed that discussions were taking place. Deputy Bank Governor Chris de Swardt said that any bank with a problem in meeting the requirements could apply to the Registrar of Banks for exemption, but the Bank had not given a blanket exemption and cases would be considered individually. He added the new requirements were being phased in over 15 months and that banks would have the opportunity to change their way of doing business.

Merchant banking sources said that in some cases, the cost of cash and liquid asset requirements would have a serious effect on profitability, and would require a radical change in the way these banks operated. It would require a move off-balance sheet, which the Bank would not

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want but might be powerless to stop.

Trading banks that "carry" capital market stock were especially exposed, as they would have to hold costly reserves against a balance sheet item that did not entail risk and was not a liability in the conventional sense, a dealer said. The big commercial banks were not affected to the same extent because their vault cash would count towards the requirements. (ES)

Bankers expected the Reserve Bank to exclude banks' liabilities to one another from the calculation of total liabilities against which reserves had to be held, while other changes might also reduce the cost. However, the banks had not yet received formal notice of a modification.

In the longer run, the possibility existed that trading banks could convert into trading houses that did not have to comply with banking legislation. (320)

De Swardt said, however, that these operations would also have to comply with capital requirements. These requirements were still to be determined, and the creation of new securities trading companies was still being debated.

Govt considers tax settlements

BDay 16/6/93

PETER DELMAR

GOVERNMENT has listed six tax avoidance schemes for which it is considering settling claims with investors.

It is believed the various schemes involve hundreds of millions in investments.

Government is expected to frame settlement proposals to participants in most of these projects within months. (320)

Deputy Finance Minister Theo Alant announced this week that new draft legislation to outlaw the marketing of tax avoidance schemes was in the pipeline. However, government would, for a limited period, allow settlement agreements between the Commissioner of Inland Revenue and investors.

In April Finance Minister Derek Keys announced that film scheme investors would be allowed to deduct 1,5 times their investment for tax purposes, thereby effectively ending a R2bn, seven-year dispute with 38 000 investors.

Participants in a number of other tax avoidance schemes are still awaiting a response from government.

Inland Revenue's chief director: tax policy development Trevor van Heerden said yesterday various schemes could receive settlement offers. These were for investments in forestry plantations, aircraft, livestock, horseracing, the record industry and lawnmower engines. The [illegible] scheme alone is believed to involve m[illegible] R100m.

Van H[illegible] no formal decision had been tak[illegible] settlement offers. But Inland Revenue director Ian Meiklejohn said the enabling legislation was broad enough to allow for settlement of schemes other than film subsidies. The final decision rested with the Finance Minister.

CT 16/6/93

Curb on tax avoidance

(320)

Political Staff

THE government yesterday announced that more legislation to curb tax avoidance was in the pipeline but it would permit the sanctioning of settlement agreements negotiated between the commissioner and investors for a limited time.

Deputy Finance Minister Dr Theo Alant told Parliament the Income Tax Bill, to be published soon, would contain provisions that would allow the publication of regulations for the offers of settlement.

Dr Alant said the government had sympathy for taxpayers who had unknowingly invested in tax avoidance schemes which had subsequently fallen foul of the law. Finance Minister Mr Derek Keys had consequently been empowered to approve an agreement with taxpayers who invested in film production schemes.

Picture: BENNY GOOL

was incurred by the actions of Mr Coetsee's opening speech been substituted.

'Hani claimed blast'

PORT ELIZABETH. — The South African police counsel told the Goniwe inquest yesterday that murdered ANC leader Mr Chris Hani had claimed ANC responsibility for the 1989 murder of policemen who might have had information about the killing of Mr Matthew Goniwe and three other anti-government activists in 1985.

Police lawyer Mr Pieter du Bruyn, SC, handed into the inquest court an affidavit from National Intelligence Service (NIS) deputy director-general Mr David George Grewar. He said it would confirm the authenticity of a press report in which Mr Hani had allegedly claimed the ANC was responsible for the December 1989 limpet mine blast which killed the policemen and an informer.

Earlier this week, SADF counsel Mr Anton Mostert, SC, told the inquest he believed police could have murdered their own colleagues in the blast.

Today Mr Du Bruyn said that he and one of his clients, Major Deon Nieuwoudt, had received death threats this week.

Former Cradock security police commander Colonel Eric Winter told the inquest yesterday he had been transferred in 1985 from the SAP's Koevoet unit to Craddock at the same time as other members were transferred to the notorious Vlakplaas training camp outside Pretoria.

The 1989 Harms Commission into police "death squad" allegations by former security policemen Mr Dirk Coetzee and Almond Nofamela pinpointed Vlakplaas as their base.

Col Winter said he was unaware of a meeting held by a Brigadier Lamprecht in February 1985 in which "firmer methods" were proposed to deal with the country's "revolutionary" climate.

There was a gasp from the public gallery when he confirmed with Mr George Bizos, SC, for the families of the murdered four, that he was now a member of the local Peace Committee, having been appointed by the District Commissioner of the SAP for his "negotiating abilities". The inquest continues today. — Sapa-Reuter

254 CT 18/6/93

Zola 'depressed'

Staff Reporter

SPRINGBOK Olympic runner Zola Pieterse withdrew from the Grand Prix meeting in Budapest earlier this week in a state of depression, said her agent Mr Brian Levine.

Speaking from Johannesburg, Mr Levine said Pieterse, 27, had told the Hungarian officials on the day of the event that she would not take part.

"Zola is still very unhappy about her 3 000m time of 8:59,97 clocked in Rome last week. She told me she was waiting for the results of tests done on her by a top nutrition professor in London.

"According to her training schedule, she should be running times of about 8:54,00 ... I told her not to get too despondent and we will discuss the matter further when she returns to South Africa on Sunday to take part in next week's African Championships in Durban."

Levine said the results of the tests would be made known early next week.

OUT OF RACE ...
Zola Pieterse

crack of dawn

As far as I'm concerned no noose is good noose.

Keys: Tax rates will not be cut

CT 18/6/93 320

TAX rates will not be reduced until government dissaving is eliminated, Finance Minister Mr Derek Keys told Parliament in an appeal for fiscal discipline and improved productivity.

Closing the debate on his R104-billion budget on Wednesday, which was passed, Mr Keys said it was close to time for multi-party agreement on a final programme of economic restructuring.

He listed a sharp reduction in government spending as one of five areas of restructuring needed to pull South Africa out of recession and promote growth.

He pointed out that government spending was up from 15% of gross domestic product in 1983 to 21% now.

"There is no way in which we can run current expenditure on the country's savings and lower tax rates," he said. — Sapa-Reuter

● Keys scoffs at deficit estimate — Page 11

BUSINESS BRIEF

TAX ON SHARE SALES (328)

Hobson's choice

FM 18/6/93.

Taxpayers face yet another pitfall relating to the safe-haven rule. This protects a taxpayer against the risk of having tax imposed on gains on quoted shares if they are held for a minimum period. The latest problem arises out of the reduction of the period needed to achieve safe-haven status from 10 years to five.

It may suit a taxpayer to be treated as a share dealer over one period and to take advantage of safe haven over another period. Suppose shares held for more than 10 years were standing at a profit, while shares held for more than five but fewer than 10 were standing at a loss. A taxpayer in this position would find it advantageous to hold on to 10-year safe-haven status, in relation to the proceeds of shares held for 10 years, and file a return on a sharedealing basis for the five-10-year shares so as to claim a loss for any shares sold.

But Ernst & Young tax partner David

cont→

FM 18/6/93 (320)

Clegg says a difference of interpretation has opened up with Revenue, concerning taxpayers who previously elected safe haven under the 10-year rule. His firm argues — on the wording of the relevant amendments to the Income Tax Act — that it is permissible for a taxpayer in this position to remain a "10-year electee" simply by doing nothing more.

Revenue takes a different view — as set forth in practice note No 18 of April 23. It argues that taxpayers who have elected safe haven on the 10-year basis are covered by the five-year rule — unless they withdraw their previous election. In that event they are considered to have waived all right to safe haven on the five-year basis.

Though Clegg feels his firm's earlier interpretation may well be correct in law, Revenue's standpoint confronts a taxpayer with a harsh practical choice, as challenging Revenue means going to the Income Tax Special Court.

In any event, taxpayers should remember that they have to make their election in the return for the first tax year ending after March 18 1992 — during which they dispose of quoted shares. Failure to make an election at the time of the first disposal automatically denies the taxpayer the right to elect five-year safe haven status thereafter.

The possibility exists that a large taxpayer might choose to test the interpretation of the safe-haven amendments in the courts, but this is of no assistance to those who have to take a decision here and now. ■

Fraud leads to VAT losses

B/Day 21/6/93

TIM MARSLAND

GOVERNMENT is losing hundreds of millions of rands in VAT every year due to fake claims of exports of tobacco and other produce to neighbouring states. (320)

The news comes hard on the heels of details of massive abuses of government's General Export Incentive Scheme (GEIS).

Industry sources said at the weekend syndicates in Johannesburg were purchasing tobacco products from wholesalers for export to countries in the Southern African Customs Union. They then forged the documentation required as proof of export and claimed the VAT back from the wholesaler, who by law had to refund it directly to the exporter before reclaiming it from Inland Revenue. The tobacco products were then resold on the local market cheaper than the wholesale price.

Lost turnover to Johannesburg retailers in a Lesotho-linked scam was estimated at R600m a year and the lost VAT at about R200m.

However, Transatlantic Tobacco Company executive chairman Jacques Kruger said the loss to the fiscus could be much bigger, because the same scam was being applied to other consumer products.

His company was investigating the Lesotho issue "to assist our franchised wholesalers". But there was no proof of "a definite syndicate".

Inland Revenue chief director Mike Du

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VAT

B/Day 21/6/93

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Toit admitted there was a problem with VAT claims on goods being exported to Lesotho because there were not proper custom controls at that point. (320)

"We do not do our own VAT policing; we rely on customs to do this for us."

He said that while he was not aware of the current scheme, the department investigated all claims of VAT fraud.

Inland Revenue was looking into several cases and would be making "examples" of those found guilty.

A tobacco industry spokesman said manufacturers supplied directly to the wholesale trade (top clients received a 7% discount), who then sold the products to retailers. Some retailers were being offered products at far bigger discounts than wholesalers received.

"The only conclusion that can possibly be drawn from the situation is that products are obtained from illegal channels."

He said the fraud had been made easier by a change to the VAT rules. Previously, proof had to be provided that goods were delivered to a country in the Customs Union. Now the seller was not obliged to ensure delivery.

Meanwhile, Trade and Industry said it was aware of allegations of malpractices regarding GEIS as reported earlier by Business Day.

"Everything possible is being done to avoid paying out fraudulent claims under GEIS," a spokesman said.

Tax ruling hits home workers

(320)

CT 22/6/93

THOUSANDS of people who claim tax deductions for work space in their homes will no longer be able to do so from next year following a crackdown announced by the government yesterday.

The move is likely to hit professionals such as teachers who regularly have to take work home and have a space set aside such as a study for which they are currently entitled to claim a tax deduction.

But the government is to change the tax rules next year as it is too difficult for the Inland Revenue to police the current system.

Studies

Deputy Finance Minister Mr Theo Alant told Parliament that from the start of the 1994/95 financial year, no deduction for home work space would be allowed for salaried workers who also have work space provided by an employer.

"In many cases . . . people claim expenses in respect of studies which are not being used regularly and exclusively for their trade, but are used only occasionally, as a matter of personal convenience, for office work," he said.

Because the validity of claims was a question of determining facts, this placed a substantial administrative burden on the Commissioner of Inland Revenue.

The bill therefore proposed that expenses of this nature would not be claimable in cases where the taxpayer was merely an employee or office-holder.

Deduction

The provision will affect teachers particularly but not professionals like lawyers.

Mr Alant said that the new rules would permit a tax deduction only where "the taxpayer's income . . . consists mainly of commission or other variable payments based on his work performance and his duties are not performed mainly in an office provided by his employer".

A spokesman for the Commissioner of Inland Revenue said the amendment was intended mainly to reduce the workload linked to policing the allowance.

"Unfortunately, a lot of people who have a genuine need for a work space at home, people like teachers, are going to suffer," he said. — Political Staff, Reuter

MIDWINTER MADNESS . . . (from left) Mrs Jacqui Carro Smith.

Indulge i

Staff Reporter

THE year's shortest day is a celebration to some — and for brave Capetonians it's a sp marked by a midnight swim.

This group of friends — we them eccentric — have been d the icy Atlantic at midnight on a decade.

It started with an argument b John MacFarlane of Hout Bay a

Loophole tightened

Star 22/6/93

Political Correspondent

CAPE TOWN — Tax rebates for the use of "office space" at homes for business purposes are to be severely tightened. (320)

The Income Tax Bill, tabled in Parliament yesterday, will restrict claims for use of studies at homes to those whose income comes mainly from commission or other variable payments based on work performance, according to an explanatory memorandum on the Bill.

The amendment will come into effect from the beginning of March 1994.

Relief for companies hit by STC

Tax package clears hurdles to unbundling

B/Day 22/6/93

CAPE TOWN — Major changes to SA's tax legislation were published yesterday, including measures to sweep away tax obstacles to unbundling and relief for companies hard hit by the timing of the new secondary tax on companies (STC).

TIM COHEN

The legislation on unbundling puts into effect announcements made in the Budget. It limits tax relief to listed companies wanting to unbundle their listed interests and provides that the scheme be sanctioned by Inland Revenue.

Deputy Finance Minister Theo Alant said in Parliament that the measures might be extended to unlisted companies depending on their effectiveness. It is understood that government is concerned about the possible abuse of the scheme and its possible cost to the fiscus should unlisted companies be included. (320)

Putting into effect the announcement made by Finance Minister Derek Keys in his Budget speech this year, the legislation proposes that approved unbundling schemes will be exempt from the 1% transfer duty, which effectively blocked unbundling efforts in the past.

The issue of shares in approved schemes would also not be subject to STC or to the tax on foreign shareholders and the issue would not be classed as investment income in the hands of a long-term insurer.

The legislation also provided that companies whose tax year ended between December 1 1992 and March 31 1993 would be given until December 31 to pay the STC due on dividends declared up to June 30.

Alant said while the introduction of STC had been welcomed, there had been criticism of the fact that "old" profits — those taxed at the 48% rate — were also subject to STC when they were distributed.

Keys had already pointed out that there was an immediate cashflow advantage to companies in that provisional tax payments for tax years ending after April 1 this year would be payable at the reduced rate of 40%, Alant said.

Measures were, however, necessary to strengthen this cashflow advantage and to ensure that no STC would be payable on "old" profits until companies had the advantage of a reduced provisional tax payment.

The Income Tax Bill, described as "the most extensive package of tax law changes since the implemention of VAT", also puts into effect a major change in accounting for foreign exchange losses and profits. All gains and losses, irrespective of whether they had been realised, would have to be brought into account within a given finan-

To Page 2

Tax package

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From Page 1

cial year.

The Bill also virtually scraps rebates allowable for costs incurred in using sections of domestic premises for business purposes. Alant said there had been a tremendous increase in recent years in tax claims for parts of a home, usually a study, being used regularly and exclusively for business purposes. (320)

Because the validity of the claims was a question of fact, the Commissioner of Inland Revenue suffered a substantial administrative burden, and it was discovered, as often as not, that these rooms were not used exclusively for business purposes.

The legislation therefore proposed that these expenses would not be claimable where the taxpayer was merely an employee or office holder, unless his income came mainly from commissions and his duties were not carried out mainly in an office provided by his employer.

The provision, which will affect teachers particularly but not professionals like lawyers, will come into effect on March 1 1994.

In addition, the Bill:

- Scraps measures intended to prevent insurers doing short-term deposit-taking business in competition with banks,
- Gives the Finance Minister wide powers to make regulations to provide relief for people who engaged in certain tax avoidance schemes until February 28 next year;
- Converts Section 37e of the Income Tax Act, which aims at boosting beneficiation of export products by accelerating write-offs, into a section aimed at adding value to products not necessarily for export; and
- Limits the ability of agricultural co-operatives to claim deductions for profit distributions to their members.

Alant said that although Section 37e of the Income Tax Act was to be changed so that the export requirement would be scrapped, remaining conditions would be strictly enforced.

Alant said agricultural co-operatives enjoyed more favourable tax treatment than other companies in that they were able to deduct from their taxable income profit distributions to their members.

Until recently they were restricted in the amount of business they were permitted to conduct with non-members, but this had recently been changed to enable co-operatives to conduct 49% of their business with non-members.

In order to ensure they did not enjoy an advantage over their competitors, it had been decided that bonus distribution would in future be tax deductible only to the extent that they represented profits generated from business conducted with members, he said.

Tax changes clear the way to unbundling

320

CT 22/6/93

By TIM COHEN

MAJOR changes to SA's tax legislation were published yesterday, including measures to sweep away tax obstacles to unbundling and provisions to provide concessions on the payment of Secondary Tax on Companies (STC).

The Income Tax Bill, described as "the most extensive package of tax law changes since the implemention of VAT", also:

- Requires that all gains and losses incurred in respect of foreign exchange transactions have to be brought into account within a given financial year, irrespective of whether they have been realised;
- Scraps measures intended to prevent insurers doing short-term deposit-taking business in competition with banks;
- Gives Finance Minister Derek Keys wide powers to make regulations to provide relief for people who engaged in certain tax avoidance schemes until February 28 next year;
- Virtually scraps rebates allowable for costs incurred in using sections of domestic premises for business purposes;
- Converts Section 37e of the Income Tax Act, which aims at boosting beneficiation of export products by accelerating write-offs, into a section aimed at adding value to products not necessarily for export; and
- Limits the ability of agricultural co-operatives to claim deductions for profit distributions to their members.

The legislation limits tax relief granted to quoted companies wanting to unbundle their quoted interests and provides that the scheme must be sanctioned by the Commissioner of Inland Revenue.

Putting into effect the announcement made by Keys in his budget speech this year, the legislation proposes that approved schemes will be exempt from the 1% transfer duty, which effectively blocked unbundling efforts in the past.

The issue of shares in approved schemes would also not be subject to STC or to the tax on foreign shareholders and the issue would not be classed as investment income in the hands of a long term insurer.

Unlisted companies

Deputy finance minister Theo Alant said in Parliament that the measures might be extended to unlisted companies depending on their effectiveness. It is understood that government is concerned about the possible abuse of the scheme and its possible cost to the fiscus.

Alant said the while the introduction of STC had been welcomed, there had been criticisms of the fact that "old" profits — those that were taxed at the 48% rate — were also subject to STC when they were distributed.

Keys had already pointed out that there was an immediate cash flow advantage to companies in that provisional tax payments for tax years ending after April 1 this year would be payable at the reduced rate of 40%, Alant said.

Measures were however necessary to strengthen this cash flow advantage and to ensure that no STC will be payable on "old" profits until companies had the advantage of a reduced provisional tax payment.

The legislation therefore provided that companies whose tax year ended between December 1, 1992 and March 31, 1993 would be given until December 31 to pay the STC due on dividends declared by them up to June 30.

Alant said that although Section 37e of the Income Tax Act was to be changed so that the export requirement would be scrapped, remaining conditions would be strictly enforced.

Alant said agricultural co-operatives enjoyed a more favourable tax treatment than other companies in that they were able to deduct from their taxable income profit distributions to their members.

Until recently they were restricted in the amount of business there were permitted to conduct with non-members, but this had recently been changed to enable co-operatives to conduct 49% of their business with non-members.

In order to ensure they did not enjoy an advantage over their competitors, it had been decided that bonus distribution would in future be tax deductible only to the extent that they represented profits generated from business conducted with members, he said.

Call to scrap VAT on new house sales

CT 25/6/93 Property Editor 320 (123)

VAT ON new houses should be scrapped or at least reduced in line with the transfer costs on second hand homes, Propcor chairman Benny Rabinowitz said yesterday.

Low property prices and a static market were affecting operating margins for developers.

Operating margins had been further eroded by the imposition of VAT on the sale of new properties, he said. In many cases the VAT payable was twice as high as transfer fees on a similar second hand property. The latest increase in VAT would only exacerbate this.

● Abbey moots unbundling — page 13

Tax shock as ANC plans 'wealth levy'

ARG 25/6/93

The Argus Correspodent

JOHANNESBURG. — South Africans, hit by declining living standards, rising inflation and punitive taxes, could soon face another call on their purses — a "reconstruction levy" to pay for the New South Africa.

The ANC's deputy head of Economics, Mr Tito Mboweni, told the Italian-South African Chamber of Trade and Industries this week that the ANC was considering imposing a levy similar to that used to reconstruct Germany after the war.

The levy, effectively a wealth tax, will be a one-off flat rate tax on anyone who earns an income.

The money will not go into a general fund but will be used for upliftment programmes and will be stringently audited.

Mr Mboweni told dinner guests that demands on a future democratic government would be very high, and that the ANC would have to be seen to be delivering.

"We have had to give up nationalisation because of pressure from the International Monetary Fund (IMF), and our own realisation that it wouldn't work."

Action against monopolies would not redistribute wealth.

Equal spending for blacks and whites on housing, schools and hospitals could not be met from government funds, he said.

"This is why we are looking at a reconstruction levy."

Mr Mboweni said whites would not be stripped of their wealth in a democratic South Africa.

Companies that did not monopolise any particular market had nothing to fear from an ANC-dominated government, he said.

INCOME TAX FM 25/6/93

Enabling unbundling

(320)

A concession relating to the safe-haven rule is included in the unbundling provisions of the Income Tax Amendment Bill. It applies to taxpayers who are share dealers. On selling the distributed shares, they will be allowed to add on the period over which they held the shares in the unbundling company up to the date of unbundling. This makes it easier for them to reach the safe haven minimum, which exempts them from tax on any gain.

The sections dealing with unbundling have been designed to cover the group structure of a pyramid — companies with several layers of which the topmost is the quoted unbundling company and the bottom layer comprises quoted shares to be distributed.

Miles Divett of Sonnenberg, Hoffmann & Galombik says, to qualify, the unbundling company must hold at least 50% of the equity share capital of any intermediate company — listed or unlisted.

Then the distribution of quoted shares held by the intermediate company, as part of

FM 25/6/93

an unbundling transaction effected by the top company, will qualify for the exemption — subject to other requirements. This also applies to an intermediate company in the pyramid. (320)

An unbundling transaction must be approved by the Commissioner and must be carried out (solely or mainly) to enable shareholders of the unbundling company to acquire all the distributable shares held by the unbundling company.

A distribution in kind will include shares distributed in the form of a:

- ☐ Dividend (including a liquidation dividend);
- ☐ Total or partial reduction in capital; or
- ☐ Redemption of redeemable preference shares.

This extended definition covers situations where:

- ☐ The unbundling company might not have enough reserves to achieve a distribution in kind as an ordinary dividend; and
- ☐ Does not wish to be wound up.

The definition of distributable shares is itself complex. It deals mainly with the situation where the unbundling company, at June 21, held shares in one or more quoted companies. But it also applies to the case where a company acquires additional shares in quoted companies after June 21. These may also constitute distributable shares if the Commissioner approves.

Divett says the main basis covers:

- ☐ Portfolio investors which want to unbundle quoted holdings — in which case at least one of the listed investments comprises not less than 10% of the equity share capital of one of the portfolio's listed components; and
- ☐ Investment holding companies which wish to unbundle. Here the listed shares to be unbundled must represent at least 70% of the market value of the holder's assets.

Apart from the stamp duty exemption, other concessions include:

- ☐ A transfer or registration of distributable shares will be deemed not a dividend for purposes of nonresident shareholders' tax; and
- ☐ A transfer or registration of distributable shares will not be deemed a dividend for secondary tax purposes. Nor will the shares distributed be treated as taxable in the hands of a long term insurer.

A shareholder, whose investment in an unbundling company is held as trading stock, will be deemed not to have incurred any cost in acquiring shares distributed to him. He must reallocate a proportion of the cost of the shares in the unbundling company to the distributed shares.

This must be done according to relative market values.

Details of a proposed unbundling transaction must be submitted to the Commissioner in advance for his approval, which may be subject to conditions. The application must be made before June 30, 1994.

Approval granted by the Commissioner will lapse from the date of issue of the certificate, if the registration or transfer of the distributable shares has not been effected within six months of the date of approval — or within another period approved by the Commissioner.

The approval will also lapse where:

- ☐ The Commissioner is satisfied that his approval was obtained through fraud, misrepresentation or nondisclosure of relevant facts; or
- ☐ Where an unbundling company or any other person involved fails to comply with the legislation or further requirements imposed by the Commissioner.

Divett points out nullification of the exemption from stamp duty would expose the shareholders (as transferees) to duty at the penalty treble rate (3%), even though they might be innocent of any relevant default. This is inequitable.

Another weakness in the Bill is an hiatus in the proposed amendments to cover the common situation where beneficial ownership is acquired through an unbundling, but registered ownership remains either with a nominee company or is retained by the transferor company as nominee for the beneficial owner. To prevent the payment of stamp duty under these circumstances, despite the unbundling concessions, the definition of qualifying situations should be broadened.

Divett says the obligation to submit written particulars threatens to make Revenue's requirements unnecessarily detailed, given the experience of the moratorium. Revenue officials may be victims of cumbersome detail more than the companies themselves!

As unbundling transactions will be confined to listed companies, the circulars to shareholders and explanatory notices which have to be issued anyway should inform Revenue. The Commissioner should formulate objective criteria for approval — the appropriate approach — and then evaluate whether the proposed transaction complies. ■

(b) the regional establishment levy in its region from 0,12 per cent to 0,13 per cent plus value-added tax levied in terms of section 7 of the Value-Added Tax Act, 1991 (Act No. 89 of 1991),

of the amount on which the levies concerned are to be calculated in terms of the notice referred to in section 12 (1) (b) of the Regional Services Councils Act, 1985 (Act No. 109 of 1985).

The increased levies are payable with effect from 1 July 1993.

T. G. ALANT,
Deputy Minister of Finance.

No. 1076 **25 June 1993**

Lost/Missing—stock—Transnet 7,5% 2008

Dealers, Stockbrokers please take note:

Transnet, 7,5% 2008 stock, certificate No. AL5210 has been reported as lost since 27 May 1993.

If found or offered for trading please forward to:

Transnet Limited
P.O. Box 61966
MARSHALLTOWN
2107,

Or contact Mr W. Savage at Tel. 492-1620.

No. 1090 **25 June 1993**

REPUBLIC OF SOUTH AFRICA

320

DEPARTMENT OF FINANCE: INLAND REVENUE

OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 20

Date: 25 June 1993

INCOME TAX: TRANSACTIONS, OPERATIONS OR SCHEMES FOR PURPOSES OF AVOIDING OR POSTPONING LIABILITY FOR OR REDUCING AMOUNTS OF TAXES ON INCOME: SECTION 103 OF THE INCOME TAX ACT, 1962 (THE ACT)

1. Concern has been expressed that the opening words of subsections 103 (1), 103 (2) and the wording of subsection 103 (5) (a) of the Act gives the Commissioner the right and in fact impose an obligation on him to invoke those provisions in relevant circumstances and to re-open any assessment irrespective of the period that has expired since the date of the assessment.
2. The view of Inland Revenue is that the raising of additional assessments in terms of these subsections is subject to the restrictions imposed by the first proviso to section 79 of the Act. Additional assessments may therefore not be raised after the expiry of three years from the date of the assessment unless the Commissioner is satisfied that the amount which should have been assessed to tax was not so assessed or the fact that the full amount of tax chargeable was not assessed, was due to fraud, misrepresentation or non-disclosure of material facts.

COMMISSIONER FOR INLAND REVENUE, PRETORIA.

(b) die streeksvestigingsheffing in sy streek verhoog het vanaf 0,12 persent na 0,13 persent plus belasting op toegevoegde waarde gehef ingevolge artikel 7 van die Wet op Belasting op Toegevoegde Waarde, 1991 (Wet No. 89 van 1991),

van die bedrag waarop die betrokke heffings ingevolge die kennisgewing bedoel in artikel 12 (1) (b) van die Wet op Streeksdiensterade, 1985 (Wet No. 109 van 1985), bereken moet word.

Die verhoogde heffings is betaalbaar met ingang van 1 Julie 1993.

T. G. ALANT,
Adjunkminister van Finansies.

No. 1076 **25 Junie 1993**

Verlore/Vermiste—effek—Transnet 7,5% 2008

Handelaars neem asseblief kennis:

Transnet, 7,5% 2008 effek, sertifikaat No. AL5210 is sedert 27 Mei 1993 as verlore aangeteken.

Indien gevind of geoffer word vir handel stuur asseblief aan:

Transnet Beperk
Posbus 61966
MARSHALLTOWN
2107,

Of skakel mnr. W. Savage by Tel. 492-1620.

No. 1090 **25 Junie 1993**

REPUBLIEK VAN SUID-AFRIKA

DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 20

Datum: 25 Junie 1993

INKOMSTEBELASTING: TRANSAKSIES, HANDELINGE OF SKEMAS OM AANSPREEKLIKHEID VIR BELASTING TE VERMY OF UIT TE STEL OF BEDRAG VAN BELASTING TE VERMINDER: ARTIKEL 103 VAN DIE INKOMSTEBELASTINGWET, 1962 (DIE WET)

1. Kommer is uitgespreek dat die inleidende woorde van subartikels 103 (1), 103 (2) en die bewoording van subartikel 103 (5) (a) van die Wet die Kommissaris die reg verleen, en inderdaad 'n verpligting op hom lê om hierdie bepalings in die tersaaklike omstandighede toe te pas en om enige aanslag, ongeag die tydperk wat sedert die datum van aanslag verloop het, te heropen.
2. Die sienswyse van Binnelandse Inkomste is dat die heffing van addisionele aanslae ingevolge hierdie subartikels onderhewig is aan die beperkings soos vervat in die eerste voorbehoudsbepaling tot artikel 79 van die Wet. Addisionele aanslae mag derhalwe nie na die verloop van drie jaar vanaf die datum van die aanslag gehef word nie, tensy die Kommissaris oortuig is dat die bedrag wat vir belasting aangeslaan moet gewees het nie aldus aangeslaan is nie of die feit dat die volle bedrag van die hefbare belasting nie aangeslaan is nie, te wyte is aan bedrog, wanvoorstelling of verswyging van tersaaklike feite.

KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

DEPARTMENT OF STATE EXPENDITURE

No. 1098 320 **25 June 1993**

Statement of Revenue collected during the period **1 April 1993 to 30 April 1993.**

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

No. 1098 **25 Junie 1993**

Staat van Inkomste ingevorder gedurende die tydperk **1 April 1993 tot 30 April 1993.**

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Month of April / Maand April 1993	Month of April / Maand April 1992
		R	R
State Revenue Account	***Staatsinkomsterekening***		
Inland Revenue:	Binnelandse Inkomste:		
Tax on income	Belasting op inkomste	3 235 387 424	3 271 672 975
Loan Levy, 1989–94	Leningsheffing, 1989–94	7 200	—
Sales tax	Verkoopbelasting	4 853 674	10 019 704
Value Added Tax	Belasting op Toegevoegde Waarde	1 585 858 575	1 039 616 623
Other taxes:	Ander belastings:		
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	33 082 983	36 833 286
Non-residents' tax on interest	Rentebelasting op buitelanders	—	(1 792)
Undistributed profits	Onuitgekeerde winste	—	(11 424)
Donations tax	Geskenkbelasting	671 281	934 145
Estate duty	Boedelbelasting	10 866 227	5 667 459
Trade securities	Handelseffekte	16 859 408	13 886 683
Stamp duties and fees	Seëlregte en gelde	65 618 274	86 944 726
Transfer duties	Hereregte	155 856 441	133 736 369
Miscellaneous	Diverse	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	1 706 276	19 973 926
Interest and dividends	Rente en dividende	866 516	401 060
Levies	Heffings	214 673	188 083
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	1 323 000	1 461 238
Departmental activities	Departementele bedrywighede	46 092 862	200 406 132
Capital revenue	Kapitaalinkomste	—	—
	R	5 159 264 814	4 821 729 193
Less:	*Min:*		
Payments to self-governing territories	Betalings aan selfregerende gebiede R	129 327 000	114 044 000
Payments to TBVC Countries	Betalings aan TBVC Lande R	61 726 000	61 726 000
Total: Inland revenue	*Totaal:* Binnelandse inkomste R	4 968 211 814	4 645 959 193
Customs and excise duties:	Doeane- en aksynsregte:		
Customs duty	Doeanereg	269 223 202	256 165 017
Excise duty	Aksynsreg	424 898 298	318 947 459
Surcharge	Bobelasting	141 360 122	134 049 304
Miscellaneous	Diverse	(22 381 873)	(2 686 410)
Fuel levy	Brandstofheffing	641 359 777	539 054 401
Ordinary Levy	Gewone Heffing	11 765 813	6 349 711
	R	1 466 225 339	1 251 879 482
Less: Payments in terms of Customs Union Agreements	*Min:* Betalings ingevolge Doeane-unie-ooreenkomste R	1 361 408 250	1 202 246 500
Total: Customs and excise duties	*Totaal:* Doeane- en aksynsregte R	104 817 089	49 632 982
	R	5 073 028 903	4 695 592 175
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***		
Inland revenue	Binnelandse inkomste	1 388 155	42 968 731
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***		
Inland revenue	Binnelandse inkomste	3 121 090	4 497 828
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***		
Inland revenue	Binnelandse inkomste	103 491	294 839
		4 612 736	47 761 398
Grandtotal	Groottotaal R	5 077 641 639	4 743 353 573
Reconciliation with statement published by Government Notice 836 in *Government Gazette* of 14 May 1993:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgwing 836 in *Staatskoerant* van 14 Mei 1993:		
In Transit 31 March 1993	In Transito 31 Maart 1993	(5 072 493)	—
Collections as above	Invorderings soos hierbo	5 077 641 639	—
	R	5 072 569 146	—
In Transit/Overremitted, 30 April 1993	In Transito/Te veel oorgedra, 30 April 1993	157 353 561	—
Received into Exchequer Account	In Skatkisrekening ontvang R	5 229 922 707	—

Reconstruction levy looms for taxpayers

Star 25/6/93

(320)

By Claire Gebhardt

South Africans, hit by declining living standards, rising inflation and punitive taxes, could soon face another call on their purses — a "reconstruction levy" to pay for the New South Africa.

The ANC's deputy head of economics, Tito Mboweni, adressing the Italian-South African Chamber of Trade and Industries this week, said the ANC was considering imposing a levy similar to that used to reconstruct Germany after the war.

The levy, effectively a wealth tax, will be a one-off flat rate tax on anyone who earns an income.

Upliftment

The money will not go into a general fund, but will be used for upliftment programmes and will be stringently audited.

Mboweni told dinner guests that demands on a future democratic government would be very high, and that the ANC would have to be seen to be delivering.

"We have had to give up nationalisation because of pressure from the International Monetary Fund (IMF), and our own realisation that it wouldn't work.

"At the same time, anti-trust action is not going to re-distribute wealth."

Equal spending for blacks and whites on housing, schools and hospitals could not be met from the fiscus, he said.

"This is why we are looking at a reconstruction levy."

Mboweni said whites would not be stripped of their wealth in a democratic South Africa.

"We will still have differences, some people will have two cars, a swimming pool and a fancy house, but there will be significant welfare losses by some whites and welfare gains by blacks."

Income would also be redistributed through a living wage and the outlawing of company apartheid whereby blacks and whites doing the same job were paid different wages.

Companies that did not monopolise any particular market had nothing to fear from an ANC-dominated government, he said.

Those who did should not doubt the ANC's resolve to put an end to monopolies and cartels, with the support of the international community.

Mboweni said denials by SA Breweries (SAB) that it monopolised markets and erected barriers to entry had been unconvincing.

"One has only to look at companies like Lion Match, Plate Glass and the like."

The ANC would follow an open-door policy where multinationals were concerned and they would be treated in the same way as South African companies, he said.

"But we will guard against unscrupulous people who are here today and gone tomorrow."

Mboweni said South Africa could not continue to be dependent on the export of primary commodities and the input of manufactured goods.

The ANC would push for the export of manufactured goods to put the country on a different growth path.

Character

"But one of the problems is that South African industry invests very little in research and development — one of our industrial giants invests less than 2 percent in this area."

Human resource development had also to be addressed, particularly the skewed character of business which favoured academic training vis-a-vis technical training and apprenticeship.

Academics said this week that they were uncertain whether the ANC was referring to World World I reparations when an attempt was made to extract a levy from those who had profiteered after the war, or World War II restitution when the West German government passed laws to make reparations to the victims of the Nazis through compensation for loss of property and pensions, or loss of income, liberty and life.

Idea unworkable — tax experts

Star 25/6/93

Tax experts said yesterday the ANC's reconstruction levy would not work because there would be massive evasion, with whites either transferring assets or declaring themselves bankrupt.

Many younger people who had nothing to lose would simply leave the country.

Several whites surveyed said they would bitterly oppose such a tax.

One young stockbroker said he would see the levy as being totally discriminatory because the income level would probably exclude the majority of blacks.

"I had nothing to do with apartheid, I'm just unfortunate enough to have a white skin."

Price Waterhouse's Chris Frame pointed out that there was a vast difference between a tax meant to be poured into reconstruction of the economy and a tax to redistribute wealth.

"Although we don't know how much the levy will be, the problem is that if you levy a tax on 5 million whites to redistribute to 30 million blacks, it would have to be very high to make any difference.

(320)

"On the positive side, a one-off flat tax is better than a hike in income tax."

Marius van Blerck, chairman of the SA Fiscal Think Tank, said there was scope for such a tax in a positive environment.

"A lot of people are involuntarily taxing themselves by investing several hundred rands a month in security and they might be prepared to tolerate a certain tax burden if it goes in the right direction."

He said the Think Tank had been approached by the ANC to provide feedback on this and other fiscal matters, as had other political groupings.

S Times (Buss) 27/6/93

Allowances to sugar taxman's bitter pill

(320)

HOW TO PAY LESS TAX

By Des Kruger & Vicki Taylor
Deloitte & Touche

CORRECT use of allowances can shrink tax.

Any allowance paid to you must generally be included in your remuneration and the relevant deduction must be claimed in your tax return.

However, in all instances the deduction may not exceed the allowance.

● **Travelling allowance (part 3.9 and part 10.)**

A quarter of the travelling allowance (35% with effect from July 1, 1993) is subject to Paye. Your deduction is calculated by taking your actual travelling costs x business kms/total kms. If you do not keep an accurate log, your private travel is deemed to be 12 000km. The total travelled may not exceed 32 000km a year. If you cover this distance and do not have a log, your business kilometres are limited to 20 000.

If accurate records of travelling expenses are not kept, your claim may be based on the gazetted rates. These incorporate fixed cost, fuel and maintenance elements, varying according to the price of the vehicle.

The fixed element incorporates capital cost, finance charges and vehicle insurance. If your vehicle is paid for, the use of the gazetted rates may result in a larger deduction than if you used actual costs (no finance charges have been incurred, yet you can obtain a deduction).

● **Entertainment allowances (part 3.8).**

Your annual deduction is limited to the lower of R2 500, or 5% of your taxable income. You need to supply a schedule with your tax return detailing your entertainment expenditure. Should it exceed R2 500, you should ask your employer to reimburse you for certain entertainment expenses. Such a reimbursement will not form part of your allowance and will not be taxed in your hands.

● **Subsistence allowances (part 5.2).**

If you are paid a subsistence allowance when away from home on business, the amount should not be included in your return or be subject to tax provided that it does not exceed:

* R150 a day if it is intended to cover accommodation, meals and other costs.
* R65 a day in other cases.

You must spend at least one night away from home and receive an allowance. No deduction is available if you merely receive your normal salary while away on business.

The R150 a day may prove to be beneficial when staying with friends and relatives.

● **Other allowances (part 3.10).**

You must prove that you have incurred the expenditure. Where the allowance is for your use of home office, then the percentage of household costs you claim as a deduction must relate to a room which is set aside exclusively for business.

THE WEEK AHEAD by Kelvin Brown

Price rises likely to be restricted

B/Day 28/6/93

ALTHOUGH the delayed effect of the Budget's VAT rise should exert upward pressure on the May inflation rate, due out later this week, the recession is expected to restrict price rises in the coming months.

In April annual consumer inflation rose to 11% from 9,7% in March. Economists had been expecting a figure of 12% as a result of the VAT rise. It appeared many retailers withheld VAT-related price increases until after the Easter weekend. The pre-Budget VAT rate also applied to purchases of durable goods delivered before 24 April. As the survey was done on April 7 these delayed price increases were not reflected in the figures.

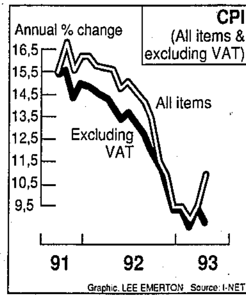
The rest of the VAT rise should come through in the May figures, say economists. UAL economist Dennis Dykes is expecting delayed VAT-induced price increases to add 0,4 percentage points to May inflation.

He predicted the VAT increase from 10% to 14% would add 2,3 percentage points to the monthly inflation rate in April. But the figures disclosed that VAT added only 1,9 points to monthly inflation.

Dykes says he expects the overall monthly rise to be 1,2% with yearly inflation around 11,5%.

What about the rest of the year? Recent Reserve Bank comments seem to indicate that the authorities' forecasting model shows lower inflation in the next 18 months.

In its latest quarterly bulletin the Bank says that although the rate of increase in the consumer price index (CPI) rose in March and April "this



Graphic: LEE EMERTON Source: I-NET

upward movement should be transitory, provided these movements do not fuel expectations of accelerating inflation". (320)

Sanlam senior economist Pieter Calitz agrees with the Bank's assessment. "I feel very positive about inflation for the next couple of years."

Calitz bases his assessment on the fact that the recession is putting downward pressure on costs and prices. "Retailers are not in a position to pass on price increases, and major cost factors like salaries are unlikely to rise while the economy continues to decline."

The effect is particularly noticeable on food inflation, which has fallen dramatically over the last few months to 8,5% in April after being at 30% at one time last year.

By far the largest cost element for many companies is salaries, says Calitz. Salaries have increased by 6%-8% this year, a much lower rate than in the past.

Calitz expects inflation to slow down in the last quarter of this year, as it will be compared with the corresponding period in 1992 when inflation was especially low. "From then until the recent VAT rise works itself through the index, inflation should show significant declines."

Further downward pressure on inflation could come from a cut in interest rates. "If inflation performs as predicted and reserves remain stable a one-point drop in official interest rates should occur nearer the end of the year. Due to the large weighting housing prices carry in the index, a one-point cut in mortgage rates would cause a half-point fall in the inflation rate," says Calitz.

On the international front the focus is on Japanese and US economic indicators this week. Economists will be keeping their eye on Japanese May retail sales for signs of a bottoming out of the recession in Japan.

When first-quarter GNP figures were released earlier in the month the government announced the recession had turned. Economists disagreed, saying latest economic indicators for April and May suggested otherwise. There are few reasons for private demand to show any sustained growth in the coming months.

Several important US indicators are due out in the week. The May leading indicators index, May consumer confidence index and June purchasing managers' index will indicate if growth in the economy is showing any signs of accelerating.

VAT rules change to suit property deals

BiDay 29/6/93

ANDREW KRUMM

GOVERNMENT will change certain VAT rules to relieve property developers of the burden of temporarily financing clients' VAT payments to Inland Revenue before receiving payment for the deal, says Ernst & Young tax partner Ian MacKenzie.

MacKenzie said the concession had been granted after developers approached revenue authorities to discuss problems on the timing of VAT payments following a sale transaction. (320)

Previously the developer, as vendor, had to pay VAT on behalf of the purchaser on the earliest of three dates: six months after the date of the agreement, on registration of transfer, or on the release of any deposit paid.

However, given the need for pre-sales to ensure that a project was viable, the stipulated six-month period was often over before construction was complete and payment received from the purchaser.

"As a result the developer has in the past had to finance the VAT temporarily on behalf of the purchaser before receiving payment."

MacKenzie said government had agreed to delete the six-month period from legislation, and the amendment had been approved by Parliament two weeks ago.

"Government has yet to gazette the change, but this should happen soon," MacKenzie said.

ANC plans major tax reform

Business staff (320) ARG 30/6/93

THE African National Congress has asked South Africa's Fiscal think tank for feedback on four possible areas of tax reform, according to think-tank chairman Mr Marius van Blerck, who said the ANC was considering the possible implementation of a "reconstruction levy".

A form of prescribed assets was also being considered, where the life offices would be required to direct part of their annual cash flow to insfrastructural development, such as housing.

Also under consideration were:

■ The affects on taxation of foreign aid inflows to the new South Africa; and,

■ Recommendations from the General Agreement on Tariffs and Trade (GATT) that export incentive schemes were wasteful.

The possibility of a reconstruction levy, similar to that imposed in Germany after the war, was mooted last week by ANC deputy economic head Mr Tito Mboweni in an address to the Italian-South African Chamber of Commerce. He said the levy, a one-off flat rate of tax on income, would be used for upliftment programmes.

Mr Mboweni said demands on a future democratic government would be very high. Equal spending for blacks and whites on housing, schools and hospitals could not be met from government funds.

A report-back with the ANC was scheduled for July 21.

Tax experts slam ANC levy proposal

Star 1/7/93

By Claire Gebhardt

Preposterous, unrealistic and "tantamount to stealing". This is how tax experts and economists describe an idea floated by ANC deputy head of economics Tito Mboweni for a "reconstruction levy".

Mboweni mooted the idea in an article in The Star this week, as a possible approach to redressing apartheid's imbalances. The idea is based on Germany in the post-World War 2 period, where individuals and corporations had to pay half their 1948-49 assets into an "equalisation fund", either as a lump sum or as quarterly payments for 30 years.

Price Waterhouse tax partner Chris Frame said that if the ANC was looking to employ half the population in the civil service, this was an excellent way to do so.

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"Attempting to evaluate assets is a ludicrous idea when we can't even handle income tax at the moment.

"It would make more sense if particular assets were targeted, but then everybody would switch out of them immediately, and if it were cash, it would simply disappear."

Nedcor's Edward Osborne said he questioned whether overall effective levels of tax could be increased still further: "The idea is preposterous and ridiculous. It will increase direct taxation," he said.

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ple), so making sale & leasebacks of this kind unviable. The amendment applies to any assets acquired by the lessor on or after June 21.

A similar amendment prevents assets sold between group companies from qualifying for capital allowances. This also applies to assets acquired from a connected person on or after June 21, and limits the wear-and-tear or other capital allowances to the lower of original cost or current market value.

The new connected person definition also affects the write-off of patents, trademarks and copyrights under Section 11(gA) of the Act. A 1988 amendment prevented any write-offs where intellectual property was acquired in situations involving a common shareholding of more than 50%. This proved to be inadequate; new amendments now apply to intellectual property acquired from a connected person on or after July 1. The write off is once again limited to the lower of original cost or current market value.

Where a taxpayer sells any asset which is entitled to capital allowances for an amount exceeding its written-down tax value, he is taxable on the excess of the selling price (up to the original cost of the asset) over its tax value.

GOVERNANCE

How best to govern SA corporations is under constant scrutiny. In some respects, it can be argued, SA has fallen behind developments abroad. That's why an international conference dealing with future trends in SA corporate law is scheduled for July 29 and 30.

The conference has been organised by the Co-ordinating Research Institute for Corporate Law (Cric), the research arm of the Standing Advisory Committee on Company Law chaired by Judge Richard Goldstone. It is intended, says Johan Henning, "to provide a blueprint for corporate law reform in a manner which avoids the piecemeal approach."

Speakers include legal experts Paul Davis and Len Sealy from Oxford and Cambridge universities, Bernhard Gomard (Copenhagen), Bernhard Grosfeld (Munster), Karel Claire (US) and Manfred Weiss (Germany).

Henning says SA is emerging from isolation into a changed arena and the traditional link with British company law could be overtaken by British concern over EC developments. The conference will also address ties between company law and labour matters, covering provisions for worker participation at various levels of company decision-making.

The conference will be held in Johannesburg, but you must register through Cric in Bloemfontein (telephone 051-401-2823).

WRONG PICTURE

On page 324 of the *FM*'s Top Companies survey (June 25) a photograph of First Bowring MD Alan Wilson is incorrectly identified as Prestasi insurance brokers' head Jan Erasmus. We regret the error.

Up to now, companies have been able to avoid this situation by distributing the asset as a dividend in kind. Since June 21, any distribution as a dividend in kind, or donation of a qualifying asset, has generated a deemed taxable recoupment equivalent to an actual recoupment (what a taxpayer gains when he sells an asset for more than its tax value) if the asset had been sold for its current market value.

The Bill includes the anticipated provision empowering the Minister to authorise the Commissioner to settle disputes relating to so-called tax avoidance schemes, before February 28 1994. The most well-publicised are the movie and plantations partnerships.

Kessel Feinstein tax partner Ernest Mazansky notes that it will still be possible to enter into a settlement agreement even though an appeal may have been heard in the Special Income Tax Court and even though an appeal has been lodged against a Special Court decision. Thus the participants in the *Jake Speed* film case and the plantation case will still have the opportunity of accepting the offer. ■

TAX AMENDMENTS

Credit clarification

One of the unintended consequences of the introduction of Vat has been to increase the risks which property developers face. The Taxation Laws Amendment Bill, recently tabled in parliament, includes Vat-related changes which affect fixed property.

Des Kruger, a tax partner with the Cape office of Deloitte & Touche, explains the Vat Act provides that a vendor who buys second-hand goods from a nonvendor to resell is entitled to claim a notional input tax credit. This is the case, even though no Vat would have been payable on the purchase.

This also applies to fixed property. Suppose a developer buys a house from an individual. Though transfer duty is payable, Vat is not. Nevertheless, the developer is entitled to a notional input tax deduction (equal to the Vat fraction of 14/144 times the purchase price) from his Vat payment. The developer may claim the input tax credit when he pays for the second-hand property.

But there has been a difference of opinion about the developer's claim to a notional input tax credit if he acquired the property by establishing a loan account or issuing promissory notes in favour of the vendor.

Kruger has disagreed with the opinion which held that crediting a loan account or issuing promissory notes constituted payment for purposes of the notional input tax credit. The Act is being amended to clarify this. The notional input tax credit may be claimed only for a payment which reduces or discharges the purchase price — not for the crediting of a loan account or issue of promissory notes.

The Bill also provides relief for property developers. When fixed property is sold, Vat must be accounted for on the earliest of:

- ☐ Six months after the sale is concluded;
- ☐ Upon registration; or
- ☐ On the date any payment is received.

Many developers sell property on extended terms so that payment and registration take place more than six months after the sale is concluded — which hits their cash flow. An amendment, which regrettably becomes effective only upon promulgation, deletes reference to the six-month time of supply, so that only payment of the purchase price or registration of transfer will now trigger a Vat liability.

However, there are many developers who still have to account for Vat before they receive payment — such as one who sells on credit over 12 months. So developers, argues Kruger, will continue to be worse off than they were under general sales tax, when they were entitled to a debtors' allowance.

Difficulties have also been encountered with corporate bodies and share block companies. A supply of services to members is Vat-exempt. But the body corporate or share block company may apply to be excluded from this provision, to make the services taxable. This would help if the members were vendors who could claim an input tax credit if Vat were charged, which would be the case with a commercial building.

But what if only some members are vendors — for example in a building comprising shops and flats? Until now, whatever the body corporate or share block company decided, some members would be at a disadvantage. An amendment now authorises a share block scheme or body corporate to request that its services be made taxable only in relation to those members who are vendors and allow exemption for the balance.

The Vat Act was amended in 1992 to provide a better basis for taxing share block property schemes, but these amendments have still to come into effect. When they do, they will enable share block companies to register as vendors and claim input tax credits for goods and services which they supply. At present Revenue argues that share block companies do not carry on an enterprise, so they cannot register as vendors.

The Vat Act provided relief for them, as well as for property developers who might have started schemes by the time those amendments are promulgated. That is, any subsequent taxable supply in a share block company, by a developer, on or after the amendment comes into operation, will be regarded as supply by the share block com-

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INFLATION AND GROWTH

Breaking out of the spir

The broad monetary aggregate M3 has fallen for the second month in a row — from R199bn in March to R197bn in April and R194,7bn in May. If the latest preliminary estimate from the Reserve Bank is confirmed, 12-month money supply growth is running at only 3,72%. And, from the mid-November base, there is a seasonally adjusted annual decline of 1,56%, against a guideline range of 6%-9% growth.

So the battle against runaway growth in M3, which peaked at a 12-month rate of 27,9% in August 1988, is well and truly won.

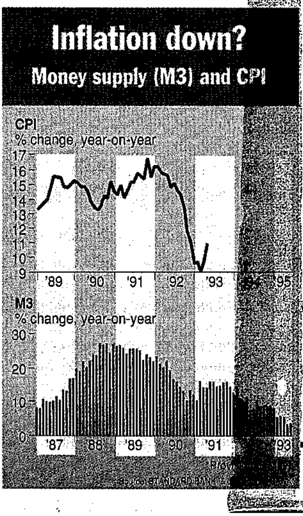
This improves the outlook for low inflation in the medium term. It might blip up for a variety of reasons, mainly technical, in months ahead, but this will be countered for a while by lower oil prices on international markets *(Economy* June 25). And it may show renewed strength when the economy recovers and gains momentum — particularly if government spending continues to rise faster than revenue collections and GDP. But, over the next year, it should rise far more slowly than in the past.

This is an appropriate point to evaluate monetary policy and the economic outlook.

Though an outflow of capital has been partly responsible for the recent fall in money supply, a decelerating growth trend has been in place for some time and is now reflected in lower inflation.

Comparative stabilisation of prices is a triumph for monetary policy. The downside is that, if it is not accompanied by reforms in the goods market, economic recovery will be constrained.

The rate at which money increases puts a limit on nominal growth in the economy. But it can't determine what proportion of nominal growth is real and how much is due to rising prices. Other policies are needed to maximise real growth.



In an ideal (and largely theoretical) economy, with no constraints on the supply of goods, money supply growth would closely track real growth.

If supply of goods matches demand over a period, there can be no build-up of underlying inflation. There can be temporary or cyclical disturbances when supply and demand for goods are out of kilter but, in the longer term, if productivity improves along with demand, there is no reason for prices to rise continuously.

Profits and wages & salaries can rise, without causing inflation, if productivity rises at the same pace. This would be a truism but for the widespread perception that an inflation-beating rise in returns (profits or remuneration) means beating inflation. Unions that negotiate across-the-board wage rises out of line with the increase in productivity and businesses that routinely jack up prices without adding additional value are cheating themselves. Inflation will erode their nominal gains.

There is no ideal economy. Even Germany and Japan, which at times reported no inflation and strong growth, have become economic casualties. But that's no reason for not attempting to remove the grosser distortions in the SA economy.

These include tariffs that prevent cheaper imports from competing with domestic goods, exchange controls that force a handful of domestic companies to dominate the market because of a dearth of other investment opportunities, and downward rigidity in wages.

With inflation falling, there is room for nominal interest rates to fall further. But, if this is to achieve growth, the other problems will have to be tackled promptly.

□ In the 12 months to April, the narrower monetary aggregates grew as follows: M0 14,2% to R14,4bn; M1A 26% to R41,9bn; M1 16,7% to R71,3bn; and M2 2,1% to R168,4bn. ■

LIQUIDATORS

Creditors rebel

Some creditors of KPL-Etsa, an electronics company in liquidation, have petitioned the Master of the Supreme Court to replace the provisional liquidator, claiming that he — Ernst & Young's Philip Reynolds — is showing undue preference to the major creditor, First National Bank. The Master was due to give a ruling this week.

Financial Services Board executive officer Piet Badenhorst is to investigate how to measure the strength of financial conglomerates. His report, due next year, is intended to establish "to what extent the financial strengths of the various components in financial conglomerates complement each other."

Cont. p

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pany. This would allow it to claim a credit for input tax incurred before the amendment comes into effect.

A further amendment provides that, if the developer treats the acquisition of shares in the share block company as the acquisition of second-hand goods, the company will not be deemed to have made a taxable supply. This will prevent a double claim for an input tax credit — in the hands both of the developer and of the share block company. ■

ANC levy 'will kill economy'

Star 2/7/93

By Claire Gebhardt

The ANC's controversial reconstruction levy would plunge the economy into a recession considerably more severe than is being experienced at present.

A further heavily negative spinoff would be a wave of emigration.

That's the consensus view among economists reacting to the revelation by ANC deputy head of economics, Tito Mboweni, that the proposed levy would take the form of a once-off 5 percent tax on fixed assets and a 15 percent tax on income.

Price Waterhouse tax partner Chris Frame insists that the levy is a wealth tax combined with a straight surcharge on income.

"It's semantics to talk of a reconstruction levy. As far as I'm concerned, a 5 percent tax on your assets is a wealth tax.

"The 15 percent is a straight surcharge on income tax and an increase in taxation of that amount will kill the economy. Already 5 million people are paying for 35 million.

"Money put into black housing, no matter how necessary, won't generate growth. We're talking about spending money we haven't got instead of going out and creating it."

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Sanlam economist Johann Louw says the levy would have a depressive effect on consumer spending and business confidence and could prolong the recession.

"Consumer spending, which is already severely depressed, accounts for 60 percent of GDP. Taking money away from one section to give to another won't stimulate the economy and at the end of the day we'd all be worse off."

Other economists said it was crucial that Mboweni indicate whether he was talking about gross or net assets.

On a house valued at R400 000 but with a bond of R200 000 the levy could be either R10 000 or R20 000. And if you're earning R100 000 a year you'd have to cough up another R15 000 on top of that.

Spread over 20 years or not, few have that kind of money.

Besides, the levy would be tantamount to tax on tax, since in the vast majority of cases assets owned would have been bought out of after-tax income.

PROPERTY VAT FM 2/7/93 (320)

Victory for developers

Successful lobbying of the Revenue department by developers' tax advisers has resulted in a considerable, but logical, concession. A new amendment removes the onus on developers to pay Vat (14%) on the full purchase price of a property before receipt of payment

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PROPERTY FM 2/7/93 (320)

from the purchaser.

Previously, when a property was sold by a developer, Vat on the full purchase price was payable by him on the earliest of three dates: six months after the date of the agreement; on registration of transfer; or on the release of any deposit paid or any other payment.

As Ernst & Young tax partner Ian MacKenzie points out, most developments today require pre-sales to ensure that they are viable. This invariably means that the six-month period is up long before construction is complete, placing an obligation on the developer to pay Vat before he has received his payment from the purchaser.

"The good news is that this six-month period has now been deleted from the legislation and applies to any current transactions for which the six months have not passed," says MacKenzie.

A still onerous condition in the legislation is that partial payment for a property may trigger the full Vat payment by the developer. But according to MacKenzie this problem can be overcome by structuring the purchase agreement to provide for a deposit rather than a partial payment towards the purchase price.

"When the client pays a deposit, this action has nil effect on the Vat obligation. It's only when the deposit is released or applied against the purchase price that the Vat obligation comes into effect. Correct legal terminology in such agreements is therefore important.

"The description of the deposit should take the form of 'the purchaser undertakes to pay a deposit of X' rather than 'the purchaser undertakes to pay the purchase price in a series of instalments,'" he advises. ■

Wealth charge 'beats prescribed assets'

Business Staff ~~#4~~ ARG 3/7/93 320

THE often-mooted reintroduction of prescribed assets as a way to allocate funds for housing black communities is a poor alternative to a wealth tax, says economist Gordon Young of the Labour Research Service.

Prescribed assets amount to a hidden tax on savers, says Mr Young.

"If the previous pattern of prescribed investments is followed, then prescribed assets will be imposed on all retirement funds and benevolent funds. This will have a direct impact on the returns obtained by these funds.

"The pensions and lump sum payouts of all union members who participate in these funds will be reduced. Many of these are low-paid workers whose only savings are held in their retirement funds."

There is no shortage of funds for investment in South Africa, says Mr Young. But there is a shortage of projects that yield market returns.

"Offer the owners of capital an adequate return with acceptable risk and they will invest in infrastructure. Unfortunately, black communities cannot afford to pay market returns for much-needed infrastructure... a wealth tax, not prescribed assets, is the solution."

Mr Young says it would be difficult to extend prescribed assets requirements beyond the life offices and retirement funds. Unit trusts and investment trusts have always been exempted, and it would be impossible to impose prescribed assets on share portfolios held by individuals.

"Anyone who could afford to escape the prescribed assets net would do so. There would be a flight from the life offices — especially their retirement annuity funds — to the unit trusts... Astute investment managers would create new investment vehicles which would enable rich individuals to avoid the net.

"But poor people, ordinary workers and all who are not sufficiently wealthy to afford private investment advice will be caught in the net... and the cost of prescribed assets will be borne by those least able to afford it."

Wealth tax best says economist

ARG 3/7/93 320

'Presenting the bill for apartheid' to those who gained most by it

ALIDE DASNOIS
Business Staff

REPORTS that the ANC is considering the imposition of a tax on wealth sent a new flutter through the dovecotes of the rich this week.

But such a tax is by far the best way to raise money to repair the damage done by apartheid, says economist Gordon Young of the Labour Research Service. And the blow to the wealthy would not be as heavy as one might think.

Gordon Young first raised the idea of a wealth tax in an economic policy paper in 1992. He is convinced that it's a much better way than the reintroduction of prescribed assets to redistribute wealth from rich to poor communities.

A tax of 5 percent on all net wealth in excess of R1 million, would yield R500 million a year from the 20 richest families alone, the Labour Research Service has calculated.

"It can be assumed that several billion could be raised every year from a comprehensive wealth tax".

Mr Young suggests that the tax be imposed for 10 years and that the funds raised be allocated towards social investments by a national development fund.

"A huge dent could be made in the backlog of infrastructural facilities in the black communities. And this would be done without permanently increasing taxes, without imposing new costs on companies, without squandering capital on consumption and without alienating foreign investors (who will obviiously not be affected).

The tax would be imposed on all assets owned by an individual, from houses to sports cars, shares, paintings or jewellery. Though some people might manage to hide away some of their wealth, assets such as houses, bank accounts and shares would be easy to trace — and insurance valuations could serve as a base for taxing other assets.

Such a tax would have beneficial side effects, Mr Young says. Holders of unproductive assets would tend to transfer their funds to productive assets to finance the new tax, unlocking wealth for investment. And the blow to the wealthy would be cushioned by inflation and by capital gains.

"Assuming that their assets grow in value by 5 percent a year in real terms, wealth taxpayers will end up, after 10 years, with assets increased by almost 10 percent in real terms."

The tax would be relatively cheap to administer, Mr Young says.

"In imposing a wealth tax a democratic government will be presenting the bill for apartheid to those who have gained most from it. But when the bill has been paid, the account will have been squared. The country could move forward with the slate cleaned."

RETRENCHMENT: *There are various ways of handling monies received from a redundancy package*

Star 3/7/93

Facing taxation after the ax

(320)

IN the unfortunate event of retrenchment, the taxpayer must find a way to keep as much of his retrenchment monies as possible. LEIGH ROBERTS reports.

THE taxman lends a sympathetic ear, well to a degree anyway, to those taxpayers who are retrenched by their employers.

A significant aspect of retrenchment is how to handle the monies which might be received — both from your employer as a retrenchment package, and the lump sum received on your withdrawal from the company pension or provident fund.

Important too, is how big a slice of these monies the taxman is going to take. For while you might regard your retrenchment package as your bread and butter until your next job, the taxman regards it as part of the income earned from your employment and thus taxable.

The taxman does however, offer some light relief when taxing your retrenchment monies.

Exemption

In this year's Budget Speech, Finance Minister Derek Keys granted retrenched employees a tax concession. The first R30 000 of monies received from your employer as a retrenchment package would be free of tax. In addition he decreed, this exemption would be retrospective to retrenchments made on or after March 1 1992.

The exemption applies to taxpayers who lost their employment through the economic hardship suffered by their employer or as part of a company restructuring.

Martin McAusland, tax manager at accountants Price Waterhouse Meyernel, says it makes good tax sense for the employer to lump all the monies due to the employee into one amount, to take advantage of the R30 000 exemption.

On retrenchment the employee might be entitled to income sources in addition to his notice period salary. These might include an ex gratia payment, accrued leave pay, pro rata bonus and the taxable benefit of acquiring your company car at less than market value.

Retrenched employees should take heed however, for the next time they're retrenched, no such tax relief will be granted — the R30 000 exemption is a once-in-a-lifetime gift.

In addition to this exemption, the retrenched taxpayer can take advantage of another concession. If the retrenchment lump sum from his employer exceeds R30 000, the balance will be taxed at his average tax rate.

The average rate is the percentage rate of tax at which the taxpayer's normal income, excluding the lumpsum, is taxed. This concession has the effect of the lump sum receipt not pushing the taxpayer into a higher tax bracket but being taxed at the same rate as his normal salary income.

The average rate of tax is calculated in the year in which the lump sum is received.

McAusland says that the employer is not allowed to pay out any lump sum to an employee without first obtaining a directive from Inland Revenue.

"Either the employer or the employee must obtain a directive which will state the amount of tax to be deducted from the lump sum."

He adds that the company will then deduct the tax and pay over the net amount to the retrenched employee.

McAusland stresses that the deducted tax is not the final amount of tax to be paid — the final amount can only be determined on full assessment at the end of the tax year.

McAusland says SITE employees, who are not obliged to render an annual tax return, should in the year of retrenchment submit a tax return so that the final tax liability on the lumpsum can be calculated. He advises the SITE taxpayer to obtain a letter from his employer recording the amount of the lumpsum received.

In the rules of some pension funds a retrenched member is paid out a lump sum comprising his own contributions, the employer's contributions and any accrual made on the fund equalling the actuarial reserve. Other pension funds are not so generous and pay out the member's contributions only, with a low level of interest (usually in the region of four or five percent).

The lump sum the retrenched employee receives from the company pension fund is taxed in his hands at his average rate after a R1 800 tax free deduction.

McAusland says that tax on this receipt can be avoided however, if the lump sum is transferred to another pension fund, either a private or company fund, or to a single premium retirement annuity fund. Even if he transfers his lumpsum the taxpayer can still have a party on the R1 800 tax-free portion.

McAusland says that if the pension lumpsum is transferred to a provident fund, the taxpayer will have to pay tax on the portion of the lumpsum that relates to his own contributions.

Lump sum

The same tax position applies to withdrawal from a company provident fund.

As to what's best, McAusland says it's a personal decision based on the taxpayer's finan cial needs.

The end amount of tax paid on the retrenched employee's lump sum receipts depends considerably on his or her average rate of tax. The lower the average tax rate, the less money the taxman collects, leaving more money for the retrenched employee to survive on until his next job.

There are a few ways in which this average tax rate can be lowered. The lowest possible average rate is currently 17 percent.

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Cuts in tax allowance would boost economy

SI Times (Buss) 4/7/93

(320)

By CIARAN RYAN

A REDUCTION in tax allowances for industry and agriculture would allow the Government to drop corporate tax rates below the current 40%, providing a major shot in the arm for the economy.

A recent report by the General Agreement on Tariffs and Trade highlights the fact that SA's tax system favours capital-intensive industries at the expense of labour-intensive industries because of generous depreciation allowances.

It says most companies paid an effective tax rate of close to 30% in 1991 when corporate tax rates were 50% because of tax concessions. The report adds that many of the concessions which contributed to the differentials have been removed.

Reserve Bank governor Chris Stals says job creation is the country's first economic priority. Yet employment in industry and agriculture, the two largest recipients of the tax benefits, declined more than 300 000 during the current recession.

Revamp

Econometrix's Azar Jammine says the Government should scrap special allowances: "There is no point in tinkering with the present tax system by reducing the allowances. The whole system has to be revamped. A lower tax rate would benefit the entire economy and not just one or two sectors."

Depreciation allowances for industry and agriculture are costing the fiscus more than R12-billion a year in revenue, according to Gatt. The Department of Finance says projects worth a further R12-billion claiming accelerated depreciation allowances in terms of Section 37E of the Income Tax Act have been approved. Section 37E was created for a short period only to encourage capital investment in manufacturing.

Manufacturing industries claimed wear and tear allowances of R6-billion in 1990 — the most recent period for which figures are available. Farmers and agricultural co-operatives claimed a further R6-billion, although agriculture contributes just 4,5% to gross domestic product compared with manufacturing's 22%.

Reserve Bank figures put the country's capital stock at R403-billion. Agriculture's capital stock was valued at R15,6-billion, less than 4% of the total, and manufacturing's at R50-billion in 1992.

"The tax system is clearly biased in favour of farmers," says Econometrix's Tony Twine. "Admittedly, they have faced difficulties in recent years because of the drought.

"Reducing the tax allowances would redistribute wealth away from capital-intensive industries to those making more intensive use of labour and land."

Despite the allowances, fixed investment has dropped by about 8% a year since 1990. Total fixed investment in 1992 was R52-billion, roughly 16% of GDP, compared with 23% in the 1980s.

"In calculating a company's taxable income, the use of an asset is a legitimate business expense like any other cost," says Estian Calitz, deputy director general at the Department of Finance.

"The depreciation allowed for tax purposes should ideally reflect the annual cost of utilising the asset over the period of its useful life. One can debate whether the period over which the asset is written off is correct and this is something that we look at all the time.

"To determine whether farmers enjoy unfair advantages under the tax system, one must look at their capital output ratios and the nature of the agricultural activity. External factors such as the current drought must also be discounted."

Risen

Trevor van Heerden, chief director for tax policy and development at the Department of Inland Revenue, says effective tax rates have risen from 30% since 1991 because of the removal of special concessions.

The corporate tax rate has since been lowered to 40%, although Finance Minister Derek Keys says this loss to the fiscus will be neutralised by the imposition of the secondary tax on companies.

Mr van Heerden says wear and tear allowances vary from one country to another, and are influenced by the prevailing inflation rate and investment incentives. In SA, most equipment can be written off over four to six years. Low inflation countries have longer write-off periods.

Companies will contribute 14,5% of the budgeted tax revenue of R76,4-billion in the current fiscal year. Individuals will contribute 47%. Mines will contribute 1,3%.

Gatt made reference to the scheme which allows mines to deduct 100% of the capital expenditure against income, in particular the "ring fencing" of mines which allows capital expenditure in one mine to be written off against the income of another mine inside the fence.

Tax advantages that affect married women

S/Times (Buss) 4/7/93

(320)

HOW TO PAY LESS TAX

By Des Kruger & Vicki Taylor
Deloitte & Touche

MARRIED women can reduce their tax by noting the differences between tax rates for married persons and married women and applying them to their own circumstances.

A married woman is, subject to certain anti-avoidance provisions, separately taxed on all her income in the 1992/93 tax year.

Her maximum deductions for contributions to pension and retirement annuity funds are however, subject to different limits to other taxpayers, and her tax tables and rebates differ.

Still, she is subject to the same requirements concerning the submission of her income tax return and the same tax provisons will apply.

A married woman may however include her income in her husband's return if she is the sole breadwinner and has elected and obtained a directive from her Receiver (salaried cases only) to have this income taxed in his hands.

She will be regarded as a sole breadwinner if her husband's total annual gross income (including foreign source income), does not exceed R10 000. Her PAYE will then be calculated at the more favourable married person's rates and not the married woman's rates. If she has children or her husband is 65 years of age or older then she will also obtain the benefit of these additional rebates. Generally, it is more beneficial for her as a sole breadwinner to have her income taxed in her husband's hands but she should still do a comparative check between the two alternatives before electing and obtaining the necessary directive.

Married couples should also be aware that there are anti-avoidance provisions to combat income splitting between spouses. Investment income earned by couples married in community of property is taxed in equal shares in the respective spouses' hands.

Couples married in community of property are co-owners of the joint estate to the extent of one undivided half share each. For income tax purposes, any investment income earned by the wife and her spouse from assets forming part of the joint estate is regarded as having been earned by both in equal shares. Accordingly, half of the income (eg interest, rent) is taxed in each of their hands. The full amount of the investment income must nonetheless be declared on the return.

Fiduciary services

Careful balance for economic efficiency

B/Day 5/7/95

(320)

TRUSTEES and tax consultants caution that if legislative changes to wealth taxation in a new SA are too punitive, the fiscus may expect little financial benefit.

With SA said to have one of the most skewed wealth distributions in the world, any modern tax system calls for a careful balance between the effects of redistribution and economic efficiency.

Deloitte & Touche tax manager Retha Roux says the philosophy behind wealth taxation in SA and abroad — of which capital transfer tax (estate duty and donations tax) is one form — is based on the need for horizontal and vertical equity.

As regards horizontal equity, she says the objective is equal treatment of people with comparable taxable capacity.

"Capital gives security, independence and the ability to consume, and thus confers the ability to pay over and above the income generated by such capital," she says.

Vertical equity is the tax treatment of people with different taxable capacities and one has to make a value judgment where views may differ.

Attorneys Webber Wentzel senior partner Louis Kernick says estate duty is often regarded as a tool for revenge against the children of those who have made good.

Because it affects only a few people, it is "wasteful and expensive" to collect. At best, estate duty has produced only about 0,03% of state revenues.

"It delays the administration of deceased estates, places a burden on the office of the Master of the Supreme Court and wastes the valuable time of entrepreneurs and professional advisers," says Kernick.

Roux says that when considering the restructuring or refinement of wealth taxes, key objectives need to be established.

"These may include not only increasing the tax take and redistributing wealth, but also equity."

While it is tempting simply to increase the estate duty rate, the tax system first needs to be made more efficient to prevent tax avoidance.

As rates increase, people are more inclined to look for tax planning opportunities, she says.

"At some stage there is a turning point where raising the tax rate will bring in less revenue than before."

International experience shows a tax system must be perceived to be fair if reasonable morality is to be maintained in a country.

In addition, Roux says there must be an efficient and accountable administration.

Meanwhile, the government's Tax Advisory Committee is looking into an efficient capital transfer tax system. It is estimated that revenue from estate duty could be raised from R70m a year to R1bn.

Kernick says rather than try to increase taxes such as estate duty, why not open the subject to a wide-ranging debate.

For instance, there could be provision that the duty (if retained) be reduced by the amount of any bequest to a recognised upliftment programme.

"Most people who pay tax do not object in principle to paying, but are opposed to the use to which it is — or has been — put, namely into a general pot for supporting the sheltered employment of politicians and bureaucrats," says Kernick.

Economist sees some merit in wealth tax

Star 5/7/93

(320)

By Alide Dasnois

CAPE TOWN — Reports that the ANC is considering the imposition of a tax on wealth has sent a new flutter through the dovecotes of the rich.

But such a tax is by far the best way to raise money to repair the damage done by apartheid, says economist Gordon Young of the Labour Research Service. And the blow would not be as heavy as one might think.

Young first raised the idea of a wealth tax in an economic policy paper in 1992.

He is convinced that it's a much better way than the reintroduction of prescribed assets to redistribute wealth from rich to poor communities.

A tax of 5 percent on all net wealth in excess of R1 million, would yield R500 million a year from the 20 richest families alone, the Labour Research Service has calculated.

"It can be assumed that several billion could be raised every year from a comprehensive wealth tax".

Young suggests the tax be imposed for 10 years and that the funds raised be allocated towards social investments by a national development fund.

"A huge dent could be made in the backlog of infrastructural facilities in the black communities."

And this would be done without permanently increasing taxes, without imposing new costs on companies, without squandering capital on consumption and without alienating foreign investors (who will obviously not be affected).

Jewellery

The tax could be imposed on all assets owned by an individual, from houses to sports cars, shares, paintings or jewellery.

Though some people might manage to hide away some of their wealth, assets such as houses, bank accounts and shares would be easy to trace — and insurance valuations could serve as a base for taxing other assets.

Such a tax would have beneficial side effects, Young says. Holders of unproductive assets would tend to transfer their funds to productive assets to finance the new tax, unlocking wealth for investment.

The blow to the wealthy would be cushioned by inflation and by capital gains.

"Assuming that their assets grow in value by 5 percent a year in real terms, wealth taxpayers will end up, after 10 years, with assets increased by almost 10 percent in real terms."

The tax would be relatively cheap to administer, Young says.

"In imposing a wealth tax, a democratic government will be presenting the bill for apartheid to those who have gained most from it.

"When the bill has been paid, the account will have been squared. The country could move forward with the slate cleaned."

The much-mooted reintroduction of prescribed assets as a way to allocate funds for housing black communities is a poor alternative, says Young for they amount to a hidden tax on savers, he says.

Whites 'resigned to poor government'

BIDay 8/7/93

Political Staff

CAPE TOWN — White South Africans have become resigned to poor government administration and increased taxation, according to the findings of a national opinion survey released yesterday.

A study conducted among 800 white women by the Omnicheck division of Research Surveys soon after this year's Budget found fewer than 20% of respondents believed government would succeed in improving its administration in the coming year.

Nevertheless, only 7% of respondents said they resented having to pay the higher taxes which resulted from poor administration.

(320)

Two out of every three respondents said increased taxes were necessary to keep the economy on a sound footing, while one in four said they had become resigned to tax increases.

Omnichek director Binky Kellas said the result indicated that South Africans were clearly "under no illusions" about the quality of administration provided by government.

However, it was equally clear that they did not realise what effect the historically poor administration had had on the country's economy.

"They believe that increased taxation will rescue the economy, and that it is their duty as responsible citizens to shoulder the burden," she said.

Kellas added that there were people who had become so accustomed to ever-increasing demands in terms of taxation and inflation that they would accede to further demands.

BIDay 8/7/93

Call for new drought plan

MARIANNE MERTEN

THE National Consultative Forum on Drought has called for the establishment of a national early warning system for food security to co-ordinate government drought relief to rural communities and commercial agriculture.

A forum newsletter, Drought Monitor, said the drought had "highlighted the desperate need for a more systematic way of gathering information about natural disasters" to ensure SA's food security.

Information currently available was inadequate for the planning of effective relief and development programmes, it said.

The early warning system would monitor indicators such as crops and livestock, water levels, weather patterns and food sales. The information gathered through these indicators should be widely accessible and form the basis of policy responses,

Whites 'resigned to hikes in tax'

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(320)

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CT 8/7/93

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Omnichek director Ms Binky Kellas said the result indicated that the South African public was clearly "under no illusions" about the quality of administration provided by the current government.

Govt revises tariff plan to GATT

320 29/7/93

Own Correspondent

JOHANNESBURG. — Government has taken a major step towards lowering industrial import protection measures, saying it will forward a revised tariff offer to GATT.

Trade and Industry director-general Stef Naude said yesterday government would submit the revised offer by the end of August.

The revision affects 12 900 tariff lines.

Naude's department said interested parties could comment on the proposed new offer (covering 40 pages) before August 11, after which government would, if necessary, amend the proposals. The offer would be presented to the National Economic Forum for consultation.

Naude said SA had submitted a partial offer in 1990, which consisted of about 40% of the industrial tariff lines and would have increased the number of bound tariff lines to about 55%. GATT subsequently suggested SA lower tariffs by about 23% on 40% of the lines.

FM 9/7/93 (320)

CPI (320) FM9/7/93

Back down

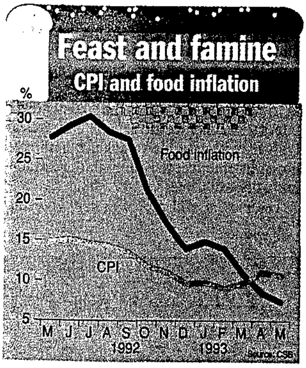
Inflation resumed its downward trend after moving up in April. Over the 12 months to May, the consumer price index grew 10,6% (after 11% in April). In the month, the index grew only 0,4%.

This rate was surprisingly low. Economists had expected a number of Vat-related increases to filter through in the May figures (*Economy*, June 4) and an inflation rate of above 11% was predicted.

That it didn't can be attributed partly to the squeeze on the economy — retailers are finding it more and more difficult to pass costs on to the consumer.

In the food sector, where the rate has been below the overall rate, relief from the drought has been an important contributing factor. The index for food rose only a monthly 0,2% in May, while the year-on-year rate is 7,4% — far from the heights of 30% seen a year ago. The rise in prices of fruit & nuts was at a year-on-year rate of 4% (from 41% as recently as December) and vegetables at -15,4% (30,5%).

The Vat factor explains the volatility of food inflation, compared with the inflation



rate on all other items. When Vat was first introduced at 10%, in October 1991, the impact was greatest on food, previously exempt. Initially only six items were zero rated. In April this year, zero rating was extended to a further nine items.

Excluding food, prices rose 11,5% over the 12 months. And, says Sanlam senior economist Pieter Calitz, if housing, which is sensitive to interest rate changes, is also excluded, there is a "core" rate of 15,2%. However, the "core" includes the bulk of items now charged at the new Vat rate of 14%, or subject to the new series of levies and excise duties introduced in the Budget (for which the major increases would already have been made in April).

The Vat-free inflation rate of 8,4% is probably the most accurate measure of underlying inflation.

The highest rates of increase were seen in:

- ☐ Non-alcoholic beverages, a year-on-year rate of 18,9% (but only 0,2% in the month);
- ☐ Cigarettes, cigars & tobacco, 15,8% (no change in the month);
- ☐ Fuel & power, 19,2% (0,6%);
- ☐ Household operation, 16,2% (0,7%);
- ☐ Medical care & health expenses, 14,2% (1,2%);
- ☐ Transport, 15,7% (0,6%);
- ☐ Communication, 15% (no change in the month);
- ☐ Reading matter, 20,3% (no change in the month); and
- ☐ Education, 64,5%. This was because of new school and university fees, effective from March. ■

VAT FM 9/7/93

Tightening up

(320)

The number of Vat-related anti-avoidance provisions included in the Taxation Laws Amendment Bill prove that Vat is by no means neutral, says Deloitte & Touche Cape tax partner Des Kruger.

A series of anti-avoidance provisions concern so-called "connected persons." These have been defined, in the Vat Act, to include a major shareholder (in relation to a company), an individual vendor (in relation to a close relative) and a trust fund (in relation to a beneficiary).

The definition has been extended to include deceased and insolvent estates — which would have an impact on acquisitions of assets, before the estate is wound up, by beneficiaries or creditors who fall within the definition.

Once the legislation is passed, a vendor who supplies a connected person, without receiving payment or for an amount below market value, will have to account for output tax based on the market value of the supply — unless the connected person is entitled to an input tax credit. The Vat would be determined by multiplying the market value by the Vat fraction (14/114).

A further amendment removes ambiguity in transactions between connected people where the asset disposed of is to be used only partly for business purposes (for example, if someone buys a truck from his father for private and business use). The rules applicable to connected people will apply in all cases unless the connected person is entitled to a full input tax credit.

The Bill eliminates double taxation where a taxpayer's main business is carried on outside SA. At present, even when only part of a business is carried on in SA it must register as a vendor for Vat and account for Vat on its worldwide supplies. That is, unless it can claim either exemption or zero-rating on a transaction. This is because the SA Act does not contain a comprehensive place of supply rule. The problem of double tax becomes acute, for example, with businesses established in Bophuthatswana

FM 9/7/93 (320)

which have a branch in SA as both impose Vat.

The Bill includes a beneficial amendment which absolves a taxpayer whose main business is permanently located outside SA from liability for Vat on the supply of goods and services outside SA by that business.

Another amendment relates to the cancellation of a supply or an agreed variation in the price originally charged. At present, if too much output tax has been accounted for, the supplier is required to claim relief by increasing his claim for input tax credits, not by reducing his output tax liability.

Conversely, if the recipient of the supply has accounted for too much input tax because of the price adjustment, he has to correct for this by increasing his output tax, not by reducing his next claim for input tax credit.

An amendment will permit the supplier to reduce his output tax liability and the recipient to reduce his input tax credit. This, says Kruger, is a more logical approach and follows accounting practice more closely than the previous requirements. ■

INCOME TAX FM 9/7/93

Interest benefits (320)

Taxpayers can take heart from amendments to the Income Tax Act. Two proposed changes relieve long-standing shortcomings in the rules relating to interest due on under- and overpayments. Deloitte & Touche tax partner Anne Pappenheim says the amendments to Section 89 *quat*, which deal with interest due on provisional tax, work only in the taxpayer's favour.

The first provides for interest (currently at 14%, taxable) to be paid to the taxpayer, where the provisional tax overpaid exceeds R10 000. Previously, interest was paid only if the taxpayer had taxable income exceeding R20 000 (in the case of a company) or R50 000 (in the case of an individual). A taxpayer, for example, with an unexpected dip in taxable income, or even an assessed loss, was previously prejudiced as the first and even second provisional payments had been made but no interest was payable. The change applies in relation to assessments issued on or after September 1 1993.

The second significant amendment allows the Commissioner — if he is satisfied the circumstances warrant it — to waive interest payable on underpaid provisional tax by an individual who becomes a provisional taxpayer for the first time during the tax year.

Previously (as for other taxpayers) interest could be waived only if the new provisional taxpayer had reasonable grounds for believing that his taxable income was less than it turned out to be. Thus if the taxpayer was not aware of his obligation to make top-up payments, the interest can now be waived. This applies from the 1991 year of assessment. The waiver of interest on new and old grounds are both subject to objection and appeal.

The amendments are welcome, says Pappenheim, but the most blatant anomaly in Section 89 *quat* has not been addressed. If the taxpayer pays the tax owing on assessment, as opposed to provisional tax, Section 89 *quat* interest does not apply. If the taxpayer has a dispute with Revenue and, not wanting to risk interest at 18% (not tax-deductible), pays the assessed tax and subsequently has the assessment revised in his favour, no interest is payable on the excess tax paid.

Only if the taxpayer's objection to the assessment is rejected, and the matter goes on appeal, is interest payable (under Section 88). Given the delays experienced by taxpayers in resolving disputes at the objection stage, significant refunds of amounts paid years before are common. And no interest is paid on these amounts. ■

Support for ANC 'rebuilding tax'

BDay 9/7/93

CHRIS BATEMAN

LONDON — SA Foundation director John Montgomery urged South Africans yesterday to view ANC economist Tito Mboweni's proposed reconstruction levy as an "investment in the future".

Instead of recoiling at the idea of "more taxation" South Africans should recognise that it was in their own interests that the huge socio-economic imbalances created by apartheid were adequately addressed.

His remarks followed Mboweni's visit to London last week.

Mboweni, acting deputy head of the ANC's department of economic planning, said all South Africans who had the ability to contribute financially to the process of reconstruction should do so by law under a new government.

Individuals and corporate groups would be expected to contribute a specific percentage of their incomes and also a percentage of the value of their assets at a specific point in time.

Stressing that he was raising the idea for practical debate, Mboweni said the levy should go into a special reconstruction fund directed at "socio-economic development programmes, compensations and reparations".

South Africans of all races had to "face up to the challenge of compensating people whose properties were forcibly and wrongly taken away by colonialism and apartheid", Mboweni added. (320)

Montgomery said yesterday that "this idea is exactly the kind of dynamism which we lack and require in SA — it does not mean it will end in exactly this form, but discussion and debate are sorely needed".

His reservations were that the levy should be "carefully and precisely defined ... people's worst fears need to be allayed".

He said that, given the "rather paltry" size of the national kitty, Mboweni's idea deserved debate at all levels.

Mboweni had also said that any renewal of the levy system should be either approved by parliament or by other "popular mechanisms".

Wealth tax 'a practical idea'

Star 10/7/93

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FINANCE STAFF

THE often-advocated reintroduction of prescribed assets as a way to allocate funds for black housing is a poor alternative to a wealth tax, says economist Gordon Young of the Labour Research Service.

Prescribed assets amount to a hidden tax on savings, says Young.

"If the previous pattern of prescribed investments is followed, prescribed assets will be imposed on all retirement and benevolent funds. This will have a direct impact on the returns obtained by these funds.

Projects

"The pensions and lump sum payouts of all union members who participate in these funds will be reduced. Many of these are low-paid workers whose only savings are held in their retirement funds."

There is no shortage of funds for investment in South Africa, says Young. But there is a shortage of projects that yield market-related returns.

"Offer the owners of capital an adequate return with acceptable risk and they will invest in infrastructure. Unfortunately, black communities cannot afford to pay market returns for much-needed infrastructure. A wealth tax, not prescribed assets, is the solution."

Young says it would be difficult to extend prescribed assets requirements beyond life offices and retirement funds. Unit trusts and investment trusts have always been exempted, and it would be impossible to extend such regulations to individuals' share portfolios.

"Anyone who could afford to escape the prescribed assets net would do so. There would be a flight from the life offices — especially their retirement annuity funds — to the unit trusts. Astute investment managers would create new investment vehicles which would enable rich individuals to avoid the net.

"But poor people, ordinary workers and all who are not sufficiently wealthy to afford private investment advice will be caught in the net, and the cost of prescribed assets will be borne by those least able to afford it."

Approve

As an alternative, the Labour Research Service proposes creating a national investment board to free funds held by life offices. This board would approve a list of social investments producing market-related rates of return.

Life offices and other holders of long-term savings would be compelled to invest part of their cash flows in such investments, which would include not only social projects but also industrial, mining and property development.

French government raking in billions

FRANCE's tax on wealth draws about Ff5 billion or Ff6 billion (between R2,9 billion and R3,5 billion) into the state's coffers each year. Most of it is used to finance the "minimum insertion allowance" paid by the state to all those whose income falls below a certain level.

This tax is very similar to the wealth tax proposed by ANC advisers.

Introduced in France in 1982 and temporarily withdrawn in 1986 when the right came to power, the tax was reintroduced in 1988 by Michel Rocard's Socialist government.

The "solidarity tax on fortunes" affects all whose personal fortunes exceed a level defined in the budget each year. In 1989, the floor was set at Ff4 million, and Ff4,43 billion was collected for the payment of a minimum allowance to 400 000 people.

There were 125 042 who paid the tax. Those with personal fortunes of more than Ff20 million accounted for 57 percent of tax receipts, coughing up an average of nearly Ff762 000 each.

Antiques, works of art, certain farming properties, income from patents and — under certain conditions — shares are exempted from the tax. But buildings, moveable assets, cash, gold, jewellery, rents, insurance policies and furniture are all taxable. The rate of tax rises with the size of the fortune. In 1990, the rate varied from 0,5 percent to 1,5 percent (on wealth exceeding Ff100 million).

Income tax takings lag behind budget

BiDay 12/7/93

SHARON WOOD

COMPANY income tax collections fell in the first two months of the fiscal year, while a higher VAT rate pushed up indirect tax collections. (320)

A detailed breakdown of revenue receipts for the April/May period released by Central Statistical Service on Friday showed total tax collections rose by 6,9% year-on-year.

Total tax revenue was weighed down by a 28,8% plunge in non-tax revenue, resulting in a 2,1% overall rise in government receipts. This was well below the budgeted 16,5% rise in total estimated revenue.

Indirect taxes such as VAT and the fuel levy increased by 17,2%, slightly behind the budgeted increase of 18,6% in the 1993/94 financial year.

The largest increases in indirect taxes occurred in GST and VAT (up 24,9%) because of the higher VAT rate, and customs duty (up 12,0%). The consolidated fuel levy rose by 5,8%.

Direct income taxes from companies and individuals slipped by 2,3% year-on-year in the April to May period.

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Tax

BiDay 12/7/93

□ From Page 1

Nedcor chief economist Edward Osborn said income taxes were the disappointing revenue item in the breakdown(320)

He said this could be due to the delay in implementing the increased PAYE rates, or it might reflect a disruption in the collection of new company taxes because of the change in the rate and the introduction of the Secondary Tax on Companies.

An 11,7% rise in company tax revenues had been budgeted for, but Osborn expressed concern that the rate of revenue collections from companies would remain unchanged for the year.

"The latest figures point to the failure of income tax to match up to the expectations of the Budget," he said.

The figures continued to point to a deficit of between R26bn and R30bn — probably closer to the top end of the scale, he said.

Inland Revenue, Cosatu fail to agree on SITE refunds

(320) CT 14/7/93

From GRETA STEYN

JOHANNESBURG. — Inland Revenue and Cosatu have failed to reach a solution on repaying SITE tax to overcharged workers after more than six months of negotiations, and a final decision would be taken by Finance Minister Derek Keys, sources said yesterday.

When talks started near the end of last year, government had hoped that a refund would be announced in the Budget in March. The deadline was missed and sources said the talks had dragged on as the two sides failed to agree on the amounts involved and the mechanism for repaying overcharged workers.

An Inland Revenue source said yesterday: "Proof of claims is the main problem." Revenue was unable to investigate cases individually to prove the legitimacy of overpayment claims. Of major concern was the possibility of fraud, which would occur if workers claimed they had more dependants than was actually the case.

The main cause of Cosatu's complaint was the failure of ignorant workers to fill in IRP2 forms stipulating their marital status and children, hence losing out on tax deductions. Workers had also not informed employees of changes in their status.

Cosatu claimed last year R720m would have to be repaid for tax erroneously charged since SITE was introduced in 1989, but Inland Revenue sources said yesterday this was "grossly off the mark".

Keys's office could not confirm that he was dealing with the issue, but Cosatu sources said discussions with Inland Revenue had ceased and an "in principle" agreement had been reached with Keys's office. Revenue and Cosatu declined to provide any official comment on the issue.

Revenue's initial stance on the issue was that the legal provision that the employee furnish correct information on IRP2 forms was crucial to the SITE system and a deviation from the principle would jeopardise its existence. However, Revenue agreed to meet Workers' Tax Consultants' David Heyman to discuss the issue, as overcharging was "morally wrong". A subsequent sample by Revenue had shown that "overpayments were not as great as had been made out".

Deadlock in SITE tax refund talks

BiDay 14/4/93

GRETA STEYN

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☐ To Page 2

Tax refund

BiDay 14/4/93

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Star 14/7/93

Werner won't put more in taxman's coffers

(320)

LOUISE MARSLAND

A PORT Elizabeth businessman is prepared to go to jail to stop what he terms the Government's "legalised theft" of the property of its citizens — taxation.

George Werner (39), a self-employed training consultant, has formed the Tax Resistance Movement (TRM) to lobby for an end to all taxation. He believes in "libertarianism", which he describes as being the freedom of choice over one's own life and property, provided no one else is harmed.

"I am surprised more people don't think this way. Many people feel the system is unfair, but they do not have the knowledge to come out and say it. I was the same a few years ago."

Werner has written to the Receiver of Revenue in Port Elizabeth to inform them he will not pay tax again. He has not paid tax since he started his own business three years ago.

The "resistance movement" started with a membership of 20 a week ago, but since Werner's "cause" has been publicised, he has had calls from more than 50 people wanting to join.

Werner maintains he is a pacifist. "I've no plans for planting bombs or anything, I just want the State to leave me alone and then I will leave the State alone. Our mission is to have a society where there is no forceful confiscation of property, where people have respect for each other.

Immoral

"I got increasingly frustrated with what is happening in South Africa. Tax is immoral, it is theft . . . people confiscate property without your consent. We should not have taxation at all. The politicians are gambling away my future and those of my children."

Werner says the commandment "Thou shalt not steal" clearly includes taxation.

He reckons the taxpayer pays for roads and hospitals anyhow, and all the Government does is redistribute the funds of its citizens — and none too well either. "We have funded the roads so far and it will still be done, but through other mechanisms, such as private organisations."

Abolishing the structure of government may not be such a bad idea either, says Werner.

"The burden of goverment as a concept is becoming too big and is collapsing worldwide. A precondition to a stable society is that government be abolished. People will instead enter into voluntary contracts with one another. It is idealistic to think that an organisation which says it represents the majority of the people can address poverty, create prosperity, ensure justice and run a country. What we are proposing is very practical. The people can do better."

Govt may renege on tax refund – Cosatu

Star 15/7/93

By Paul Bell
Labour Correspondent

Cosatu believes there is a danger the Government may renege on an agreement reached last month to repay workers overcharged on SITE tax.

"We thought we had an agreement," a Cosatu source said yesterday — a view confirmed by Dennis Davis, professor of applied legal studies at Wits, who has been negotiating for Cosatu in the working group established with the Department of Inland Revenue.

The overcharging arose with the introduction of SITE tax in 1989. SITE is paid by people who earn less than R50 000 a year, but who — unless they have income from other sources — are then exempt from filing tax returns. Like PAYE, rebates are made for dependent children and spouses.

According to Cosatu, a widespread failure by employers to ensure the Internal Revenue authorities were advised of the proper tax status of SITE-paying employees caused workers to be overcharged. Estimates of this excess varied from R720 million to R1 billion.

In June, said the Cosatu source, Internal Revenue representatives in the working group agreed in principle to refund the excess paid by workers retrospectively to 1991 — and to shift the onus from worker to employer for notifying the authorities of the tax status of SITE-payers.

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Cosatu believed the only remaining problem was to resolve Internal Revenue's fears of fraudulent claims of overtaxation.

Yesterday's reports indicating that Internal Revenue was now balking, surprised both Cosatu and Davis, who said the revenue officials had been "incredibly co-operative".

He said he had also received a letter from the Commissioner of Inland Revenue saying that while the issue was still in negotiation, every effort would be made to expedite matters.

"We believe the June agreement exists," said Davis. "They seem to have no difficulty in settling film schemes, but on this it seems they are completely unable to do so.

"If they think they can get away with not repaying this money, they shouldn't. My understanding is that workers are very aware of this situation."

The Commissioner for Inland Revenue was not available for comment.

FM 16/7/93.

PROPERTY INDEX

In the graph accompanying last week's article on the Dunlop Heywood Investment Property Index the trend lines for the JSE Overall Total Return and the CPI were transposed. The error has no bearing on the text.

VAT FM 16/7/93 (320)

Beware the turnover trap

Properties registered in companies that do not have a permanent income stream run the risk of having to pay Vat on their assets if the company's turnover falls below the Vat threshold. Corporate tax planners considering the acquisition of property or its transfer within a group should constantly bear this in mind.

The reason? If the property-owning company's turnover falls below the Vat threshold, it could find itself obliged to deregister as a vendor, which means it could be asked to pay Vat on its property holdings.

KPMG Aitken & Peat consultant Andre Meyburgh says many property-owning companies were obliged to register as vendors when Vat was introduced because their rental income exceeded the Vat turnover threshold of R150 000 a year. But other property-owning companies, which were not obliged to register, elected to do so because this enabled them to claim input tax credits on expenditure incurred in the day-to-day management of the properties.

Although this can have income tax as well as Vat advantages, changing business or tax considerations can lead to a situation where the group no longer wishes to channel rental income through a company registered as a vendor.

This can result in the property-owning company being obliged to deregister as a vendor under Section 24 of the Vat Act if it continues to submit nil Vat returns.

Upon deregistration, Section 8(2) of the Act deems any goods forming part of the vendor's assets to have been supplied by him before deregistration. Fixed property falls within this definition. In simple terms, says Meyburgh, the fixed property holdings of the deregistering vendor will be taxable at the lesser of cost or open market value. Vat would then have to be paid at the rate calculated by multiplying this value by the Vat fraction (14/114). (320)

The only items excluded from this deeming section would be those on which a deduction of an input credit had been denied in the first place. These would include motor cars (except in the hands of a car dealer or financier) and entertainment-related expenses.

These issues, advises Meyburgh, should never be far from the minds of corporate tax planners when shifting ownership of fixed properties within a group. One way to avoid the deregistration pitfall is to place fixed properties in a company which is assured of a steady stream of operating income, so that the Vat issue never becomes a problem. The transfer of properties can be made free of transfer duty when the transfer is from one vendor to another. ■

STATE REVENUE FM 16\7\93

Deeper Vat

320

The increase in the Vat rate, from 10% to 14%, on most goods and services has boosted the Receiver's collections from this source. The latest revenue figures for the first two months of the fiscal year (April-May) show that Vat brought in R2,8bn — 24,9% more than in the same period last year — despite no surge in private-sector spending. But Vat revenues are still short of the budgeted pro rata R4bn.

It is hard to draw a conclusion from the higher Vat intake about the strength of private-sector spending. It's still early in the year and the Finance Department says: "Tax revenue is not collected uniformly through the year." More important, the zero-rating of many food items makes it impossible to calculate a reliable figure for turnover.

Income tax receipts have been weak. They reached R5,6bn in the two months, against a pro rata budgeted figure of R8,3bn and were 2,3% lower than in the first two months of 1992-1993.

Other main revenue sources were:

☐ Nonresident shareholders' tax R52,2m (the only item up on its pro rata budget, in this case R46m) — but 15,4% less than in 1992-1993;

☐ Stamp duties and fees R118,7m

FM 16\7\93.

320

(R136m), 10,2% less;

☐ Transfer duties R233,8m (R165m), 17,8% more; and

☐ Departmental activities R97,2m (R217m), 62% less.

After payments to the TBVC States and self-governing territories, total inland revenue was R8,7bn (against a pro rata R12,9bn), 3% more than in the same period last year. The higher rates on various excise duties raised receipts from Customs & Excise 12% to R2,7bn. But payments under Customs Union agreements cut this to R1,3bn against a pro rata budgeted R2bn. ■

Personal wealth: A taxing problem

W/Mail 16/7 — 22/7/93 (320)

By REG RUMNEY

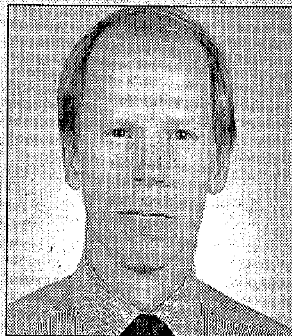
THE dangers of loose thinking in tax matters in South Africa's highly charged political environment are shown by the reception given the newly exhumed "wealth tax" proposal.

Gordon Young of Labour Research Services has once again proposed a wealth tax as a lucrative source of revenue for redistribution. Together with African National Congress economist Tito Mboweni's proposal for a reconstruction levy, it has been portrayed as a Robin Hood instrument of revenge on whites, which it may well be.

It is also reported that billions will be raked in, and the French wealth tax is used as an example. However, closer examination of the facts of the French wealth tax suggests this is grossly misleading.

Also, the wealth tax proposed is not the equivalent of the reconstruction levy idea floated by Mboweni. Mboweni considers that his proposal, which is not ANC policy, has been confused, either deliberately or through ignorance.

The levy proposed by Mboweni would be a once-off mechanism to contribute to society, unlike a wealth tax, which Mboweni thinks would be more or less permanent. And it would apply to all taxable income earners and, perhaps, asset owners.



Marius van Blerck: 'We're not rich enough for a wealth tax'

Most serious, says South African Fiscal Think Tank chairman Marius van Blerck, is that any new taxes of this sort are immediately dragged into the political arena — to the detriment not only of the proposed tax, but of the tax system itself.

Tax expert Van Blerck is reluctant to become embroiled in a political debate. His approach is to look at all taxes dispassionately to determine their potential for efficiently raising government revenue.

In this context, the French example is instructive. In 1990, the French tax on personal net wealth brought in around Ff6-billion. It seems a sizeable sum, but it represents only 0,09 percent of gross domestic product, or 0,22 percent of total tax revenue.

The tax only applies to those with net assets exceeding Ff4,4-million, or R2,5-million. That the tax managed to garner Ff6-billion is testimony to the wealth of France, a first-world country in prosperous Europe.

"The question of wealth in South Africa is an emotive one, but the actual stock of wealth doesn't begin to compare with any OECD country, including France."

It could be argued a wealth tax can be seen as reparation for apartheid.

If a tax is to be punitive, Van Blerck reckons, let it be seen as such, and not pretend to be a massive revenue earner where there is no evidence for this. Taxes used to influence human behaviour have a powerfully direct effect: if a wealth tax punishes wealth, then the push will be to diminish visible wealth. Moreover, a tax whose main object is to punish capital accumulation will deter those who might want to bring capital into South Africa.

Few developing countries have wealth taxes of any significance, says Van Blerck, because they need to attract capital. Developed countries like France have the luxury of being able to take a broader view.

A tankful of taxpayers' cash?

(320), (IFP)

WMail 16/7-22/7/93.

By BEVERLEY GARSON: Port Elizabeth

THE use of a government car by Inkatha Freedom Party leader Mangosuthu Buthelezi, while attending a public meeting of his party in Port Elizabeth this week, has raised questions on whether taxpayers' money was used for party political ends.

An official at the government garage in Port Elizabeth, V Knoetze, confirmed that Buthelezi used a government car while he was in the city. She said this was standard procedure for "heads of state".

The regional spokesman of the IFP, Eldrid Ferreira, also said he believed Buthelezi was flown to Port Elizabeth in a kwaZulu aeroplane.

Eastern Cape police media liaison officer Captain Lisbe Vermeulen confirmed that Buthelezi was escorted by the South African Police during his visit. She said it was normal procedure that a head of state be given the necessary security.

A spokesman for the Democratic Party, Bobby Stevenson, said if Buthelezi used government transport for party political ends it was wrong because taxpayers' money was used.

"We believe if people are on purely party political business they should provide their own transport. It is wrong that taxpayers' money is used," Stevenson said.

He said there should be a "clear distinction" between functions of the state and political parties.

Stevenson said the use of the car raised the question of whether the political playing field was level when certain parties had access to state-funded facilities

"This is a matter which the Independent Electoral Commission should take up to ensure that all parties can compete on an equal basis," Stevenson said.

Buthelezi's acting personal assistant, Thami Duma, said the visit "was not absolutely" IFP business, but included some kwaZulu government business too. He, however, referred all further inquiries to his president's protocol officer, Ruth Makiwane, who could not be reached despite numerous attempts. — Pen

Personal wealth: A taxing problem

W/Mail 16/7 – 22/7/93.

(320)

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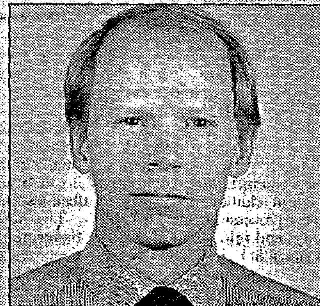

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Govt revenue shows signs of recovery

BiDay 16/7/93

GRETA STEYN

GOVERNMENT revenue has shown the first signs of recovery after languishing at alarmingly low levels in the first two months of the fiscal year, figures released yesterday by the Finance Department showed.

But spending in the first three months of the fiscal year rose at a more rapid rate than budgeted and the deficit, at R9,7bn, was almost 39% of the budgeted amount.

However, the Finance Department cautioned in a statement against reading too much into the figures and said high priority was being given to staying within the budgeted limits. Government was ahead on its borrowing programme and the rest of the year's borrowing needs would be met without placing upward pressure on capital market rates.

An amount of R18,03bn in revenue was collected during the first three months of the 1993/94 fiscal year, which is 13,6% higher than during the corresponding period a year ago. The statement said: "It appears the year-on-year growth rate of receipts ... is moving progressively closer to the budgeted increase of 17,3% for the full year. At this early stage of the financial year, there is thus no reason to suspect that revenue will be lower than budgeted."

In April, revenue was lower than a year ago and in May a small increase of 2,9% was recorded, suggesting that government was again heading for a larger deficit than the budgeted R25,3bn. (320)

A breakdown for revenue in the first two months (the latest available) showed receipts from personal income tax were lower than expected, while the trend for corporate tax remained uncertain.

The statement said public servants' salary increases, effective in July, would start boosting receipts later in the year. The trend for corporate tax would become clear only in August, once the figures reflected the new tax dispensation more clearly.

Receipts for VAT were "satisfactory", while Customs and Excise and surcharge income were higher than budgeted.

Spending in the first three months of the fiscal year rose by 10,7% against a budgeted 8,8%. The increase was "not substantially out of line with the budgeted expenditure figures for the financial year".

BUSINESS DAY, Monday, July 19 1993 3

Reconstruction levy defended

B/Day 19/7/93

MARCIA KLEIN

ANC deputy head of economics Tito Mboweni has vigorously defended his stance on the introduction of reconstruction levy.

Addressing the American Chamber of Commerce of Southern Africa on Friday, he said all South Africans with the ability to contribute financially to a reconstruction process should do so by law.

Mboweni said he had been attacked for what critics had alleged was "a reckless proposal for financing reconstruction".

In defence of his levy proposals, he said many South Africans had lost and were still losing property as a result of colonialism and apartheid. The process of reconstruction would demand huge resources — particularly financial — be made available "for development, reparations and compensations".

The ordinary Budget could not cope with the challenge without either increasing the tax burden — which was too high — or increasing the Budget deficit, which was dangerous.

He said the idea of the levy was drawn from the experience of post-Second World War Germany.

A system of burden sharing was introduced, where those people who kept their properties contributed to a "fund for the equalisation of burdens". (320)

This levy, which amounted to half of individuals' and companies' 1948/49 assets, was paid as a lump sum or in quarterly payments for 30 years.

In SA, a reconstruction levy could be based on income and property of individuals and corporate groups. This would be a specific percentage of their incomes and the value of their assets at a particular point.

Mboweni said to extract half of individuals' and companies' assets was not a realistic option for SA, but he would not elaborate on the percentage envisaged. He expected the levy to raise more money than could be raised by a capital gains tax.

The money would not go into the state coffers, but into a special fund "directed specifically at socio-economic development programmes, compensations and reparations".

This included "housing, infrastructural development, rural development, land reform, youth development, redistribution programmes and also compensation for the injustices of apartheid".

Mboweni said a distinction had to be made between a reconstruction levy and a wealth tax. A wealth tax was introduced by fiscal authorities at a certain percentage for a specific group of wealthy individuals, normally for the top 5% of income and asset owners. This was normally continuous.

A reconstruction levy, in contrast, was directed at all income earners and asset owners, and was a once-off contribution.

Stay on tax penalties

B/Day

CHARLOTTE MATHEWS

THE COMMISSIONER for Inland Revenue will not impose penalties for the late submission of returns for the 1992/93 tax year and previous years — until after August 31 1993. 20/7/93

Inland Revenue deputy director, operational development, Philip le Roux said yesterday the deadline for returns issued in April was usually June.

However, the department had decided to grant a moratorium on the imposition of penalties as part of its continuous effort to have returns submitted.

The move was intended to encourage registered taxpayers who had neglected to submit their returns in previous years, as well as those who were registering as taxpayers for the first time, "to submit their income tax returns without fear of being penalised", he said. (320)

Le Roux declined to estimate how many returns were outstanding for the 1992/93 tax year or previous years. However, many 1992/93 returns have been delayed by the granting of extensions to enable taxpayers to take advice from accountants or wait for IRP 5 forms.

'ANIES

Proposal for transaction levy to replace taxation

CHARLOTTE MATHEWS

A GROUP of concerned citizens is to petition President F W de Klerk for an alternative taxation system based on bank transactions instead of earnings and expenditure.

The Alternative Taxation Association argues that a levy of 1% on bank deposits and 1% on bank withdrawals will provide sufficient revenue to balance the entire Budget.

This system, the total economic activity levy, would replace the present "crippling" tax system entirely, obviating the need for personal, company, petrol, wealth or capital gains tax or VAT. (320)

A total 2% levy on bank transactions would mean tax savings of 80% or more for the average low-income earner as a result of not having to pay VAT.

Tax experts were cautious to sceptical about the proposal. B/Day

"It is firstly a hopelessly simplistic approach," Arthur Andersen & Company Senior Tax Partner Pierre du Toit said. "Within about three weeks no-one will be doing their transactions through the banks.

"The system also ignores the fundamental principle of payment according to ability. Another philosophical point is that this country is going through fundamental change at present and to undertake dramatic tax changes would be to mislead the economy."

Ernst & Young Tax Partner Sally de Boor said: "I would find it very difficult to comment unless I knew the actual numbers. It sounds quite innovative. However, they would have to widen the definition of transactions to prevent taxpayers from putting money into different instruments such as rented property or shares."

Business development specialist Trevor Nel, who advises the association, said the concept was honest, simple and innovative, "and that is its true appeal". 2/7/93

It would do away with the tax avoidance industry in SA because it would be a reasonable tax and was unlikely to be replaced by a cash system because of security risks.

ANC wants tax levy for upliftment

320

ACT 22/7/93

Staff Reporter

THE ANC's proposed "reconstruction levy", a one-off flat rate tax on anyone earning an income, was not a "wealth tax" aimed largely at whites.

The ANC's deputy head of economics, Mr Tito Mboweni, said yesterday the levy had nothing to do with race.

"The whole country has to face up to its terrible past. We have to face up to repairing the damage done by colonialism and apartheid," Mr Mboweni said.

Money from the levy would be used for upliftment programmes.

The executive director of the Chamber of Industries, Mr Colin McCarthy, said yesterday the levy would discourage foreign investment.

Wave of emigration, recession warning by economists

Fears over ANC 'wealth tax' plan

ARG 22/7/93

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The Argus Correspondent

JOHANNESBURG. — The ANC's controversial reconstruction levy would plunge the economy into a recession much more severe than is being experienced now.

A further heavily negative spin-off would be a wave of emigration.

That's the consensus among economists reacting to the revelation by ANC deputy head of economics Mr Tito Mboweni that the proposed levy would take the form of a one-off five percent tax on fixed assets and a 15 percent tax on income.

Price Waterhouse tax partner Mr Chris Frame insisted that the levy was a wealth tax combined with a straight surcharge on income.

"It's semantics to talk of a reconstruction levy. As far as I'm concerned, a five percent tax on your assets is a wealth tax.

"The 15 percent is a straight surcharge on income tax and an increase in taxation of that amount will kill the economy.

"Already five million people are paying for 35 million.

"Money put into black housing, no matter how necessary, won't generate growth. We're talking about spending money we haven't got instead of going out and creating it."

Sanlam economist Mr Johann Louw said the levy would have a depressive effect on consumer spending and business confidence and could prolong the recession.

"Consumer spending, which is already severely depressed, accounts for 60 percent of theGross Domestic Product.

"Taking money away from one section to give to another won't stimulate the economy and at the end of the day we'd all be worse off."

Other economists said it was crucial Mr Mboweni indicated whether he was talking about gross or net assets.

On a house valued at R400 000 but with a bond of R200 000 the levy could be either R10 000 or R20 000.

And those earning R100 000 a year would have to cough up another R15 000 on top of that.

Spread over 20 years or not, few had that kind of money.

And the levy would be tantamount to tax on tax, since in the majority of cases assets owned would have been bought out of after-tax income.

● See page 7.

INCOME TAX FM 23/7/93

Forex problems

(320)

A recent amendment to the Income Tax Act imposes tax on unrealised profits and losses made on forex transactions. It creates two major problems: firstly, how cash-weak companies are to pay the tax when profits have not been realised. Secondly, if a taxable but unrealised gain subsequently turns into a loss, as exchange rates move against the taxpayer, the loss cannot be carried back.

What makes matters worse, says Deloitte & Touche tax partner Anne Pappenheim, is the change is retroactive.

When the taxpayer entered into the transaction, it was on the assumption that no tax would be payable until the whole transaction was concluded.

The fact that the effect may only be a timing difference does not alleviate the hardship for the taxpayer.

Pappenheim concedes one sensible provision in the amendment — that it repeals the unrealistic consequences of the Caltex case. That case held that trading stock, purchased in a foreign currency and not yet paid for by the end of the tax year, was to be valued at year-end and not on the date of acquisition.

FM 23/7/93

(320)

Pappenheim concedes the amendment will make little difference in practice to the average trading company:

- Which has been able to claim unrealised exchange losses on foreign currency credits on the basis of two favourable court decisions; and
- Whose unrealised exchange profits have tended to be limited.

But tax legislation should be soundly worded to cover unusual or complex transactions — for instance a problem could arise in the case of foreign currency options.

The purchaser of a foreign currency option contract will be allowed to deduct the cost of the premium paid for the option. However, he will also be forced to value his option contract, either at market value or at its "intrinsic value" and to include the gain in his income, even if the option contract profit is valued above its cost. Intrinsic value is the difference between the "strike price" at which the option has been granted and the current price.

Yet another tricky area involves the complicated transitional arrangements to ensure that those profits and losses, in the last year of assessment ending before 1 January 1994, which would not have been taxed under Section 24B are not affected by Section 24I. And that amounts are not double counted on the introduction of the section.

Apart from the inequities to which she has drawn attention, says Pappenheim, Revenue is likely to find that gaps and loopholes have been left.

Though the legislation represents a radical departure from prevailing law, SA's Section 24I was enacted without any opportunity for comment. And it is to come into effect from the commencement of years of assessment ending on or after 1 January 1994.

When the UK reformed its taxation of foreign exchange gains and losses, a discussion document was put out in 1991 — two years before the draft legislation published in February. Implementation date is not expected before 1994 or 1995. ■

Not my figures — Mboweni

CT 23/7/92

Wealth tax isn't ANC policy

Staff Reporters

ANC deputy head of economics Mr Tito Mboweni refused yesterday to put a figure to his controversial "reconstruction levy".

The proposed levy has been criticised as a "wealth tax" and it is speculated it could be a one-off payment of 5% on fixed assets and a 15% levy on income.

The figures are not mentioned in the copy of his speech that Mr Mboweni sent the Cape Times.

Mr Mboweni said yesterday he had been irritated by reports quoting these figures.

He also said he had made it clear that he was expressing his own opinion and not ANC policy.

His proposed tax was not a wealth tax, as everyone would have to pay it — not only the rich.

Mr Mboweni's speech does not make it clear how the tax would apply to homes, assets or income.

An ANC spokesman said yesterday the organisation did not yet have a detailed policy on the redistribution of wealth.

Meanwhile, tax consultants and economists warn that a punitive reconstruction levy on income and fixed assets would cause havoc in the economy.

Ernst & Young manager Mr Martin Walbeck said a reconstruction levy would further dampen the economy and reduce spending.

"Much would depend on how these funds were used, in long-term capital infrastructure projects or wasted on short-term projects and expanding bureaucracy."

Practical problems were immense, such as how a fixed asset would be defined and valued and whether gross or taxable (net) income would be levied.

Mr Walbeck said a flight of capital, "legally or illegally", could result.

Mr Mike Fairbanks, tax partner with Price Waterhouse Meyernel, said that while a future government would need to raise funds to address backlogs a tax of this nature would harm the economy.

Individual taxpayers were already shouldering a very high proportion of the tax bill. Any extra imposition would further damage confidence, particularly the high income and entrepreneurial sectors, whose confidence and input were vital to getting the economy into a growth phase.

Old Mutual economist Mr Rian le Roux said the savings ratio was already extremely low and most people would be unable to afford to pay a tax on fixed investments.

The best approach to reconstruction was to foster investment confidence and get the economy growing again. "If the cake is growing it is easier to dish out the largest slices to the most needy."

● The proposed reconstruction levy was slammed as "reckless" by the National Party yesterday.

● See Page 4

Star 24/7/93

Fighting the taxman's decisions

(320)

IF AT first you don't succeed in getting your tax bill reduced, write a letter to the Receiver of Revenue. It's a lengthy process but it could be worth the effort. LEIGH ROBERTS explains how to go about it.

OUTRAGE, shock and anxiety — these are the usual reactions of a taxpayer who receives a higher-than-expected tax bill after assessment by the taxman. The amount of tax due calculated by the taxpayer in his return will differ from his final assessment if the taxman disallows certain expenses or taxes income the taxpayer thought was tax free.

However, the aggrieved taxpayer has a legal right to stand up and fight. He can object and appeal right up to the Appellate Division. The taxpayer should be prepared, however, for a potentially long and costly fight.

Tax consultant Gareth Hoole, of accountants Fisher Hoffman Stride, outlines the steps which the taxpayer should follow in exercising his right to object.

The first step, Hoole says, is to write a letter to your local Receiver of Revenue notifying him of your objection. This letter must be lodged with the Revenue office within 30 days of the first due date of the assessment. The letter should clearly state, firstly, that it constitutes an objection and, secondly, the full grounds for the objection.

Be extremely careful when drawing up this letter of objection. Hoole says that if the matter ever reaches court, the hearing will be limited to the grounds specified in the letter.

Hoole advises the taxpayer to seek advice from a tax accountant or tax attorney before submitting this letter if the dispute is complex. He also advises the taxpayer to obtain acknowledgement of receipt of his letter from the Revenue office.

Hoole relates a story which serves to warn taxpayers against being over-zealous in raising objections. "The taxpayer objected to a disallowed expense of R200. In due course he received a revised assessment from Revenue. This assessment showed that the assessor had indeed allowed the R200 expense but in addition taxed the taxpayer on income which had previously been ignored!"

In the meantime, the taxpayer is likely to be wondering whether to pay the tax bill as per the assessment or not. While morally the taxpayer might be averse to paying the bill, paying up might be the cheaper alternative.

The determining factor in this debate is the interest the taxman charges on the outstanding tax due — currently at 18 percent.

Deferment

To add insult to injury, the interest incurred is not tax deductible. In the fortunate event that you win your case, the taxman will, eventually, repay any overpayment of tax with interest of 12 percent. This interest is of course taxable in your next return.

Hoole says that if the taxpayer declines to settle his tax bill he can apply for an IT96, "Arrangement for Deferred Payment". This can be applied for when he lodges his letter of objection. Even though a deferment is granted, the interest clock starts ticking from the first due date as stated on the assessment.

After receiving your letter, the assessor will consider the merits of your objection. Hoole says objections relating to blatant oversights, such as omitting to deduct a prior year loss, are usually speedily dealt with and a revised assessment, IT34, issued.

If the assessor sticks to his guns and upholds the original assessment, he will advise the taxpayer with an IT39, "Official Notice of Disallowance of Objection". After receiving such notice, the taxpayer either concedes defeat and drops the matter or starts preparing for an appeal to the Income Tax Special Court.

Within 30 days of receiving the notice of disallowance, the taxpayer should lodge a letter, recording his intention to object, with the Revenue office.

It is not essential that the taxpayer be represented in the Special Court by a tax advocate or tax attorney, but Hoole warns this in a complex matter.

At this stage of appeal, the taxpayer is still not obliged by law to pay the taxes due per his assessment. Hoole stresses, however, that for a continued non-payment, an IT96 must be obtained if the taxpayer has not already done so.

The Income Tax Special Court sits in each of the Provincial Divisions of the Supreme Court. It is presided over by a Supreme Court judge assisted by two assessors.

In this court the onus is on the taxpayer to prove his case. The court is not open to the public.

The backlog of cases to be heard in the Special Court prompted the recent creation of the Specially Constituted Board for Hearing of Appeals. Hoole says the board is similar to a small claims court and is applicable to cases where the disputed tax amount is less than R20 000, or where both parties agree to the hearing.

If either party is unhappy with the Special Court's decision, the matter can be taken on appeal to either the Supreme Court or the Appellate Division. And that's where the process ends!

Example of a letter of objection

The Receiver of Revenue

Dear Sir,

TAXPAYER'S NAME
REFERENCE NUMBER
YEAR OF ASSESSMENT

I refer to my letter of formal objection dated........ against the assessment referred to above and your subsequent notice of disallowance of objection.

Please note an appeal to the Income Tax Special Court, in terms of section 83 of the Income Tax Act, against your disallowance of the objection.

Detailed grounds for this appeal will follow/are set out hereunder.

Example of a letter of appeal

The Receiver of Revenue

Dear Sir,

TAXPAYER'S NAME
REFERENCE NUMBER
YEAR OF ASSESSMENT

Your correspondence/assessment in respect of the above refers.

In terms of section 81 of the Income Tax Act formal objection is hereby lodged against this assessment.

Detailed grounds for this objection will follow/are set out hereunder.

Source: Fisher Hoffman Stride

LETTERS: *Magnus Heystek answers readers' queries*

When to commute is the question

Address your letters to: Magnus Heystek, c/o Your Money, Saturday Star, Box 1014, Johannesburg 2000. Personal replies CANNOT be provided.

Mr BS from Fairland writes:
I am 64, in reasonable health and have the usual problem of assuring the future.

How many people about to commute their

R98 000 to purchase the

to a lower interest rate

nuity now and invest the income until you actually retire, rather than wait until you retire at a possible lower income?

Assuming that you have no actual need to commute at this moment

Trade in call options: queri

unanswered

WHY write options at a fractio market price, and what are o financial watchdogs to do about it Johannesburg Options Market dir DAVE BULLARD.

FOR as long as I can remember, the bond market has been the popular vehicle for those who wish to enrich themselves handsomely at the expense of others, without detection.

The amounts which change hands in this market are so vast that most people cannot believe they are real.

Anyone caught washing the market's dirty linen in public might be unlikely to enjoy the patronage of the fund managers who control such vast amounts, so it is thought preferable to shut up, and even if some of us suspect that all is not as it should be, this is very difficult to prove unless one has the full co-operation of senior management in the firms involved.

Bids

The latest market story concerns Public Investment Commissioners (PIC), which handles the investment of State employees' pensions. Just more than a week ago PIC sold one-week "at the money" call options on land-dated government stock for about

As it happen bond rates fell l so the news w better. For an i lay of R900, th could have re profit of at least

Some questio to be asked. W PIC (which has defined fiduciary sibility) write o way less than price? Why does them only to cer ties? Why are al involved so ed publicity, and v our new financia dogs going to c it?

Some of the tions offered ar surd to be taken ly. One is that trying to get sto books: it wou achieved preci same objective ing at the correc

Another was was a "thank yo hard-working b this was the cas suggest that PI card next time.

While most participants ar pled and highly ed people, I transactions of are not as ra might hope. The maging not only

Wealth tax 'a contribution'

CT 24/7/93 (320)

A SENIOR Congress of SA Trade Unions' official yesterday defended a one-off "reconstruction tax", saying it could win business confidence if seen as a "contribution" by all "patriots".

The controversial levy, suggested by ANC economist Mr Tito Mboweni, underscored the need for practical action if reconstruction was to succeed, Cosatu assistant general-secretary Mr Sam Shilowa said.

Addressing a conference in Somerset West on Cosatu's plans for economic reconstruction, he said the problem with the tax was not the percentages involved, but guarantees on whether a future state bureaucracy would use it for reconstruction and development.

Also addressing the conference, SA Consultative Committee of Labour Affairs chairman Mr Bokkie Botha said the idea of a wealth tax would not sell.

Besides opposing it and even leaving the country, people would not want to see their hard-earned money being wrongly spent by any government, old or new.

A wealth tax would also not help bolster business confidence, he said. — Sapa

Cosatu defends 'one-off' wealth tax

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A SENIOR Congress of South African Trade Unions (Cosatu) official yesterday defended a one-off "reconstruction tax", saying it could win business confidence if seen as a "contribution" by all "patriots".

The controversial levy, suggested by an African National Congress economist, underscored the need for practical action if reconstruction was to succeed, Cosatu assistant general secretary Mr Sam Shilowa said.

Addressing a "Them and Us" industrial relations conference in Somerset West, he said the principle as espoused by the ANC deputy head of economics, Mr Tito Mboweni, was correct.

"If you want reconstruction you have to do something about it."

The problem with the tax was not the percentages involved, but guarantees on whether a future state bureaucracy would use it for reconstruction and development.

Also addressing the conference on Cosatu's plans for economic reconstruction, South African Consultative Committee on Labour Affairs chairman Mr Bokkie Botha said the idea of a "wealth tax" would not sell.

ARG 24/7/93

Besides opposing it and even leaving the country, people would not want to see their hard-earned money being wrongly spent by any government, old or new.

A wealth tax, if imposed, would also not help bolster business confidence if South Africa was to be placed on an internationally competitive taxation footing, he said.

Mr Shilowa said post-war Germany's economic revival had not been a miracle but was brought about by an enormous investment boost through the Marshall Plan.

"South Africa also needs a Marshall Plan if it is to be pulled out of its quagmire," he said in an interview.

The mooted tax was not necessarily a matter of a fixed amount being deducted from earnings or investments, but could be calculated in proportion to income.

"Employers may oppose it because they see it as only being a tax for employers, when it is really a contribution by all patriots to get the country out of the quagmire."

It would be a one-off levy to "move the country forward" and could, arguably, be used to pay the pensions of civil servants who decided to retire after the election of a new government, he said.

Cosatu had, however, not discussed the possibility of such a tax and would be taking it up with the ANC. The matter could also be raised in the National Economic Forum.

It would also be on the agenda of Cosatu's reconstruction conference in September. — Sapa.

■ See page 16.

MONEY

An offshore trust safeguards assets — and beats taxes

S Times (Buss) 25/7/93

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By CHERILYN IRETON

IF you are looking to emigrate or already hold assets outside South Africa, one way of protecting your estate is to set up an offshore trust.

It will house your assets and ensure that you or your family do not suffer adverse tax consequences as a result of your estate crossing borders.

Retha Roux, tax manager at Deloitte & Touche, says an offshore trust may also provide a politically and economically stable environment for your assets.

It protects them from the risk of expropriation, nationalisation or the imposition of stringent exchange controls.

An offshore trust is also useful in case of divorce. It helps a spouse to protect his or her assets from claims of a former partner.

An offshore trust is resident outside South Africa, usually in a tax haven like Guernsey and the Isle of Man where non-resident settlers and beneficiaries are not liable for income tax.

Guernsey and the Cayman Islands have the added attraction of having no tax on capital gains, gifts or wealth. They do not impose value added tax or estate duty.

An offshore trust ensures that your surplus funds are taxed favourably and reinvested in a tax-efficient manner.

Miss Roux says that when setting up an offshore trust, the ownership of assets passes to a trustee. The trustee holds and manages your assets for the benefit of those people named as your beneficiaries.

You may name yourself as a beneficiary and can usually nominate when the benefit should be given.

You can avoid taxes and death duties that would otherwise be payable by simply transferring property to the trust.

RETHA ROUX: A useful way to steer clear of imposts

"Where an individual has assets spread worldwide, their transfer to one trust simplifies administration," says Miss Roux.

Immigrants to South Africa can benefit by establishing an offshore trust to hold foreign assets before they emigrate. This allows them to remit income generated by those assets as and when they need the money — rather than the compulsory basis in terms of exchange control.

Miss Roux says income paid from an offshore trust to a South African beneficiary is generally tax free since it constitutes foreign source income.

She concedes that offshore trusts are a complex subject. Competent professional advice should be taken in international estate and tax planning.

ST Times [Bus] 25/7/93

Enter Tito the tax-mugger

When in doubt, tax. COMMENT by **KEVIN DAVIE.**

MANY governments, even those which know that cutting taxes is more likely to lead to growth and investment, find it easier to increase taxes than reduce their spending.

The present Government, although committed to cutting taxes and spending, is presiding over a Budget deficit at record levels, one which might still undo the painstaking progress which has been made at the Kempton Park negotiations.

Taxpayers have been shaken so hard and for so long to fund the death throes of apartheid that they have all but lost their ability and will to pay.

They're sick and tired of corruption, of waste, of duplication, of parliamentary fat cats and of subsidies to vested interests which can't or won't work for their own living.

They've also been paying the rents and services of people who can't or won't pay for their own accommodation, plus billions for supporting Bantustan leaders who strut and fret with so much importance at Kempton Park.

But the next government, in the person of ANC economist Tito Mboweni, wants taxpayers to pay more.

He wants a one-off payment levy for a separate account (but controlled by government) to fund reconstruction. The charismatic Mr Mboweni, who is much in demand in corporate boardrooms, is backing off the rates at which the tax would be levied.

But he has outraged many taxpayers, who simply cannot pay more even if they wanted to.

Most curious about Mr Mboweni's suggestion is that he apparently believes there is a shortage of funds for development and reconstruction. There is not.

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Most public and private organisations committed to development have more money than they can spend.

Building societies, such as the Perm, which entered the black housing market, burnt their fingers so badly that they appealed for their competitors to join them.

And, as acknowledged by ANC leaders, SA's budgetary spending on social services is already high compared with other developing countries.

Some will argue that politics has bedevilled development. Of course it has, but don't expect the rent boycott to end the day an ANC-led government comes to power.

As the Perm found to its cost, people may be committed to paying their bonds, but job losses in many cases prevent them from doing so. This suggests that the development priority should not be housing, but jobs.

Job creation is a well-misunderstood process in these parts, but firmly ingrained in the rocketing economies of South-East Asia.

Input prices are kept as competitive and low as possible; labour sets its price at what it can fetch. In the early stages of development this may not be much more than enough for food and shelter.

Mass consumer markets are targeted with low-tech, labour-intensive production. The beginnings may be humble, but with it comes empowerment as skills and per capita incomes grow.

Now the Taiwanese find they can no longer compete in labour-intensive production because their wages are no longer competitive. They have moved increasingly into high-tech.

Taiwan has an unemployment rate of 1,5%, while 40% of economically active South Africans cannot find formal-sector jobs.

But our labour aristocrats don't like the idea of low wages. Fresh from a R350-a-head breakfast, Cosatu's Jay Naidoo warned the ANC investment conference this week that low wages were not the solution to SA's no-growth problems.

It's easier to send in Tito the tax-mugger, even if his ill-gotten takings do not help the cause of development one little bit.

Star 29/7/93

Mboweni speaks,

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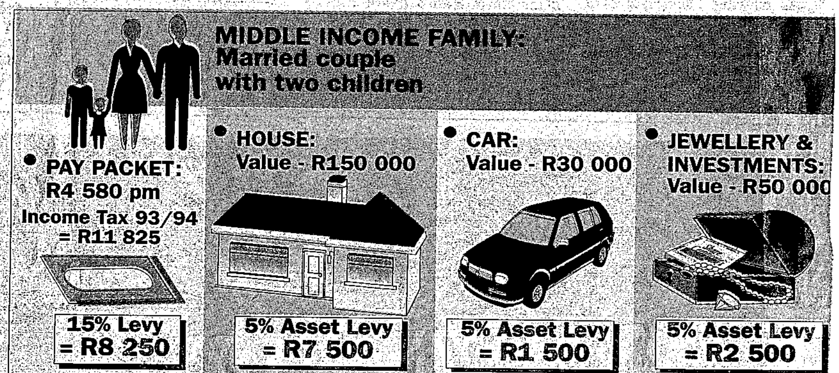
SA shivers



GRAPHIC: LIZ WARDER

STAR

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20/7/93

CONTROVERSY over the reconstruction levy proposed by ANC economist Tito Mboweni has reached gale force, with estimates of the extra load on income tax burdens running into multiples of billions of rands.

The package of proposals, with a once-off 15 percent special levy on income tax, plus a 5 percent tax on fixed assets, has sent everyone scurrying for their pocket calculators.

Mboweni has stayed short of putting figures to the revenue target he has in mind, aimed at creating a special fund for various socio-economic upliftment programmes to remedy the deprivations caused most of black society by apartheid.

However, the massive scale of the programmes that must somehow be tackled can be judged by recent estimates by the SA Chamber of Business, showing that it would take R40 billion to iron out black/white disparities caused by apartheid in such basic spheres as housing, education and health services.

Realities

The difference in approach to solutions comes with comparisons of strategies.

Sacob director-general Raymond Parsons is convinced South Africa must match what it needs to do with what it can afford to do, and confront the realities that it may require a programme stretched over at least 10 years to level the playing fields.

Mboweni clearly wants much quicker results from political reform.

It still leaves everyone in a quandary about the costs of breaking the conundrum.

A review of 1993 Budget estimates about the size of anticipated tax collections in the coming 12 months makes it obvious that hardest hit by the income tax proposals would be individual breadwinners, whose tax bills in the current 1993/94 financial year already threaten to climb above R36 billion. If one assumed the proposed levy would add 15 percent, the burden would increase by R5,4 billion.

However, estimates using the R36 billion benchmark could be far from precise because of the wide variations in the average individual levels of normal taxation going into the R36 billion.

If the levy were imposed on all taxpayers, whatever their tax bracket, the collections could soar far higher.

But Mboweni has not yet spelt out who would be included or excluded from the proposed special levy. It is widely assumed he would set a threshhold level that would relieve lower-income taxpayers of the levy and fix the aim on higher-income brackets.

Company tax bills are expected to be around R11,9 billion. A 15 percent hike would boost the bills to over R13,6 billion.

But even heavier burdens could be expected from the second round of the proposed wealth tax package — a 5 percent special levy on the value of all fixed assets.

Here, the Econometrix research unit finds it impossible even to guess at the overall impact until Mboweni provides a more detailed definition of the assets to be counted.

On the assumption that corporate as well as private assets would be scooped into the net, clearly by far the biggest contributions to the reconstruction fund would come from the business world.

For instance, if the formula were based on net assets, the 5 percent levy would cost the Barlow Rand industrial empire alone about R737 million, based on net assets put at more than R14,74 billion.

With net assets of nearly R10,297 billion, SA Breweries would need to find about R515 million.

Or would the tax collector delve into the complex patterns of fixed assets, plus current assets, and disregard interest-free liabilities? No one knows.

Nor does anyone know how Mboweni would count

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Star

- ANC economist Tito Mboweni has stressed that the proposal to introduce a special reconstruction levy — widely interpreted as a wealth tax — is his own personal idea.
- He believes such a levy would generate the additional funds required to tackle socio-economic programmes needed for the upliftment of black society from deprivations blamed on colonial and apartheid regimes.
- The ANC has so far made no official comment on the proposed package.

29/7/93

ANC economist Tito Mboweni has caused controversy by proposing multimillion-rand tax levies for a fund to iron out inequalities caused by apartheid. MICHAEL CHESTER looks at the possible impact of such a tax on personal and company budgets.

personal assets, such as houses, cars, TV sets and CD players, perhaps speedboats or even yachts, bank balances, jewellery ...

What about shares held in companies quoted on the Johannesburg Stock Exchange if regarded as personal assets? With the current market value of equities running at more than R628 billion, shareholders could be expected to fork out about R31,4 billion under the 5 percent levy rule.

But let's come down to the nitty-gritty. Let's look at the scenarios for rank-and-file families without investment funds.

Take breadwinners who fall into an average pattern and have a spouse and two children, and who earn a modest R16 500 a year — R1 375 a month. The 15 percent income levy would increase their tax bill from around R575 to as high as R3 050.

Taxable income of R55 000 a year, or R4 583 a month, would mean a jump in taxes from R11 825 to over R20 000.

The R150 000 house he may live in — if regarded as an asset, with no allowance for any outstanding amount on a probable mortgage — would cost another R7 500 in the 5 percent asset levy.

An annual income of R110 000 would mean income tax bills spiralling from R35 175 to R51 675.

A R250 000 house, clear of home bond repayments, would mean an additional bill of R12 500.

Yet to be counted, of course, could be the asset value of the car in the garage. We still haven't come to reckon the value of furniture, or time-share holiday home.

Mboweni insists: "There is no need for anybody to be scared. We all have to face up to the difficulties of building a new and more equal society.

"The challenge of building a new society, of reconstructing South Africa, as it were, will demand that resources — especially financial — be made available for development, reparation and compensation.

"There is near unanimity that without either increasing the tax burden or the budget deficit there is no way in which the ordinary budget of South Africa can cope with the enormity of the challenge."

Econometrix director Dr Azar Jammine responds: "It is not difficult to see that the removal of 15 percent of disposable income in one fell swoop would have a devastating effect on economic activity, the likes of which has never been experienced in the country's economic history.

"As regards the 5 percent tax on fixed assets, one has difficulty with the concept on several counts. Measurement of the value of one's fixed assets must surely represent a minefield of subjectivity and bureaucracy if the tax is to be levied at a relatively low threshold level of wealth.

"We are all well aware of the urgency of a basic reconstruction of society. However, South Africa must face the blunt reality that it cannot afford to provide all the necessary remedies at one stroke.

"We need to build the foundations of reconstructions with care, however, unless we are going to run the risk of undermining longer term confidence."

Far better, he argues, would be to tackle the task of a sweeping reform of the entire taxation system.

Mboweni agrees that the cost of socio-economic reconstruction will be enormous: "Building a new South Africa will also require a high degree of national consensus that we should fairly and squarely deal with the consequences of the past in order to make a new beginning based on justice, national reconciliation and solidarity." □

Star 29/11/93

(320)

VAT fraudsters in billion-rand scam

By Claire Gebhardt

South Africa's "near foolproof" VAT system is being abused to the tune of a billion rands, Inland Revenue has disclosed.

Deputy director, VAT policy Peter Franck said yesterday vendors were using false documentation to fraudulently claim refunds of input tax.

Others were purchasing fixed property through the issue of promissory notes payable over 25 years which hugely inflated the purchase price paid because of the interest factor.

Franck said a number of highly suspicious promissory notes alerted the Department to the fraud.

"We had one case for R4 million and a promissory note for R88 million payable in 25 years time."

"The purpose of inflating the price, in some cases to nearly fifty times the present value, is to allow the purchaser to claim a much greater deemed input tax credit.

"In most cases, once the input credit is claimed, a far lower price is paid and the promissory note is torn up.

"We have statements from sellers that there was never the intention to pay over 25 years.

"We intend taking seven cases like this to court fairly shortly."

Franck says the fraud not only reduces tax revenue but allows the fraudsters to undercut the prices charged by the traders who are collecting tax.

"We amended the VAT Act on July 9 to say that the debt due to the seller must be discharged — "this is something a promissary note doesn't do."

But there could be a sting in the tail for some of the fraudsters, Franck says many don't realise that there is transfer duty payable on R88 million.

A tax expert said this week that there was a crucial distinction between tax avoidance and fraud.

"A promissory note means that you promise to pay by reference to the terms of the note which is 25 years and there's nothing wrong with that.

"If the Receiver can establish that the price was paid up front and didn't follow the agreement for purchase, they have established a VAT input which didn't exist.

"Entering into a contract which produces a purchase price which doesn't actually happen is fraud."

Franck says the Receiver will impose the maximum penalties and sanctions permitted by the Value-Added Tax Act where these schemes are discovered.

"Where fraud is involved in the evasion or refund of tax, criminal proceedings will be instituted against the person involved as well as anybody who assisted in the scheme or transaction."

The pros and cons of a reconstruction levy

(320) WM 30/7-5/8/93

Maybe we should just accept a reconstruction levy and be done with it, argues **Reg Rumney**

FORGET for the moment the huge political *blaps* the new "reconstruction levy" casually floated by African National Congress economist Tito Mboweni has come to represent.

Forget even, if you can, the painful thought of having to pay yet more tax. Stripped of its emotional baggage, the idea has a little value and a lot of counter-indications.

It must be stressed that Mboweni does not have in mind a wealth tax, but a special reconstruction levy, whose proceeds will go into a fund dedicated to soaking up the backlogs left by apartheid.

Those backlogs in infrastructure are immense. The World Bank, for example, notes that in the PWV 70 percent of African households do not have direct access to water, and about 50 percent are in shanty towns. The Bank has also estimated that in the Witwatersrand area alone R6-billion to R10-billion will be needed to provide additional water, sanitation and electricity.

Well and good, but is a new tax the best way to raise money to take care of those backlogs?

Central to the debate is the real motive behind the tax.

Is the idea behind the new tax political, designed to be seen as pecuniary retribution for apartheid, or spurred by a desire to garner more revenue for the fiscus?

If its driving force is political the matter is simple: as long as its effects are not extreme the long-suffering middle class should grin and bear it on the basis that it fulfils a need for symbolic revenge.

Furthermore, if it actually contributed to the creation of a climate of peace and prosperity it would be sinful to resist such a levy.

The doubts creep in when considering the possible consequences. While such a levy may fulfil the first need easily, its economic effects may far outweigh any good it might bring.

Firstly, any tax should fit in with the overall economic strategy, and the need for an overall economic plan is often stressed by Mboweni's boss, Trevor Manuel. Economists and tax experts have warned the new tax, while it might redistribute what is already in the country, will damage the ability of the country to attract new capital.

The country's central tax mechanism in the long run offers the best hope of doing away with such backlogs and even there it has been argued that South Africa's whites are not undertaxed by international standards.

Perhaps the effort involved in the levy could be better directed towards improving the effectiveness of public spending. For instance, the Nedcor Old Mutual Professional Economic Panel estimated more effective controls could easily save between 10 percent and 30 percent of public spending, or R10-billion to R30-billion in 1992 terms.

There are worrying aspects about the practicality of a new levy for reconstruction and development.

As with the wealth tax, a foreign example has been used which cannot exactly match the South African situation. It's already been pointed out that the levy resembles more closely the new levy to fund the merger of the two Germanies than the tax imposed after World War II to equalise the burden of war damage.

The post-war tax went to the middle-class as well as the poor: it was not a redistributive mechanism. The most recent levy is resented by the West Germans.

There are doubts that an approach which taxes net assets would raise much revenue anyway. A 1990 Market Research Africa survey claimed to have found that only six percent of the white population had a networth of more than R500 000, and one in every five urban adults had a net worth of less than R10 000.

Tito Mboweni ... Not clear on how a wealth tax would be implemented

The glee with which that report was embraced and subsequent white fury whenever a wealth tax has been proposed, by anyone, should have served as a warning to Mboweni.

Countless examples, such as the poll tax in the UK, show a truly unpopular tax will meet with stiff resistance if not outright defiance.

The reaction so far seems to indicate the middle classes do not view a reconstruction levy favourably. Resistance, in the sophisticated forms that tax experts are paid to muster, is likely.

If a reconstruction levy damages the tax morality of the country its harm will far outweigh any good the new revenue can do.

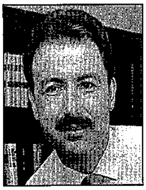
Mboweni is not clear on how the tax is to be implemented, but a one-off 15 percent of income and five percent of assets has been mentioned.

Practical problems abound, particularly with taxing of assets, a much more difficult exercise than taxing income. Administration is either effective, and therefore probably costly, or will punish the honest by ineffectually allowing the less honest to escape: a recipe for resentment.

In essence then, if the proposed levy is modest, restricted to income, actually used for its intended purpose, and not relied on to raise huge amounts of revenue it might at least fulfil some symbolic purpose in the transformation.

Beware the double tax effect

FM 30/7/93



Ray Eskinazi is international tax partner, Ernst & Young

The government recently introduced legislation to avoid the local tax consequences of the distribution of shares by SA companies undertaking "unbundling" transactions. Almost at the same time, an ANC official (apparently in a personal capacity) restated the concept of a "reconstruction" or "wealth" tax.

But the consequences have not been thought through. In the case of unbundling, foreign shareholders will be taxed in their home countries. And, in the case of the reconstruction tax, there are fiscal implications for foreign companies presently in SA and, therefore, consequences for future foreign investment.

Though unbundling legislation exempts SA shareholders from a host of local taxes, this is of little or no significance to a foreign shareholder who is usually subject to tax in his home country on all worldwide income (including dividends and capital gains) with a credit for any foreign taxes paid.

In the course of an unbundling, the nature of the distribution to shareholders will depend on several factors, including whether the distributing company will be liquidated after the distribution has taken place and whether the liquidation takes place before or after the distribution.

Other relevant factors affecting the tax treatment in the foreign jurisdiction will include whether the foreign shareholder is a company or individual, the percentage shareholding and the duration of ownership of the shares. (320)

But whether the distribution takes the form of a dividend or a capital gain, the unbundling will give rise to some form of taxable event, in the foreign jurisdiction, with an attendant tax liability. As the foreign shareholders will not have paid any SA tax on the transaction, they will have no credit against their home country liability and would be faced with an additional cost — despite having had no tangible receipt.

This may well prevent foreign shareholders from lending their full support to proposed unbundling transactions.

The recent statement that a proposed "reconstruction" or "wealth" tax could take the form partly of a tax on gross assets presents similar difficulties. A tax on gross assets was introduced in Mexico (in 1988 at the rate of 2%) and in Argentina (in 1990 at the rate of 1%) and has been considered in other Latin American countries such as Bolivia, Costa Rica, Peru and Uruguay (all countries with high inflation and requiring additional revenue for major adjustment programmes).

The problem for SA subsidiaries of foreign companies, is that such a tax on gross assets would not be accepted by the majority of foreign jurisdictions as an income tax which qualifies for a foreign tax credit. This would generally result in double taxation for foreign owned enterprises, once in SA (when the tax on gross assets is payable) and once in the foreign country (through the imposition of normal income tax there).

The US, Japan and other European countries have expressly refused to grant credits against foreign taxes on gross assets, alleging that such taxes cannot be viewed as income taxes (unless they take the form of a minimum income tax).

The above examples are hardly the way to inspire confidence in a country so desperately endeavouring to market itself as an attractive investment destination.

WEALTH TAX

FM 30/7/93

A little more thought

In advocating a once-off wealth tax on all South Africans of means, ANC economist Tito Mboweni has become a victim of his own enthusiastic endeavour for innovation. What ostensibly was a good idea, is plainly on reflection of dubious utility and practical impossibility.

Those who support his idea either see it with relief as an alternative to nationalisation, with satisfaction as a means of forced wealth redistribution or with ignorance as a practical proposition.

The problems associated with valuation, assessment and double taxation abroad have been widely expressed elsewhere, and partially again in this edition (page 30). They negate any advantage there might be in the certainty associated with a one-off, broadly based tax intended for a specific purpose.

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There are other problems. One is the rate at which it will be levied. Without that vital piece of information, no serious assessment of its economic impact — or the degree to which it will inhibit economic activity — is possible.

Second is the fact that it needs to be assessed alongside corporate and income tax thresholds. It cannot be viewed in isolation; it is an intrinsic part of the total tax burden.

Third is the purpose to which the proceeds are to be put. Simply to say they are to finance reconstruction outside the national budget is giving nothing away. No sensible tax adviser or taxpayer would trust any government that much. Too easily could the proceeds be used, for instance, to finance the aspirations of middle-class blacks in government who believe they have been disadvantaged by an inadequate education. They, not the poor, are the traditional beneficiaries of affirmative action.

In a new SA, the assumption of sovereign power and a novel access to the Exchequer could be a persuasive means of subjugating good intentions to self-interest. This was the case all too often with the Nats. There needs to be precision of purpose and transparency of action.

Tito and his supporters, such as *Business Day*, were curiously silent on those issues. And that might have more to do with age and inexperience than education or intention.

But, of course, ideas are the spirit of the age — and we sympathise with Tito's chagrin that at first his innovative thinking did not get the enthusiastic endorsement, or at least acknowledgment of novelty, that he expected. In the broader democracy that approaches, the richer the flow of ideas, the more likely will we be able to compete in world markets.

What Tito forgot is that he is no free agent in the marketplace of ideas. While he holds ANC office, what he says will inevitably be associated with ANC policy formation. And the idea of a wealth tax, mooted out of context (as we have explained) and shorn of detail, serves as much to scare those with means (especially if they are abroad) as it does to encourage the poor and avaricious.

What Tito and *Business Day* have to answer is whether, in advocating a wealth tax, they wish to hurt the rich or help the poor. That is not clear from the advocacy so far. If the intention is to hurt the rich (which won't necessarily help the poor), then the tax is plainly a political device with no economic logic.

Those with means are right to be wary of it and suspicious of the motives of those who support it.

If the wealth tax is intended to help the poor, then both hard experience and orthodox economic logic suggest it will fail — unless it forms part of a package that includes lower company and income taxes and incorporates some form of fiscal constraint on how it is spent.

It is not good enough just to have an idea. Its consequences and context have to be reasoned in detail if the danger of intellectual backfire is to be avoided. And that backfire can do a great deal of harm to business and investment confidence, as indeed has been the case. ■

Star 31/7/93 (320)

Wealth tax plan shot down

DES PARKER

WEALTH taxes are unlikely to be levied in South Africa because the country will be too busy meeting the increased tax burden of a federal system of government, according to an ANC economic adviser.

Professor Dennis Davis, who is also director of the Centre for Applied Legal Studies at Wits and sits on the Government's tax advisory committee, says all but three of the envisaged 10 regional authorities in the post-April 1994 SA will have inadequate tax bases. They were the PWV, eastern Transvaal and western Cape.

Using the proposed tax base, Natal probably would run an 8 percent budget deficit.

Addressing delegates at a seminar on the preservation of wealth, Davis said a land tax — "an extremely useful means of dealing with the problem of redistribution of land" — was a far more likely revenue generator than the controversial reconstruction levy and asset tax.

How widespread the land tax net might be was not clear, but the proceeds would be used to make compensation to those whose land had been expropriated.

Davis — who believes Derek Keys will likely remain Finance Minister after April — said the recent proposal of "wealth taxes" by ANC deputy economic head Tito Mboweni had been aimed at stimulating debate.

"He (Mboweni) said he made no mention of figures and had no idea where talk of a 5 percent asset tax and a 15 percent reconstruction levy had come from.

Burden

"Part of the thinking is very much in line with the mainstream belief that individual taxpayers — particularly in the R20 000 to R80 000-a-year income bracket, who pay 64 percent of all income tax — bear too much of the burden and that some form of capital tax needs to be considered as a means of relieving this and of reducing fiscal drag."

Davis said considerable commonality of purpose on economic issues existed among groups at the constitutional negotiations and there was widespread belief that "wealth taxes" would be "disastrous" in SA for several reasons. These included a lack of asset liquidity, the complexity of administering and collecting the tax, and the detrimental effect it would have on disposable income.

Davis also poured cold water on widespread fears of a capital gains tax — at least for the next three to five years. Like a reconstruction tax, it would be overly complex and needed to be inflation linked. In its most equitable form, it would yield no more than R300 million to R1 billion a year.

Far more likely was the rejuvenation of capital transfer tax, which the Government had "unacceptably" reduced to a "negligible" contributor to revenue.

"Used properly with the maximum marginal rate at 50 percent on larger estates, capital transfer tax can yield more than R1 billion a year. It is likely that an amended Estate Duty Act ... at a rate of plus-35 percent will be introduced in the near future."

Davis predicted that VAT would fragment into a multi-rate levy to protect the poor.

Soekor public relations offi- the retrenchments — effective endanger the company's future. section of his Gympie Street house today.

American steakhouse chain on the menu for SA

ARG 3/8/93

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — An American steakhouse chain is set to launch franchises in George and Cape Town over the next few months and plans to spread all over South Africa with 35 to 40 branches over the next six years.

Austin's, an upmarket Texas-style rib, steak and seafood restaurant chain based in Fort Lauderdale, Florida, has estimated that each of the South African franchises will gross R7,5 million to R9 million a year — of which it will take five percent.

The first one is to be launched in George in December, followed by two in Cape Town, starting in January. One of these will be in the Waterfront, Austin's chief executive officer Philip Connor said in an interview from Fort Lauderdale yesterday.

He said the company which would operate the franchises in South Africa was headed by Elie Sopas, who he described as a well-known cordon bleu restaurateur, and Fred Nel, formerly of Kentucky Fried Chicken.

Mr Connor said this was Austin's first international venture. After South Africa it planned to open franchises in Greece, Italy and then Britain.

The chain is now confined to Florida but plans to expand rapidly in the United States next year.

Austin's will sink no capital into the South African venture, which will be funded entirely by the South African entrepreneurs.

They will be coming to Fort Lauderdale later this month to finalise the contract and undergo intensive training.

Five deny killing debt collector

Staff Reporter

A TEENAGE boy, two women and two men from Grassy Park have pleaded not guilty in the Wynberg Magistrate's Court to murdering Durban debt collector Johannes Ellis by stabbing him with a knife.

The 15-year-old boy, Leonard Fortuin, 35, Charles Adonis, 32, Beverly Smith, 28 and Beverly Carelse, 29, told the court they would disclose the basis of their defence in the Supreme Court.

They were arrested hours after the maimed body of Mr Ellis, 54, was found on March 9 in the back of his car in a Grassy Park churchyard with stab wounds in the back and side.

Magistrate W S Ras postponed the matter to September 30 so that a date could be set for the Supreme Court trial.

The teenager remained in the care of his mother and R300 bail for the others was extended.

J Joon prosecuted, D Nasson defended Ms Smith and the other accused were not represented.

ANC adviser pours cold water on fears of hefty wealth tax

Professor Davis

BRUCE CAMERON
Business Staff

(32D) ARG 3/8/93

A WEALTH tax mooted by African National Congress economist Tito Mboweni is not on the cards, an ANC tax adviser said today.

But Denis Davis, director of the Centre for Applied Legal Studies at the University of the Witwatersrand, who also serves on the government's tax advisory committee, said taxpayers could expect to pay more on capital transfers, including estate duty.

Professor Davis told a conference in Cape Town hosted by the legal firm Wilkinson, Joshua, Gihwala and Abercrombie that:

- Taxpayers could expect to pay some type of social security tax as the most direct way of relieving the demand for services such as housing and health.
- Individual tax and company tax were unlikely to be increased because the growing number of taxpayers in the middle tax group, who paid the most tax, were union members.
- VAT could be levied at differentiated rates if the poverty relief schemes were not put in place.
- A surcharge on income tax and additional fuel levies could be used to raise funds for the proposed new regional governments.

Mr Davis said wealth taxes that could be considered were:

- Capital gains tax, which was unlikely as it would have to be inflation-linked to be equitable, and studies by the Department of Finance indicated it would raise only between R300 million and R1 billion.
- Capital transfer tax of about 35 percent on estates and donations, which was most likely.
- Land tax, essentially a tax on rural land, but one difficult to apply.

Professor Davis said studies had shown a land tax would raise only about R600 million a year if applied at a rate of two percent. A higher rate would result in virtual confiscation of land, while a low rate would have the effect of forcing inefficient farmers off the land — and the land issue was one of the most important political issues.

A one-off wealth tax, such as that suggested by Mr Mboweni, was not likely to be applied, although a similar tax had worked in Germany and in Chile.

The main reason it was unlikely was that taxpayers would be faced with a liquidity problem and there would be high administrative costs.

Professor Davis said businesses and individuals were making a fundamental mistake in interpreting the position, in that any government after next April would be one of national reconciliation.

This meant that no one party would be able to change the system, and the existing bureaucracy would remain in place for some time.

Hunt for church killers moves to East London

Crime Staff ARG 3/8/93

A TEAM of top Cape Town detectives has gone to East London to follow up information and to continue the investigation into the St James Church attack.

A spokesman for the East London murder and robbery unit said "clues are pointing towards the Eastern Cape" where similar terror attacks had happened and the Cape Town detectives would work "hand-in-hand" with their counterparts there.

Western Cape police spokesman John Sterrenberg said no one had been arrested as a "positive suspect". Although people were being detained for questioning from time to time, they should not be connected automatically to the attack.

Captain Sterrenberg declined to comment on the "Eastern Cape angle" but said police were giving the investigation top priority and all avenues were being explored.

He said information from the public could speed up progress, but emphasised that police had to be selective in their feedback.

Man in court over Rosebank killing

Supreme Court Reporter

A MAN has appeared in the Supreme Court charged with the rape and murder of accountant Lindsey Boyd, 26, in Rosebank last November.

Elvis Jotamo, 19, who is also charged with housebreaking with intent to rape, theft and bribery, was not asked to plead and the trial was

OPINION

Tito's 'reconstruction levy' alarms investors, reports **Stanley Uys in London**

Star 4/8/93

Musings or ANC policy?

320

SO THE row over the reconstruction levy has subsided — or has it?

It all started when Tito Mboweni, acting deputy head of the ANC's economic planning department, proposed the introduction of a levy on both the income and assets of those who could afford it, meaning of course a redistribution of wealth from whites to blacks. The white business community exploded in wrath.

In a subsequent article in The Star, Mboweni said the alternative to a reconstruction levy was to increase either the tax burden or the budget deficit. He explained that he was expressing only his personal view, not ANC policy.

In an interview with Die Beeld on July 21, the ANC's information chief, Dr Pallo Jordan, said the reconstruction levy was not ANC policy, "but just a thought that has been raised as one of the many ways of financing a corporate levy". So far, so good.

But then Mboweni came to London where, before an assembly of attentive bankers and businessmen, he repeated the proposal for a reconstruction levy almost word for word. Only this time he did not say he was speaking in his private capacity, and in his carefully prepared speech, he made it quite clear that it was absolutely necessary that political change be accompanied by serious economic restructuring, encompassing the transformation of the institutional structure of the economy.

The assembled businessmen were not to be blamed for leaving the forum convinced that if not a reconstruction levy, then something equally radical is in the ANC's pipeline. As Anglo American's Michael Spicer told a similar gathering in London three weeks later, rhetoric has its consequences. Mr Mboweni, after all, is acting deputy head of the ANC's economic planning department. At what point do his private musings become potentially official ANC policy?

Spicer, group public affairs consultant to Anglo American and De Beers and adviser to Anglo's chairman, made several points. One was that he agreed that South African businessmen should not react with knee-jerk hostility to every idea floated by the ANC.

But, he added, there were just too many ideas in free-fall around the ANC corridors. "One cannot go on indefinitely discussing new ideas," said Spicer. "At some point, there must be certainty."

This, of course, is what all potential investors want, whether they live in South Africa or abroad: they need to know what they are letting themselves in for if they are going to invest in South Africa.

Spicer for his part was perfectly frank on Anglo's attitude. He referred the audience to the latest annual statement by Anglo's chairman, Julian Olgivie Thompson. This statement merits careful reading: it is the most comprehensive corporate response to the various economic ideas that the ANC has floated that I have yet come across.

But if Spicer expects the ANC to respond with equal frankness, I fear he will wait in vain. The ANC cannot give businessmen the "certainty" they want on economic policy for the simple reason that an internal debate on that "certainty" would tear the ANC apart — on the eve of elections from which the ANC expects to emerge as the dominant party.

Nor, it seems to me, will there be much "certainty" after the elections — for two reasons. First, a debate on economic policy will still tear the ANC apart. Second, it will bring the new transitional government of national unity grinding to a halt.

It will be safe to assume that one of the first decisions facing the TGNU will be how to meet black expectations. When Mboweni said that it is absolutely necessary that political change be accompanied by serious economic restructuring, encompassing the transformation of the institutional structure of the economy, he was not voicing a personal opinion. This is what all ANC leaders have said at one time or another.

What will the TGNU do? All the experts have warned us that there will not be enough money in the kitty to meet black expectations. The debate then will be on how to find new resources, and the ANC's solution, obviously, will be to transfer them from the whi community.

That will put the cat among t pigeons in the TGNU as the whi members, and perhaps even c oured and Indian members, rise defend their constituencies. If t ANC overrides its TGNU par- ners, the whole concept of TGNU could bite the dust. If probes for a compromise, t probing could last indefinitely.

Certainty? I cannot see emerging in the foreseeable ture, and investors will have bite this bullet. Either they w decide to walk away and pla their investments elsewhere, they will have to walk to the ed of the murky South African ec nomic pond, shut their eyes, clo their noses and — jump in.

Or am I misreading the situ tion, Mr Spicer? I would welcom a reply so that we can contin this debate. □

Tough estate duty likely in 1994

329 CT 4/8/93

Business Editor

A TOUGH estate duty is likely to be imposed next year, with a crackdown on many of the schemes now practised to avoid it, an ANC tax adviser warned yesterday.

Dennis Davis, director of the centre for applied legal studies at the University of the Witwatersrand, told a seminar at the Cape Sun hosted by attorneys Wilkinson, Joshua, Gihwala and Abercrombie, that he was certain there would be no capital gains tax because of the poor return and high administrative costs.

It was therefore "insane" to go in for schemes intended to avoid capital gains tax that involved the "sale" of property at inflated values to a trust or a family member.

But an estate duty was "on the cards" and assets locked up in trusts were likely to attract tax every 10 or 15 years to penalise beneficiaries avoiding estate duty and force them to distribute the assets.

He thought it highly unlikely there would be a wealth tax because of the administrative difficulties and the liquidity problems many people would experience.

But he expected a regional land tax, at a rate low enough not to have a "confiscatory" effect, which would be likely to force inefficient farmers off the land and facilitate redistribution.

He also expected a social security tax on the lines of that in the UK, which employers would deduct from salaries and wages and which would be paid directly to the department responsible for providing the services — reducing the risk of corruption and ensuring better value.

Surcharge

He did not expect higher individual income tax, although a surcharge might be payable by those in the higher income brackets, and he did not think company tax rates would be raised.

Discussing VAT, Davis said that either an efficient mechanism would have to be developed to deliver poverty relief to those who needed it or else there would have to be variable rates with more basic products zero-rated while the tax charged on some other goods could rise to 17% or 18%.

Emphasising that "there will not be an ANC government next year" and no sudden and violent changes like those in Zimbabwe after independence, Davis pointed out that there would be a government of national unity for two years.

He expected Derek Keys to remain Minister of Finance and Chris Stals to remain governor of the Reserve Bank. The white bureaucrats would not "charge out of the country", as had happened in Zimbabwe.

Over a period of time there would be affirmative action and the bureacracy would reflect the demographics of the country. But there would be no revolution.

Another set of horrors in store for the taxpayer

Star 5/8/93

(320)

By Claire Gebhardt

ANC tax adviser Professor Dennis Davis has come up with a whole new bagful of tricks, which the ANC is considering to redistribute money.

At a conference in Cape Town this week, hosted by legal firm Wilkinson, Joshua, Gihwala & Abercrombie, he said taxpayers could expect a social security tax, a multiple VAT rate, increased fuel levies, a land tax and a capital transfer tax.

Outraged tax experts said the proposals invoked the goose principle — "how many feathers can you pluck before the goose expires."

They argued that tax was already penal and warned that a new government was laying itself open to revolution — a tax revolution — soon after coming to power.

Demand

Davis said a social security tax was the most direct way of relieving the demand by deprived communities for things such as housing and health.

In the UK, deductions from employees' salaries were matched by employers' contributions.

However, a social security tax should be reconciled with the income tax burden so as not to increase overall liability, he said.

Individual and company tax was unlikely to be increased because those who paid the major portion of income tax were union members in the middle-income tax bracket.

Davis said a multiple VAT system, even though the IMF had cautioned against it, was likely because of inefficient poverty relief structures.

Dennis Davis . . . social security tax most direct way of relieving demand

Additional fuel levies might also be used to raise funds for the proposed new regional governments.

Of the four wealth taxes under consideration, a capital gains tax was unlikely because it would have to be inflation-linked and would yield no more than R300 million to R1 billion a year.

"However, it is completely unacceptable that the present government has reduced capital transfer tax to the extent where it brings in negligible revenue.

"Used properly, with the maximum marginal rate of tax at 50 percent on larger estates, such a tax could yield more than R1 billion a year."

Davis said an amended Estate Duty Act at a rate of about 35 percent would be introduced in the near future.

Land tax, he said, was an important political issue.

Although studies had shown such a tax would only raise about R600 million a year, if applied at a rate of two percent, it was a useful means of dealing with redistribution because it would force inefficient farmers off the land.

Professor Davis said businesses and individuals were making a fundamental mistake if they assumed a new government of national reconciliation would be unable to change the system and that the existing bureaucracy would remain in place for some time.

Davis said though a few billion rand in additional revenue could be levied, a greater solution to fiscal problems lay on the expenditure side.

Calling for performance auditing and government accountability, he said government spending was particularly inefficient and that corruption had almost become a national sport.

In heated reaction yesterday, tax experts said any new taxes would hit the poor and not the rich.

"The rich have already started to hive their assets off into trusts and can afford to hire the best tax consultants," said one.

Brain drain

Sentrachem group tax consultant Ernest Liking questioned how much more the individual taxpayer could be expected to bear, given that in 1992/93 about 72 percent of the total income tax bill was funded by individuals.

He said more taxes would exacerbate the brain drain and demotivate skilled and unskilled workers alike.

Price Waterhouse's Chris Frame said a multiple VAT rate was efficient and would probably vary from 14 percent to 20 percent on luxury goods.

"A land tax will certainly force farmers off the land, but the question is whether they will be replaced by more efficient farmers," he said.

Higher company tax is predicted

Star 5/8/93

By Claire Gebhardt

Tax experts are predicting higher company tax next year because of a predicted massive shortfall in secondary tax on companies (STC) collections.

320

Says one: "Companies are avoiding STC by restructuring themselves so as not to declare dividends and to have other income streams out of the country.

"Sophisticated financial planning can always produce a result, which the Government has not contemplated."

Others say most companies have followed the golden rule of not declaring a dividend or concluding transactions with shareholders unless all the STC implications have been considered.

"As the Minister of Finance Derek Keys based the whole reduction in corporate tax on the STC take, he is faced with a massive problem.

"He has reduced his revenue by an enormous amount and is going to have to raise company tax next year to make up for the massive shortfall," the expert says.

Tax rescues bank

Sowetan

REDUCED company tax rate has helped Standard Bank to increase its assets by 23 percent. 6/8/93

Releasing its interim results for the six months ended on June 30, Standard Bank Investment Corporation attributes the growth to, among other factors, the inclusion of its subsidiaries in Africa and the United Kingdom. — *Sowetan Reporters and Sapa.* 68 320

Share disposal tax exemption

B/Day
6/8/93

CHARLOTTE MATHEWS

TAXPAYERS facing income tax requirements relating to the sale of shares need not fear being penalised if they chose not to have share dealings classified as capital or made no choice — as long as they are not share dealers and have no history of share speculation. (320)

In its latest Tax Letter, KPMG Aiken & Peat said Section 9B of the Income Tax Act, introduced in 1990, enabled taxpayers to choose whether or not profit on disposal of listed shares held for 10 years should be considered as a transaction of a capital nature and exempt from tax. In 1992 Section 9B was amended to shorten the holding period to five years.

If a taxpayer chooses to have the disposal classified as capital this is binding on all shares sold after March 14, 1990 under the 10-year rule, or all shares disposed of after March 18, 1992 under the five-year rule. KPMG Aiken & Peat argues if a taxpayer elects not to be bound by provisions of the section, or makes no choice, general principles of tax law apply.

RETRENCHMENT TAX

New benefits

FM 6/8/93

Retrenched employees will benefit from a concession announced in this year's Budget speech and enacted during the last parliamentary session. (320)

The Income Tax Act provides for a tax exemption for lump sum payments, of up to R30 000, to men who retire at 55 and women who retire at 50. The exemption also applies to employees who retire because of ill health (or, in the case of women, to marry). The recent amendment to the Act extends the exemption to retrenched employees. (320)

FM 6/8/93

Ernst & Young Cape tax partner David Clegg says only amounts exceeding R30 000 will be taxed — at the average rate based on the taxpayer's income from sources other than the retrenchment payment.

The concession will not apply where the

Cont

Cont FM 6/8/93

employee was at any time a director or held at least 5% of the issued share capital (or member's interest) in the company or CC. But retrenchment in the form of a voluntary "resignation" will qualify for the concession.

The provisions are retroactive to March 1 1992 and payments already made and subjected to tax will have to be reprocessed. ■ (320)

Business Report

Call for jobs tax incentive

320 CT 6/8/93

By AUDREY D'ANGELO
Business Editor

LENCO executive chairman Doug de Jager called at the AGM yesterday for a tax incentive to encourage manufacturers to employ more people rather than using capital-intensive methods.

He also suggested that SA manufacturers should be able to buy raw materials produced in this country for less than the prices paid by competitors overseas — who were currently able to undercut local products in the domestic market.

Stressing the need for jobs, he urged other manufacturers to follow Lenco's example in breaking into export markets even if this meant an initial loss.

De Jager told shareholders: "For the last 12 months we have experienced considerable losses in trying to penetrate the US market. But we very recently received an order from the US which justified our patience."

The group had also suffered a total loss of R800 000 in the UK in its first year of penetrating that market. But the success of this venture had "ensured that 400 people still have jobs" on a dedicated export clothing production line.

De Jager said he expected a 15% rise in Lenco Holdings' earnings for the six months to August 31.

The improvement in last year's interim earnings of 25,75c a share was expected although tax would be paid at a rate of 20% compared with zero last year.

"We anticipate that the operating margin, which last year was just below 10%, will increase to double digit figures in the first six months of the current year.

"It will still lag behind the target of 15%, which is considered appropriate by the board for a manufacturing concern such as ours.

"But that improvement in margin is in our view acceptable given the current economic climate."

He said clothing manufacturer House of Monatic had "accelerated its penetration of export markets and 35% of production is now exported."

Exports of housewares were also buoyant and "have ensured that Hendler & Hart is on track to improve its budgets."

However, the metal division at Hendler & Hart was under pressure from cheap imports. Retailers could sell imported products at 80% of Hendler & Hart's raw material costs, even allowing for customs duties and shipping costs.

"This sounds marvellous for the consumer. But is it in the long term, given our current socio-economic situation?

"In essence, the effect is to export jobs. And the greater the unemployment, the greater the instability we have."

Urging retailers to buy from local manufacturers, De Jager said retailers should consider the drop in demand caused by lack of jobs.

He said he was not pleading for more protection against imports "but rather for encouragement on three fronts.

"First, for retailers to take a long-term view in the interests of the country, to reconsider their strategies and to work with, and negotiate hard with, local manufacturers before opting for imports."

Secondly, institutions should stop ploughing cash into retail centres "and rather look innovatively into investing funds in manufacturing".

Thirdly, government should "favour labour-intensive investment activity as opposed to capital investments".

De Jager said the Combined Packaging division was performing well. It had a new product which was "light years ahead" of those of competitors in this country and abroad.

It was intended to internationalise this, either through a joint venture or acquisition.

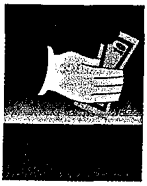
FM 6/8/93

FISCAL DRAG

320

The silent thief

Our tax system is unfair to married people and the middle class



Prosperity in a country depends on a stable, confident, growing middle class. If enough citizens have something to lose, they become conservative.

One of SA's less obvious problems is that the middle class — always fragile historically because of the low proportion of blacks in it — has been under even more pressure because of our tax system. In short, middle class taxpayers are carrying a disproportionate burden of income tax. This is because of the mathematical anomaly that has come to be known as "fiscal drag."

The present tax system for individuals works roughly like this: the more you earn, the greater the proportion of your earnings is siphoned off in tax. The trouble is that when tax rates are laid down by the Receiver of Revenue for various income levels, the assumption is that there is no inflation and that salaries will remain constant.

This is where fiscal drag comes in. It takes place when inflation draws taxpayers into higher tax brackets — which remain fixed over the years — so that the proportion of their income taken by the taxman increases. When you consider that SA has experienced a 20-year period of high inflation, the damage is clear.

A particularly regrettable implication of the process is that it gives government a vested interest in perpetuating inflation. This consideration alone, not to mention the incentive to government to spend recklessly, makes it an urgent matter to put an end to this destructive process.

The major assumption in all analyses of fiscal drag is that salaries and wages — over time — track inflation closely. This is certainly true of SA, says PE Corporate Services MD Martin Westcott. Here salaries tend to lead the Consumer Price Index by a few percentage points during times of relative prosperity and to lag the index by a similar proportion during recessionary phases.

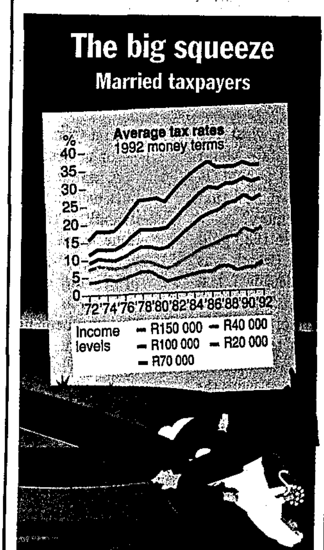
Right now we have a lag. Most SA businesses are adopting an extremely cautious approach to salary adjustments. Fewer than 30% of companies expect to award increases exceeding the rate of inflation this year.

Many companies, faced with the need to reduce costs while having to pay dearly for scarce skills, have come up with innovative pay packages. Salaries, especially at the expensive management level, have become increasingly linked to performance and profits. It is not uncommon today for 20%-30% of a senior manager's remuneration to be put at risk, based on performance.

The wage gap between white and black earnings for the same or comparable work still exists; little or no progress has been achieved in closing this gap over the past two years. There is now a difference of 10%-15% in black and white pay in most skilled job categories and up to 20% in some unskilled categories. Major efforts were made in the mid-Eighties to address this gap, which was as high as 30% 10 years ago. But the narrowing process slowed sharply after 1991, as companies rationed pay increases during the recession.

The exception, says Westcott, is at senior management level, where there is a limited pool of trained black managers who can effectively write their own remuneration packages. This trend is beginning to extend to middle management level. Many companies — driven by fear of future legislation on quotas — are now pushing hard to implement affirmative action policies and programmes.

The subject of fiscal drag has been analysed in great depth in an MBA thesis submitted to the Wits Business School in 1992 by Ian Bailey of Merchant Trade Finance, a subsidiary of the New Republic Bank. Bailey estimates the increased take from fiscal drag over the 20-year period from 1972 to 1992 (which includes the phase of double-digit inflation) as R20bn in current money (see "Government's hidden gain"). Another chart ("The big squeeze") shows the average tax rates on selected taxpayers over the same period.



Perhaps it is to be wondered that SA still has a middle class after this savage onslaught on living standards. It is not remarkable that many have left.

The time is long overdue for public opinion (across all ethnic groups) to reach a state of angry awareness that is strong enough to call government to heel. Bailey observes that other countries have only taken steps to eliminate fiscal drag when the pressure of public opinion became overwhelming — for instance, when it became an election issue. However, taking account of the impending political changes, it seems that the emerging black middle class will take time to develop an appropriate level of tax-awareness before this can happen.

Fiscal drag has not yet been well enough understood by taxpayers in SA — government understands it well but pretends not to. This lack of public awareness could account for its longevity, when compared with other countries. But the increasing demand for better salary adjustments from middle-class employees (still mainly white) suggests that public awareness is growing.

Fiscal drag has all sorts of unexpected implications for a tax system, apart from the obvious ones we have dealt with. One by-product has been to increase the cost of collecting tax, relative to the amounts received, as fiscal drag has pulled more low income earners into the tax system.

Bailey argues that the introduction of the Site tax system was a response to this effect. Site is a system of final taxation operated by employers, on salaried incomes below R50 000 a year. Bailey reasons that the Receiver could not cope with the flood of additional tax returns at the bottom end of the scale, produced by fiscal drag, and so dumped the administration on the private sector.

Another important effect of fiscal drag is to increase the proportion of revenues collected through direct taxation, as opposed to indirect tax.

The case for maintaining a reasonable balance between direct and indirect forms of tax should, by now, be widely accepted. It rests on the argument that unduly high rates of personal income tax act as an economic disincentive. Not only the actual rates are important but also rates relative to countries such as Britain, where personal income tax came down sharply during the Thatcher administration.

There are other grave actual or potential

cont → P.25

P.T.O.

‘Problem is how to balance the burden and make it more equitable’

ANC’s adviser slams tax load

DAVID BREIER
Weekend Argus Political Staff

■ Even the ANC’s advisers are beginning to realise that ordinary South Africans are taxed to the hilt and cannot pay much more.

TAXPAYERS have been virtually squeezed dry and the economy can't be squeezed much more, says a key political adviser on economic policy.

What is significant about this discovery, which most taxpayers knew all along, is that it does not come from the Nats, the government or even the Democratic Party. It is the view of Dennis Davis, who advises the African National Congress on economic policy.

Mr Davis, director of the Centre for Applied Legal Studies at Wits University, said the issue in the new South Africa would not be more tax — overall taxation in terms of the GDP has almost reached saturation, he said.

"The issue is how to balance the burden and make it more equitable and efficient. That's the real challenge," he said.

He believes the load should be spread more equitably as the burden lay too heavily with lower and middle-income groups.

He proposes reducing the tax burden on individuals and increasing it on capital in the form of a capital transfer tax notably on "death duties" or estate tax — but he opposes a capital gains tax.

Mr Davis suggests returning to estate tax of 35 percent, beginning with estates valued from R1-million — which would exempt most inheritances.

Recently the ANC was embroiled in controversy over the its deputy finance chief Tito Mboweni's, who wants a one-off "reconstruction levy" on income and assets.

Mr Davis was reported this week as calling for a whole range of additional taxes which had financial commentators aghast. But he told Weekend Argus he had been completely misunderstood.

He wants taxpayers to pay a social security tax — not in addition to their present income tax but as part of it. This would not increase the overall tax but would result in taxpayers paying two smaller separate amounts instead of one large one.

This would follow the practice in some other countries in which tax for social spending such as housing and welfare was not paid first into the central treasury, but went directly to the social services.

Mr Davis maintains this would reduce the scope for corruption and red tape which has plagued government spending. Taxpayers would know exactly how much of their tax was being used for social upliftment.

He also says he has not called for an increased fuel levy to pay for additional regional governments — he had merely quoted the view of a Department of Finance official.

Mr Davis thinks the present VAT system is the best, but he says that if poverty was not relieved by reviving the private sector, then a multiple VAT rate would be a "political inevitability". This would mean a lower rate on necessities and a higher rate on luxuries.

Mr Davis also says he personally does not support higher property taxes including a land tax for farmers. But he says that this could be the price South Africa could pay for federalism which will cost more in tax.

He says the only argument for a land tax on farms was that it could force inefficient farmers off the land and change land-ownership patterns.

(320) ARG 7/8/93

□ DENNIS DAVIS: Taxpayers squeezed dry.

Firms 'could halve their tax burden'

CHARLOTTE MATHEWS

SA COMPANIES risked paying double tax on overseas profits if they did not structure their affairs properly, Kessel Feinstein senior tax partner Ernest Mazansky said on Friday.

"There are perfectly respectable and legitimate ways to reduce your worldwide tax burden to below the SA tax rate," he said. B/Day

Speaking ahead of Kessel Feinstein's Business Buzz '93 conference on August 19, Mazansky said SA tax returns in the past couple of years had required a company to state whether it owned shares in a subsidiary in a foreign tax haven or a country with a lower tax rate than SA.

This meant the SA company had to lodge details of its foreign operations with the Receiver of Revenue as well as the Reserve Bank. 9/8/93

There was no statutory limit on the amount of money a SA company could take out of SA if its application complied with the Bank's norms.

"The Reserve Bank might approve R1m or R5m and refuse R50 000," he said. "Unless the offshore company can facilitate exports of SA goods and services, including know-how, its proposal to take finance out of SA is a non-starter."

However, having approved the investment in principle, the Reserve Bank could approve any further arrangements which would reduce foreign taxes.

The standard rule was that all profits had to be brought back immediately to SA, but in some cases that was not feasible. A temporary exemption from this rule could be obtained. (320)

Other topics to be covered at the seminar include 1993 tax changes, investing in the new SA, corporate crime, incentive-based remuneration and property investment opportunities for the '90s.

Katz wants tax overhaul

Star 13/8/93

BY CLAIRE GEBHARDT

South Africa will have to tailor its tax regime to attract foreign capital, says the chairman of the Government's tax advisory committee, Professor Michael Katz.

Katz told delegates at a seminar organised by accountants KPMG Aiken & Peat in Johannesburg yesterday that high tax rates simply excluded countries from international trade and investment.

He said the most crucial factor in determining tax rates was the mobility of international capital.

"The biggest factor to influence company law, stock exchanges and taxes in the future is the ability of foreign investors to switch capital."

Katz said this would take place according to tax regimes which existed within the global village as tariff barriers were rationalised and foreign exchange controls scrapped.

Katz ... fiscal federalism an important issue

Katz said the Tax Advisory Committe was currently looking at pension, provident and retirement funds and would make comprehensive recommendations to the Government within the month.

He warned that there could be a lot of changes.

"We are looking at the historical reasons for differentiation between pension and provident funds and considering whether there should be a uniform tax treatment and whether there should be a compulsory lock-in."

The committee was also debating whether there should be a tax-free build-up in pension funds and the question of tax disincentives for not investing in a pension fund, he said.

(320)

Also under investigation was the tax treatment of trusts, "in particular trading trusts".

Katz said the concept of fiscal federalism would become an important issue in the future.

"If we are going to have regions, to what extent will they be able to raise taxes?"

Katz said a capital gains tax had not been discarded, it was still under consideration, but there were different views on it.

"We are also looking at a capital transfer tax and there is pressure for changes to estate duty and donations tax," he said.

VAT FRAUD

Fleecing the fiscus

FM 13/8/93

Two schemes have been uncovered which, between them, cost the Receiver of Revenue more than R7m in unpaid Vat in the current tax year. Both are cases of fraudulent export sales which allow suppliers, registered under the Vat Act, to gain tax benefits to which they are not entitled.

Another type of scheme, which involves the capitalisation of interest in property transactions using promissory notes, is being marketed to people registered as vendors, as a legitimate means of avoiding Vat (because fraud is not involved). But amending legislation has made the basis of this scheme shaky.

In the case of export schemes, falsified documents are used to prove that goods sold locally were exported. Deloitte & Touche tax partner Des Kruger says the fraudulent taxpayer will gain in two ways. While domestic sales are subject to Vat at 14%, exports to countries other than the TBVC states are zero-rated (no Vat is payable, but an input tax credit can be claimed). The supplier evades having to pay Vat and therefore can undercut competitors' prices. At the same time, the fraud provides him with a cash-flow advantage — as he will be entitled to refunds of input tax paid.

Peter Franck, of the Commissioner's office, says one such transaction involved about R4m and another R3,2m. There have been several arrests. Presumably, many similar schemes remain undetected.

Revenue's main problem with export fraud is the absence of fully fledged border posts between SA and Botswana, Lesotho, Swaziland and Namibia. Thus, checks on whether the common customs area form corresponds to goods on the manifest, or whether those goods are present, are not always carried out. However, Revenue plans to establish a fully manned border post on the Namibian border by the end of October, and seven with the BLS countries by year end. The Zimbabwe and Mozambique borders are already fully manned by customs officials.

(320)

In these circumstances, says Ernst & Young tax manager Val Davies, the Commissioner can claim not only the amount payable, but interest and penalties — under section 61 of the Vat Act. As in the case of income tax, the penalty may be imposed at a rate of twice the amount of tax.

A press release from Revenue treats certain property transactions as if they too constitute evasion. Tax practitioners consider this proposition unsound unless actual fraud is involved.

Kruger explains that SA, along with only a few other other Vat jurisdictions, allows a notional input tax credit when someone registered as a vendor acquires "second-hand goods" from a nonvendor.

Suppose a property developer (registered as a vendor) buys land for R1,14m from a "nonvendor." He need not pay over to Revenue any Vat on the transaction. The developer (as a registered vendor) may claim a notional input tax credit of R140 000 (14/114 x R1,14m). So, though he has paid no Vat, he is entitled to receive a credit of R140 000 from Revenue.

What attracted Revenue's ire was the practice of structuring purchases of property, by vendors from nonvendors, via long-term promissory notes. Because the interest is capitalised over long periods, the purchase price is artificially inflated — in some cases by nearly 50 times. This increases the input credit claimed by a corresponding amount.

Kruger questions the basis of this type of scheme. He argues that, to claim a notional input tax credit, a purchaser registered under the Vat Act must make a payment, as defined in the Act. The issue of a promissory note, he says, does not constitute payment until it matures and the obligation is discharged. The Vat Act was amended this year to clarify the point, while the explanatory memorandum to the amending Act specifically notes that the issuing of a promissory note does not constitute payment until the underlying debt is discharged.

The amendment doesn't address the capitalisation of interest in the purchase price. There is nothing in the Act which requires a vendor to sell at the current cash market value. Any sale on extended terms will have an interest component built into the price.

Davies argues it would be difficult for Revenue to prove the transaction was entered into solely or mainly for the tax benefit. Kessel & Feinstein tax partner Ernest Mazansky shares this view, provided the interest capitalised is not excessive.

Franck says it is wrong to suppose all cases of property transactions relying on promissory notes are merely avoidance. In some cases, Revenue has discovered that the documentation was fraudulent, so that the parties have been guilty of outright evasion. ■

ELFI V REVIVED

Transnet's equity-linked fixed-interest financial instrument, Elfi V, has been resuscitated — in a private placing which has raised about R500m. This, says Transnet's Hercu Bloem, makes it the second largest of the Elfi issues, after the Elfi III, which raised R614m.

Elfi is a specialised financial instrument launched in two tranches, a bull and a bear, with redemption values linked to movements in the all-share index. Holders of the bull will realise a gain if the index rises, while holders of the bear score if the index declines.

The initiative for the relaunch came not from Transnet but from a large institution whose identity has not yet been revealed. "They did the placing, as well as all the administration and the split of the bull and bear tranches," says Bloem.

Because the issue will not be listed, Transnet will not be making a market in Elfi V. However, some of the merchant banks involved in the placing have expressed an interest in making a market. Says Dale Schoeman of Board of Executors: "We definitely intend making a market, if Transnet agrees to provide carry facilities."

The absence of a listing means that the Reserve Bank's requirement that nonresidents be prevented from investing in Elfi by means of blocked or financial rands, is met. It was this objection which scuppered the original launch of the Elfi V with a JSE listing, in March this year.

The structure of the issue will be the same as originally planned: maturity is in March 1995, with the redemption payments taking place on April 1 of that year. The base index used will be 3999.

The coupon, paid on April 1 and October 1, will be 7% per annum for the bull and 16,5% for the bear.

RECONSTRUCTION: *A matter of survival*

Helping shape levy 'the best defence'

Star 14/8/93

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KNEE-JERK reactions against the concept of a reconstruction levy proposed by the ANC's Tito Mboweni are useless, says Arthur Andersen senior tax partner Pierre du Toit.

"Pay up we will: let's rather help to shape its form and make it as visible as possible."

With about 16,4 million South Africans living below the breadline, redistribution "is not a matter of political expediency but of economic survival", he says.

Serious

It is clear that a new government will direct large sums of money towards reconstruction. "The question is, through what mechanisms.

"Business can react in one of two ways: it can scream, deny, denounce — and be saddled with the inevitable, perhaps in a more damaging and disruptive form than necessary.

"Or it can give considered, serious input on how such a levy can be made to ensure minimum damage and provide maximum return."

Du Toit says reconstruction will take at least two generations.

Attempts to squeeze the process into two or three years can only ruin the economy. A start has to be made at once on longer-term solutions directed at growth and employment.

"It's not even a matter of getting people off the streets: it's a question of getting them out of the gutter into the street."

Inevitably some of the effort will come from the taxpayer.

"The symbolic effect of a levy of some sort could give us some added value for our money.

"If the poor see it as a serious attempt by the rich to kick-start their participation in the new South Africa, it will generate goodwill.

A NEW government will direct large sums to reconstruction. The question is how to ensure minimum damage and provide maximum return.

"It will soothe some feelings, alleviate need and blunt the sword of those who advocate radical, impossible and ruinous retribution."

For the rich, a reconstruction levy could contribute to a new legitimacy by helping to clear the slate.

Du Toit warns that it should not be used as retribution. It should satisfy three criteria:

- It must not cripple the economy and make long-term reconstruction impossible.
- It must be finite in amount and/or in time if it is not to lose its symbolic value.
- It must be applied effectively, targeting specific, public projects.

To avoid delays and wastage, efficient expenditure mechanisms will have to be in place when the money comes in.

An additional tax on property might be one way to raise funds without damaging the economy, Du Toit says.

A surcharge on property rates would have strong symbolic value because the land issue "is probably the deepest injury of apartheid".

Such a tax would be more neutral to the economy than new income or expenditure taxes, which would discourage economic activity while the economy is battling to get going.

Aid agencies

A tax base exists, as does a ready-to-use, decentralised bureaucracy to collect the surcharge.

This would not be the case with a wealth tax, which would require a whole new structure and which would be very hard to police.

Aid agencies and the World Bank could be invited to match revenue from the new tax on a rand-for-rand basis.

"If over three years a 10 percent annual premium on rates raises, say, R1,5 billion — and it will hurt — we'd have a case for challenging the international community to come up with a matching contribution, either in the form of soft loans or in aid."

Education loophole tightened

TAKING care of the financial arrangements for a child's education can no longer be done on pre-tax earnings, says Martin McAusland, personal financial planning manager for business advisory firm Price Waterhouse Meyernel.

He says that up until two years ago, tertiary education for children could have been funded from pre-tax earnings. Today this is regarded as an abuse of the system and the practice has been stopped.

"Education funding is now tax free only in circumstances where an employee earns annually less than R36 000 and provided the funding does not exceed more than R1 200 a year per child. This is a definite effort by the Receiver to tighten the loopholes on tax concessions."

Parents will have to use their after-tax income to fund education if they wish to provide their children with tertiary education. "They will have to save hard as the cost of tertiary education is currently climbing at the rate of about 20 percent a year," McAusland says. — Finance Staff.

Call to redirect savings instead of raising taxes

Star 14/8/93

FINANCE STAFF

A NEW government should find new ways to encourage the redeployment of contractual savings rather than using taxation to finance reconstruction, according to Southern Life economist Mike Daly. He says it is necessary to lower the risks involved in "socially desirable investments" so as to redirect savings.

Big amounts of money could be redeployed if policyholders could be assured of market-related returns. (320)

"Some policyholders may even explicitly be prepared to take lower returns for the good of the country, in the belief that stability and economic growth will eventually boost their investment returns."

Returns could be lower at first, building up over time to market levels. This would be a better way to finance reconstruction than new and higher taxes which were potentially damaging to the economy. A tax on wealth would encourage emigration, which had already reached "disastrous" proportions.

Spread the burden

Daly says he hopes a capital gains tax will not be imposed by a new government because there are huge pitfalls involved.

The symbolism of tax changes will be important for some parties, because the wealthy would be seen to be "paying up". "But the real imperative is to spread the tax burden as widely as possible, to simplify it and keep rates as low as possible so that there is less incentive to duck and dive.

"Higher economic growth will supply all the tax revenue we require."

Even if finance were found, it would not be possible to deliver houses and electricity on a large scale to disadvantaged communities while the violence continued and while some people were encouraging bond boycotts.

Prof wants taxes to lure capital

JOHANNESBURG. — South Africa's tax regime should be structured to attract foreign capital, according to the chairman of the government's tax advisory committee, Professor Michael Katz.

He told a tax seminar organised by accountants KPMG Aiken & Peat that the mobility of international capital would be the most vital factor in determining national tax rates.

"Countries will use their rates of tax to compete for foreign investment and foreign trade ... high rates of tax will just exclude countries from international trade and investment."

Foreign investors would switch capital according to tax regimes within the global village as trade and tariff barriers were rationalised and foreign exchange controls scrapped.

"That fact is going to influence company law, stock exchanges, and taxes more than any other factor in the future," Prof Katz said.

He pointed to some African countries already taking note of this trend. Zimbabwe had reduced its company tax rate by 2,5 percent to 40 percent in its latest budget and Tanzania had recently slashed corporate rates.

South Africa reduced its company tax rate in its March budget to 40 percent and imposed a 15 percent tax on dividends in an effort largely to stimulate the investment and capital spending of domestic enterprises.

Prof Katz said he would have preferred to see the normal corporate rate cut to 35 percent and a 20 percent tax imposed on dividends.

820 ARG 14/8/93

"Everyone I've spoken to across the political spectrum agrees that the rate of tax should not increase," he said.

The tax structure would have to lure multinational corporations wishing to use the country as a springboard into the Southern African region. — Sapa

Wives' taxes under scrutiny

AMANZIMTOTI. — The Department of Finance was investigating ways of ending tax discrimination against married women, Finance Minister Mr Derek Keys announced yesterday.

The minister told delegates at the National Party congress here that his department was busy doing the "basic work" necessary to introduce a system of "equal tax for equal pay". (320)

Mr Keys was responding to a resolution protesting the fact that in some cases married women paid "100% more tax than their male counterparts". CT 14/8/93

Wealth tax only option?

South 14/8 - 18/8/93

Reaction to the first volley in the wealth tax debate by the ANC's trade and industry coordinator, Tito Mboweni, has taken the form of instant outrage and rejection. But given South African inequalities, this is one debate that won't go away. CHRISTELLE TERREBLANCHE sums up some of the existing arguments.

MR Tito Mboweni's call for an "economic reconstruction levy" — or wealth tax — to supplement the state coffers has become the centre of controversy in the tax debate.

An adviser on tax for both the ANC and National Party, Prof Dennis Davis, of the Centre for Applied Legal Studies at the University of the Witwatersrand, has since pointed out that the chances of increasing personal and company tax are slim.

The other side of the tax coin, however, remains that not enough state money is available to address the country's problems. Where should it come from?

"It is highly unlikely that a new government would impose a reconstruction levy or wealth tax similar to that in West Germany after World War II," said Davis.

He stated that against the background of a possible federal system, which would be expensive, such a tax would be complicated administratively.

(320)

However, Davis pointed out that a similar successful levy was raised from 1965 to 1973 in Chile to sponsor a compulsory education programme.

The levy trapped about 40 000 tax evaders.

The suggestion has caused a storm of resistance.


Dennis Davis

The National Party called it "reckless", cautioning that it will chase away foreign investors and stunt growth. The party's flagship, "Die Burger", compared it to "organised theft".

A Democratic Party spokesperson on finance, Mr Geoff Engel, said: "Tito Mboweni's statement on a one-off wealth levy or taxes will only encourage the further flight of capital from South Africa and greater tax evasion.

"The provocative statements of Mr Mboweni are grossly undermining confidence, job creation and any chance of economic recovery."

Mboweni has since pleaded that he has been misquoted and that his suggestion was not official ANC policy. He merely tried to open debate on the issue.

The notion of a reconstruction tax was raised in a document compiled last year by Labour Research Service's Gordon Young, called "The price for Apartheid: The wealth tax and how it can pay for the re-construction of black communities."

Young said it was impossible to calculate the revenue that would be obtained from this tax, but that rough calculations of five percent on the 20 wealthiest families could yield R500 million a year.

Witwatersrand economist Dr Neva Seidman-Makgetla estimates that a three percent tax on wealth over R200 000 would amount to R4,5 billion a year. This would affect only 10 percent of the population.

However Mboweni has stressed that the levy he suggested would be across the board, for all people earning a decent living wage.

Young dismissed several alternatives, among them a capital gains tax or property levy, because of the difficulties in administering it.

"It taxes people whose capital has worked hard for them and grown, while a wealth tax penalises those whose capital is not generating income," he writes.

He also stated that one of the problems with tax on prescribed assets, is its low return compared to other investments.

Davis also saw a capital gains tax as "debatable", and cited Department of Finance research that showed it could only yield between R300 million and R1 billion at the most.

"It is not a money spinner and will probably not feature in next year's budget," he says.

He predicts however that VAT will stay since it has proven successful.

"I also don't foresee a change in personal income tax or company tax, especially not an increase.

"Some tax incentives for export and foreign investments might be necessary, though."

CDT seminars to be held

THE COMMUNITY Development Trust is to hold two seminars, "How to Fundraise" and "How to Plan and Manage Community Projects," on Tuesday August 24 and Thursday August 26 in Cape Town.

The CDT recently opened offices in Cape Town, after working predominantly with community organisations in Johannesburg, says the Trust's Western Cape regional manager, Mr Tony Philip.

Philip says the fundraising seminar has proven successful in Cape Town and Johannesburg.

The seminars cost R50 each, and bookings are not accepted without payment. For more information contact Tony Philip at 531-4482.

VAT: 'Millions stolen'

CT 18/8/93 (320)

Own Correspondent

PRETORIA. — The Department of Inland Revenue said yesterday about 20 schemes to defraud the exchequer of hundreds of millions of rands of VAT revenue had been identified by inspectors since the introduction of the tax almost two years ago.

While most of the schemes were blocked, some had slipped through before loopholes were closed by amendments to the VAT Act earlier this year, a spokesman said.

The first court case of alleged VAT fraud was heard in the Supreme Court here yesterday.

An urgent interdict was brought by the Amor van Zyl Trust claiming the department had unfairly frozen assets of more than R20 million resulting from a property deal.

But VAT director Mr Johannes Fourie alleged that the money had been part of a "blatant" attempt to gain a tax advantage.

Mr Justice M M Joffe reserved judgment.

The department said receivers of revenue were told to identify those involved and to impose the maximum penalties permitted by the act.

Changes mooted on SITE tax

CHARLOTTE MATHEWS

EMPLOYERS would shoulder the legal responsibility for SITE tax from next year in terms of a recommendation from the joint Cosatu/Inland Revenue working group on SITE, Cosatu negotiations co-ordinator Jayendra Naidoo said yesterday.

The working group also proposed that employees should be refunded for the past three years and that there should be further discussion on using Cosatu's organisational structure to assist its members and other claimants with processing claims.

Although Cosatu had found the working group's recommendations acceptable, government had presented alternative proposals, Naidoo said. Cosatu would meet government within the next few days. (320)

The working group was set up in 1992, with representation from Cosatu and Inland Revenue, after Cosatu raised the problem of overtaxation under SITE.

Naidoo said government had reserved judgment on whether or not to pay refunds, depending on the cost to the fiscus, and had invited Cosatu to submit workers' claims by December so it could take a decision. Government's proposal also set a one-year limit on refunds. BDay 18/8/93

"This proposal provides no guarantee of repayment, a short period of back payment and no legitimate reason for limiting back payment to one year. It seems to imply that government wants to dodge the problem until the new interim government is in place," Naidoo said.

He said Cosatu was reluctant to continue negotiations as it believed the case for SITE refunds was so legitimate that government would be forced to give in.

Inland Revenue officials were not available to comment. A Finance Department spokesman said the matter was pending.

SITE: Legal burden for employers

CT 18/8/93 (320)

Own Correspondent

JOHANNESBURG. — The legal burden of responsibility for SITE tax would fall on employers' shoulders with effect from 1994, in terms of a recommendation from the joint Cosatu/Inland Revenue working group on SITE, Cosatu negotiations co-ordinator Jayendra Naidoo said yesterday.

The working group recommended that the legal burden of responsibility should fall on employers' shoulders. This would come into effect in 1994 if legislation was passed in time. It also proposed that there should be a refund to employees for the past three years and further discussion on using Cosatu's organisational structure to assist in processing claims for its members and other claimants.

Naidoo said that though Cosatu had found the working group's recommendations acceptable, the government has presented alternative proposals. Cosatu would communicate formally with the government within the next few days.

Cosatu approached government in 1992 to raise the problem that workers had been over-taxed under the SITE system by not advising employers of changes in marital status and numbers of dependants.

Naidoo said government reserved judgment on whether or not to pay refunds, depending on the cost to the fiscus, and had invited Cosatu to submit workers' claims by December.

DP: Govt pillaged taxpayers

(320) CT 20/8/93

By BARRY STREEK
Political Staff

SOUTH AFRICA's marginal rate of tax was higher than other high-tax countries, yet the government had the "chutzpah" to pose as the guardians of fiscal rectitude, Democratic Party justice spokesman Mr Tony Leon said last night.

President F W de Klerk had "piously" scolded the ANC but he should first clean up his own backyard, he said at a meeting in Middelburg in the Transvaal.

Mr Leon said fiscal indiscipline and unchecked bureaucratic excess had "pillaged the pocket of the taxpayer".

In the US, the federal tax rate had just been raised to 36% on incomes above R450 000, but in South Africa it was 43% on incomes above R56 000.

Brazil's super tax bracket was only 25%, while in Britain it was 25% on an income of R60 000 and 40% on individuals earning more than R120 000.

He also accused the ANC of failing to take a firm stand on key issues for fear of offending interest groups.

Debating issues and expecting answers from the ANC was like wrestling with an eel.

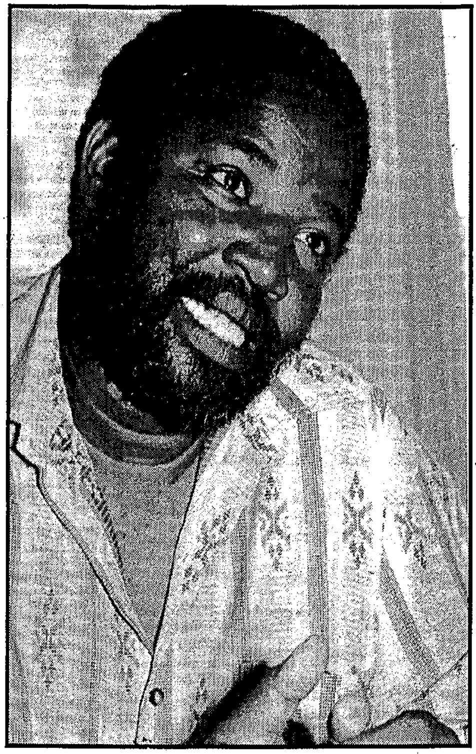
"They slide away from confirming or denying whether any particular statement is true or false," he said.

SACP

(320) ARC 48/93

New communist party leader backs away from wealth tax

MICHAEL MORRIS
and DENNIS CRUYWAGEN
Political Staff



SACP general-secretary Charles Nqakula

THE South African Communist Party does not believe a new tax should be unilaterally introduced to pay for post-election "reconstruction" projects, but should be debated urgently, says SACP general-secretary Charles Nqakula.

Mr Nqakula, successor to slain communist leader Chris Hani, also said in a wide-ranging interview that:

- The National Economic Forum (NEF) would be vital in generating consensus on economic policy between the State, business and labour, and should remain an advisory body;
- Nationalisation is no longer viewed as the key to correcting the economic ills and exploitation of the past;
- Affirmative action projects to improve living conditions of the disadvantaged would generate business opportunities on a wide front; and
- Businesses which remained in South Africa would reap the benefits of "a new vista that will open for all" in southern Africa and the rest of the continent after democratic elections. Businessmen and women who left would lose out.

On the party's political future, Mr Nqakula believed the SACP was the natural home of workers, and that its power-base resided in the unions.

Any move to breakaway from its alliance with the ANC would result only from a democratic decision within the alliance.

He said the SACP might consider — but was not committed to — breaking away from the alliance after next year's election.

Asked for the party's view on the controversial "reconstruction levy" mooted by ANC economics planner Tito Mboweni, Mr Nqakula said: "We do not want to prescribe how people should contribute to reconstruction, but the item on the agenda should be reconstruction, and how to do it.

"Everybody should make an input in the discussion. We should ask ourselves whether a reconstruction tax is the answer, or how else it could be be done.

"We in the SACP cannot come out and say: 'This is the only way it can be done.

"Let's have a discussion and see what is best," he said.

It was as a result of this sort of debate that the concept of nationalisation had declined in prominence.

"We are now saying there are many ways in which the distortions of apartheid can be tackled and how we can end the exploitation of the person on the factory floor. It is question of putting these things on the table and discussing them."

Emphasising the importance of the NEF, he said while the SACP did not believe "it is the product we would ideally like to have ... it is a very important beginning".

Tripartite discussions between the state, business and labour were the key to consensus economic planning and economic growth.

Mr Nqakula said the role of the state "must be that of formulating guidelines, but not in the sense of ramming things down the throats of unions and business ... there must be discussion".

Graphic: ... Source: SPL ... and six months time.

New side to cash dividends debate

CHARLOTTE MATHEWS

THE introduction of Secondary Tax on Companies (STC) in the 1993 Budget has given a new dimension to a long running debate on whether it is better for a company to pay cash dividends or to retain the cash in the company. B/Day

Several companies, including Liberty Life, Southern Life and Longrail, have recently declared capitalisation issues with a cash dividend alternative.

STC, which is payable at a rate of 15% on cash dividends, does not apply to the issue of bonus shares in lieu of dividends. (320)

In its latest issue of In Touch, Ernst & Young said the common argument in favour of cash dividends was that shareholders would prefer to receive cash on a regular basis and would be prepared to reinvest in a company through subscribing for rights issues, rather than allow management to retain cash for unspecified purposes.

Against this, the payment of cash dividends was often seen as unnecessary. It was argued that dividends should be paid only by mature companies which could no longer find investment opportunities that yielded returns greater than the cost of capital. 23/8/93

Ernst & Young recommended that mature companies should generally avoid declaring scrip dividends but growing companies should investigate the possibility.

GATT offer: Manufacturers voice concern

320 CT 23/8/93

JOHANNESBURG. — Manufacturers in secondary industry are worried that SA's new GATT offer will lead to extra protection for steel producers, says Independent Wire Converters' Association chairman Robin Bosomworth.

He said the offer, aimed at reducing tariff protection in general and lifting import tariffs on basic steel from 5% to a proposed ceiling of 15%, flew in the face of SA's need for manufactured export-led growth.

The offer benefited steel producers by maintaining a ceiling of only 5% on pig iron and billet, and leaned toward the primary industry sector, particularly as a 5% duty ad valorem had existed on basic steels for several years.

Representations to government by the association on the offer had proved fruitless as Trade and Industry Department officials had indicated SA had to achieve what flexibility it could in the offer on tariffs, he said.

Tax deadline for gold mines

B/Day 23/8/93

CHARLOTTE MATHEWS

GOLD mining companies, especially the smaller ones, may need to be reminded that they have only until August 31 to ask the Commissioner for Inland Revenue for an exemption from secondary tax on companies (STC), Gencor senior manager: taxation Neil Crafford-Lazarus said.

In terms of the Income Tax Act "any company which on March 17 1993 was engaged in mining for gold may by notice in writing furnished to the commissioner not later than August 31 elect to be exempt from the payment of secondary tax on companies". (320)

Crafford-Lazarus said the provision did not allow the commissioner any discretion to condone late applications. The decision was binding on the company in respect of all future dividends declared.

Chamber of Mines members have been reminded of the need to apply for the exemption, but some concern has been expressed by Inland Revenue that the smaller companies, which possibly do not have in-house consultants, may not be aware of the provision.

Crafford-Lazarus suggested the reason gold mining companies were allowed to choose whether or not to pay STC — a tax intended to encourage companies to reinvest and expand their operations — was that deep level mines were normally single-sourced. The mine's operators would spend capital as long as operations were economically viable. The principle of ring-fencing prevented mine operators from deducting funds invested in one mine from the income received from another *mine*.

Gold mining companies now have two options. They may elect to remain under the old tax dispensation, under which income from gold mining is taxed at the old formula and non-mining income, such as investments, is taxed at the old company tax rate of 48%. Under this system they will automatically be exempt from STC.

Unless a company informs the commissioner of its decision by the deadline, it will automatically be subject to the new lower formula tax for gold mining income, with non-mining income taxed at 40% and all income distributions subject to STC.

LEAVE PAY FM 27/8/93

Easing the tax burden

From the 1994 tax year, employees' leave pay will be tax-deductible in their employer's hands only when paid or when the liability becomes due and payable, as a result of amendments to the Income Tax Act.

Kessel Feinstein tax partner Ernest Mazansky says the amendments will clarify the law, after two contradictory Income Tax Special Court decisions. They are also intended to clean up the situation — which had given rise to much difficulty — and provide for equitable phasing in of the new rules, which can harm firms' cash flow. (320)

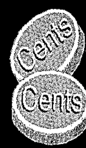
Past provisions are to be reversed and taxed on a phased-in basis over the five tax years 1995-1999. The bulk of the burden

Cont →

Timing the pain

Year-by-year phasing in of leave pay provisions

Tax year	%
1994	—
1995	15
1996	15
1997	20
1998	25
1999	25



Source: Kessel Feinstein

FM 27/8/93

(70%) will be felt only in 1997-1999.

As the phasing-in deduction for 1994 is 100% of the past provision, phasing in will, broadly, only start in fiscal 1995. But this is an over-simplification, says Mazansky, because the amount to be phased in is defined as the lower of two bases of calculation.

The first basis is any leave pay provision in the employer's accounts created and claimed in the 1993 tax year. Employers often created a provision for leave pay out of conservative accounting practice, then sought to claim it as a deduction. (This gave rise to the Special Court decisions which, in turn, brought about the 1993 amendments.)

The second basis is a sum determined at the end of the 1993 tax year, by applying each employee's then rate of earnings to his/her leave entitlement. This may not be the same as the first basis, which may have been arrived at by a reasonable estimate rather than accurate calculation. (320)

Any provision under the first basis must be reversed in the 1994 tax year. As the phasing-in deduction of 100% is based on the lower alternative, the amendments might leave the employer worse off, but never better off than before, in 1994. ■

Millions awaiting recovery from VAT

S/Times (BUSS) 29/8/93

Business Times Reporter

MANY companies are forfeiting millions of rands a year by failing to claim VAT on transactions and expenses incurred in doing business abroad.

Johannesburg-based VATclaim International has made claims for companies doing business in Europe, but many millions are virtually being thrown away as invoices are being destroyed or claims are not submitted.

Earlier this year, travel group Thomas Cook took a majority stake in VATclaim and opened offices in Hong Kong, Canada and Australia, which will enable SA companies to make considerable savings through VAT claims.

VATclaim director Vaughan Roche says VAT paid on hotel accomodation, training fees, car hire, meals or service fees for the purchase of capital goods can all be reclaimed.

His company recently claimed R1,5-million for Flitestar from the British tax authorities for the training of pilots in the UK. (320)

VATclaim is also dealing with a claim from a German VAT bill of more than R300 000 for the cleaning, dismantling loading and transport of an imported machine.

'New law may cause double taxation'

CHARLOTTE MATHEWS

LARGE numbers of earners who work through close corporations or private companies face double taxation unless they apply to the Receiver of Revenue for a reduction, Deloittes tax manager Louise Vosloo has warned. BIDay

Labour broker legislation came into effect in March, requiring PAYE at 40% to be deducted from the amounts paid to close corporations or private companies which are labour brokers. Labour brokers provide people to work for clients.

Amounts received by the directors of close corporations and private companies are not subject to PAYE. These individuals have to make a first provisional tax payment by today, based on their last assessed annual incomes. 30/8/93

This means a private company earning R100 000 annually will pay R40 000 in PAYE a year. And a director's provisional tax may be as high as 43% of his earnings, if he is in the top band of assessment.

"PAYE and provisional tax will end up being paid twice on the same amount and can be recovered from Revenue only once the company has been assessed," Vosloo says. This could take up to six months.

"It is imperative, if hardship is to be prevented, that taxpayers who are affected by the deduction of employees' tax from the amounts paid to private companies or close corporations apply for the reduction of the rate at which this must be deducted."

PAYE may be reduced to take account of the actual taxable income — the gross remuneration less directors' fees and other expenses, earned during the year. But the Receiver has indicated it will not accept a nil rate of employees' tax, even though a close corporation may pay all its earnings to its directors. (320)

Warning on double taxation

CT 1/9/93

(320)

Own Correspondent

JOHANNESBURG. — Large numbers of earners who work through close corporations or private companies face double taxation unless they apply to the Receiver of Revenue for a reduction, Deloittes tax manager Ms Louise Vosloo has warned.

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"It is imperative, if hardship is to be prevented, that taxpayers who are affected by the deduction of employees' tax from the amounts paid to private companies or close corporations apply for the reduction of the rate at which this must be deducted," she said.

Call for land tax to boost output on SA farms

(320) ARG 2/9/93

Business Staff

JOHANNESBURG. — A land tax must be imposed to encourage a productive agricultural sector, says SA Fiscal Association Think Tank member and Ernst & Young partner Ian Heinstock

This could be achieved by allowing landowners to offset the proposed land tax against the income tax payable when the land is productively used.

"It is certainly not a means of generating revenue or redistributing land, but it should be punitive enough to make people use land profitably.

"For example, given a piece of land measuring 1 000 ha and a land tax of R15 per hectare a year, a landowner would face a total tax of R15 000.

"However, if he put this land under wheat which he eventually sold for R1 million to earn a net profit after production costs of R50 000, assuming a 35 percent rate, he would be liable for tax of R17 500.

"From this he would deduct the R15000 tax already paid and only pay income tax of R2 500.

"Though the tax may appear burdensome, it will provide a powerful incentive for land to be used productively and a healthier agricultural sector could provide a shot in the arm for the economy."

Star 2/10/93

And now stand by for the land tax

BY CLAIRE GEBHARDT

SA Fiscal Association Think Tank member and Ernst & Young partner Ian Henstock says a land tax should be imposed to encourage a productive agricultural sector.

This could be achieved by allowing landowners to offset the proposed land tax against the income tax payable when the land is productively used.

Though a land tax probably carries great symbolism, Henstock says he is steering clear of any emotive political or revenue-raising connotations.

"It is certainly not a means of generating revenue or redistributing land, but it should be punitive enough to make people use land profitably.

"For example, given a piece of land measuring 1 000 ha and a land tax of R15 per hectare per annum, a landowner would face a total tax of R15 000.

"However, if a landowner put this land under wheat which he eventually sold for R1 million to earn a net profit after production costs of R50.000, assuming a 35 percent rate, he would be liable for tax of R17 500.

"From this he would deduct the R15 000 tax already paid and only pay income tax of R2 500. (320)

"Though the tax may appear burdensome, it will provide a powerful incentive for land to be used productively and a healthier agricultural sector could provide a shot in the arm for the economy."

Any additional taxes aimed at the existing tax base would only serve to frustrate growth, he says.

Ian Henstock ... steering clear of revenue-raising connotations.

Minor changes to income tax law

B/Day 7/9/93

320

CHARLOTTE MATHEWS

AMENDMENTS to the problematic Section 24I of the Income Tax Act, dealing with foreign exchange gains and losses, would be made during the September sitting of Parliament, tax experts said yesterday.

Inland Revenue mining director Kosie Louw said the Chamber of Mines had raised issues with the legislation and minor changes would be made this month.

Section 24I, introduced with the Income Tax Act 1993, provides for the taxation of changes in the value of a debt, forward exchange contract or foreign currency option contract arising from fluctuations in the rand.

KPMG Aiken & Peat tax consultant Noel de Charmoy said the main problems were that taxpayers had to pay tax on gains not yet realised and that the section made no distinction between gains and losses of a revenue or a capital nature.

Previously the taxation of foreign exchange gains and losses fell under the general principles of law relating to income and deductions. The taxpayer was only taxed on an amount when unconditionally entitled to it. Under the new legislation, foreign exchange gains or losses would be taxed or allowed as a deduction day by day or year by year.

"When an SA company makes an offshore loan in dollars or receives dollars for foreign sales and the rand depreciates, the amount due to be repaid appreciates. The new legislation wishes to tax the difference if the transaction was entered into by the company in the course of its trade. This is going to cause hardship as people will be taxed on income they have not received," de Charmoy said.

"There are practical problems in the revaluation of forward exchange contracts. They would not normally be revalued but the new legislation requires it and there may be an unrealised gain. It also necessitates getting the information to calculate the unrealised gain or loss."

First National Bank group tax manager Godfrey Howes said meetings were being held with government on problems with Section 24I. The main objection was the fact of being taxed on unrealised gains.

Louw defended the section on the grounds that taxpayers under the general rules were claiming unrealised losses on revenue account, but Inland Revenue was not taxing unrealised gains. In terms of the new rules, the playing field was levelled.

Section 24I's predecessor, Section 24B, dealt with taxation of foreign exchange fluctuations and the principle of capital versus revenue had already been conceded. In Section 24B Inland Revenue had allowed realised losses of a capital or revenue nature, without making a distinction.

BDO Spencer Steward tax partner Matthew Lester welcomed the legislation. "It is a distinct improvement on what we had before. Although unrealised foreign exchange gains are taxed, at least there is tax relief on the more common phenomenon of a foreign exchange loss.

"The problem with the legislation is to match the tax and accounting treatment of foreign exchange variances accurately. I usually advise people to ensure that their generally accepted accounting practice is refined so as to match the new legislation, otherwise unnecessary complications may result. It is only worth departing from accounting principles when major foreign exchange differences are predicted."

Standard Bank of SA chief accountant Keith Gill said the legislation more accurately reflected the way banks accounted to their shareholders for foreign exchange profits and losses.

Keys: Suitable local tax system vital

CT 8/9/93

Own Correspondent

PRETORIA. — The effective management of local authority finances and the choice of a suitable local tax system were vital to a successful political transition in South Africa, Finance Minister Mr Derek Keys said yesterday.

Speaking at the annual conference of the Institute of Municipal Treasurers and Accountants, Mr Keys told more than 600 delegates that South Africa faced many challenges similar to those experienced by eastern European nations as well as other countries with transitional economies.

World Bank analyses suggested that a well-functioning inter-governmental fiscal system was imperative to the achievement of reform goals, national adhesion and economic stability, Mr Keys said.

An over-reliance on central government grants would not only lead to an "undue centralisation of power", but would also threaten the health of the economy by placing too heavy a burden on state coffers.

Mr Keys said it was envisaged that property tax would remain the centre-piece of local tax systems, as it was predictable, easy to adjust and administratively convenient.

"But in practice property tax has its problems," he said. A failure to keep property tax bases up to date and the belief by some local authorities that the tax had no upper limit and could be increased without residents noticing had caused difficulties. 320

Mr Keys appealed to the town and city treasurers to submit proposals to the Finance Department on how a local tax system should be structured.

Cosatu may launch bid for SITE refunds

CHARLOTTE MATHEWS

COSATU is considering a major campaign to secure SITE refunds in view of government's rejection of proposals by a Cosatu/Inland Revenue working group, union spokesmen said yesterday. B/Day

The issue will be discussed at Cosatu's special congress, which begins today.

"We will make the VAT campaign look like a Sunday school picnic," said Cosatu general secretary Jay Naidoo. 10/9/93

The congress will also debate training workers and winning employers' support for submitting claims forms, and the holding of demonstrations at workplaces and the Receiver of Revenue's offices.

Naidoo said about R1bn could be needed for refunds, although the scale of the problem was essentially unknown. A random sample of Cosatu members had indicated that some workers were owed refunds of up to R1 200. [redacted]

Cosatu said the Cosatu/Inland Revenue working group had agreed that workers would be refunded any excess tax paid since 1990. However government's response had been to offer no automatic rights to refunds until the scale had been assessed. It offered possible refunds only for the last financial year, with no entitlement to refunds for previous years.

"This offer removes workers' rights to much of the money owed and implies that repayment would be delayed until after April next year so that the new government will have to foot the bill. (320)

Inland Revenue declined to comment.

NEWS

'Present govt should repay illegal deductions'

Cosatu lays plans to recover tax

Star 10/9/93

(320)

■ BY PAUL BELL
LABOUR CORRESPONDENT

Cosatu is planning a campaign at offices of the Receiver of Revenue and businesses to protest against Government stalling on repayment of SITE to workers who have been overtaxed.

Cosatu will present proposals for its campaign at its special congress, which opens at Vista University in Soweto this morning.

General secretary Jay Naidoo says the Government "illegally" deducted the money and must pay it back before the next government takes office.

"Where the Government gets the money is their problem," Naidoo said yesterday. "They must pay it back now, and not try to delay it to the first democratic government."

SITE — Standard Income Tax on Earnings — is deducted by employers and is paid by workers who earn less than R50 000 a year. They are not expected to submit tax returns.

JAY Naidoo says it is the Government's problem where they get the money from but workers must be repaid soon

Cosatu claims tens of thousands of workers have been overtaxed through miscalculations. The overtaxation originated mainly through the application of incorrect tax status to affected workers.

SA Clothing and Textile Workers' Union official Connie September, who led Cosatu's discussions with the Commissioner for Inland Revenue (CIR) on this issue between April and July this year, recalled that a joint working group had initially agreed that workers be refunded back to 1990.

The Government has refused to confirm the agreement ever and is offering to refund workers only for the last tax year.

Cosatu had initially offered estimates that anywhere between R700 million and R1 billion might have been overpaid. Yesterday, it was not prepared to commit itself to an estimate, and said, in any case, it was the principle that was important.

September said Cosatu would begin immediately drafting its shop stewards into the campaign for refunds by helping workers establish their rights. It also wanted employers to help the process along.

A spokesman for the CIR said the commission would make no comment before discussing the matter with Deputy Finance Minister Theo Alant.

Mandela's view disputed

New taxes could foot growth bill

Star 10/9/93

■ OWN CORRESPONDENT

TITO Mboweni, ANC economics deputy, stresses the importance of funding a reconstruction programme 320

Cape Town — New forms of taxation are still one option for funding the ANC's reconstruction and development programme, according to Tito Mboweni, deputy head of the organisation's department of economics.

Mboweni, who was hammered by commentators, politicians and business leaders last month over his proposed "reconstruction levy", indicated disagreement with ANC leader Nelson Mandela over the question of funding the programme.

In an address at an open economics seminar at Stellenbosch University yesterday, he noted newspaper reports quoting Mandela as saying new taxes would be introduced as a "last resort" and that development would be funded by eliminating unnecessary duplication.

Mboweni said he would have to speak to Mandela about the issue. "Well, I can't contradict the president, but I still want to discuss that with him," he said. "If it's going to be a last resort, that's quite problematic."

He pointed out that the proposed reconstruction and development programme of the ANC and Cosatu would probably only be finalised at a major conference in February.

If the ANC was to serve in a government of national unity, it would be vitally important for the "democratic movement" to have an approved reconstruction and development programme. "If there's nothing that distinguishes the democratic movement from everyone else, it will be a disaster."

One way of funding the programme was through the "redirection of expenditure — everybody agrees with that," Mboweni said.

Another proposal was to introduce development instruments such as new housing bonds and community reinvestment instruments to encourage institutions and businesses to invest in the communities where they were active.

The draft programme also referred to the need to introduce new forms of taxes that might be necessary, he said. Some of his colleagues were opposed to identifying specific taxes now "because people will always move around their taxable assets and we may lose out before we arrive", he added.

"I'm quite convinced we must exploit to the full margin the fact that we were victims of apartheid and use that most cold-bloodedly to try and raise as much money as we can."

The ANC was hoping to include a wide range of organisations, including churches and professional bodies, in a series of conferences on the programme — now in its fourth draft — culminating in the major meeting in February.

TAXING CHARITIES

FM 10/9/93

Spelling it out

Latest amendments to the Income Tax and Estate Duty Acts spell out the requirements for charitable trusts to be exempt from income tax and for donations or bequests to them to be exempt from, respectively, donations tax and estate duty.

Kessel Feinstein tax partner Ernest Mazansky says the rules have also been made stricter. Revenue suspected that charitable trusts were being used for tax avoidance, in particular to carry on a business. (320)

The most important conditions charitable trusts now have to comply with are:

- ☐ A trust may provide funds only to religious, charitable or educational institutions of a public character, such as a university or school. A charitable trust may no longer, for example, grant bursaries (though it may make a grant to an educational institution for the purpose of granting bursaries). In effect, benefits have to be available to the public generally, or, at any rate, members of a religious community or other broad group. Benefits, for instance, available only to executives of a given company (or their children) will not qualify;
- ☐ A trust may invest surplus funds only with a registered financial institution and in quoted securities, though with Revenue approval, it may invest in other (specified) financial instruments;
- ☐ A trust must distribute at least 75% of net revenue (gross income less administration costs) within 12 months of its year-end;
- ☐ It may not carry on business except to the extent authorised by Revenue (Mazansky says this is rarely granted); and
- ☐ It may not accept any donation which is not irrevocable and unconditional.

Charitable trusts established after June 21 1993 must comply and special procedures apply to noncomplying pre-existing trusts.

A trust will be allowed to retain any asset or continue any business acquired through donation or inheritance. Mazansky points out that Revenue usually won't allow a trust to acquire a rent-producing fixed property except through donation or inheritance.

Where Revenue thinks that a charitable trust has failed to comply with these provisions, it may withdraw its tax exemption from the start of its current tax year. ■

'Wealth levy' man at odds with Mandela

☐ 'Well, I can't contradict the president but ...'

JOHN YELD
Staff Reporter

320 ARG 10/9/93

NEW forms of taxation are still one option for funding the ANC's reconstruction and development programme, according to Tito Mboweni, deputy head of the organisation's department of economics.

Mr Mboweni, who was hammered by commentators, politicians and business leaders last month over his proposed "reconstruction levy", indicated disagreement with ANC leader Nelson Mandela over the question of funding the programme.

In an address at an open economics seminar at Stellenbosch University yesterday, he noted newspaper reports quoting Mr Mandela as saying new taxes would be introduced as a "last resort" and that development would be funded by eliminating unncessary duplication.

Mr Mboweni said he would have to speak to Mr Mandela about the issue.

"Well, I can't contradict the president, but I still want to discuss that with him," he said.

"If it's going to be a last resort, that's quite problematic."

Referring to the proposed reconstruction and development programme of the ANC and Cosatu, he pointed out that it was still being debated and would probably only be finalised at a major conference in February.

If the ANC was to serve in a government of national unity, it would be vitally important for the "democratic movement" to have an approved reconstruction and development programme which could be used as the basis for negotiation, he said.

"If there's nothing that distinguishes the democratic movement from everyone else, it will be a disaster," he warned.

One way of funding the programme was through the "redirection of expenditure" — "Everybody agrees with that," Mr Mboweni said.

A second proposal was to introduce new development instruments such as new housing bonds, and community reinvestment instruments which would encourage institutions and businesses to invest in the particular communities where they were active.

The draft programme also referred to the need to introduce new forms of taxes that might be necessary, Mr Mboweni said.

"I didn't succeed in getting my colleagues to specify some of the new taxes — as the debate goes on we will be able to specifiy some of them."

Some colleagues were opposed to identifying specific taxes now "because people will always move around their taxable assets and we may lose out before we arrive", he said.

Other possibilities for raising cash for the reconstruction and development programme were through development aid programmes, by means of both bilateral discussions and from "multilateral" institutions.

"I'm quite convinced we must exploit to the full margin the fact that we were victims of apartheid and use that most cold-bloodedly to try and raise as much money as we can."

The ANC was hoping to include a wide range of organisations, including churches and professional bodies, in a series of conferences on the programme — now in its fourth draft — culminating in the major meeting in February.

Toll fee increase next month

(219) (320) CT 1/9/93

TOLL fees are to increase at the beginning of next month by about 6%, hard on the heels of next week's 7c/ petrol price hike.

However, the good news for motorists is that toll fees will be less for cars towing trailers and caravans.

Motorcyclists will still have to pay the same toll fees as cars, despite the weight difference.

Transport Minister Dr Piet Welgemoed said yesterday the average 6,1% increase was needed to cover inflation and April's VAT increase.

The Automobile Association welcomed the lower fees for trailers and caravans but said it was concerned that the opportunity had not been taken to consider the plight of motorcyclists, who were still required to pay the same tariffs as car drivers.

At the Huguenot Tunnel outside Paarl, the toll for all light vehicles will be R8,00, as opposed to the current fees of R7,20, R10,80 and R14,40, the toll for heavy vehicles with two axles will be R20 (R19), for heavy vehicles with three or four axles R31 (R28,50 and R38) and for heavy vehicles with five or more axles R51 (R47,50).

However a motorist with a trailer would in future only pay R8,00 as opposed to up to R14,40 before the adjustment. — Political Staff, Own Correspondent

'Mines need competitive tax system'

(320)

CT 13/9/93

JOHANNESBURG. — Chamber of mines chief, calling for investor-friendly policies towards mining under a post-apartheid government, said these should include an internationally competitive tax system.

Chamber President Bobby Godsell, addressing a mining conference, said: "It's going to have to make the tax system a lot more competitive than it is."

He sketched specific tax needs for the industry including a system that was stable and not subject to frequent or abrupt change, nor to retrospective implementation of measures.

He said the state's revenue from mining should be by way of taxation of profit, and not by way of indirect taxes and imposts such as regional levies and import surcharges which raise costs.

"This constitutes the fundamental principle accepted by the World Bank in its advice to countries in Africa," he declared.

He said the tax system should continue to make provision for accelerated or enhanced depreciation commensurate with the capital and time risk in mining.

It should also contain incentives to advance technology.

He said it should allow for renewal of mining resources both through further investment by the taxpayer and a sufficient portion of distributable profit that may be returned to shareholders.

Discriminatory measures, such as ring fencing a company's tax base, were neither justified nor wise, he said. — Reuter

New deadline for film tax

CHARLOTTE MATHEWS

THE deadline for acceptance of Inland Revenue's offer to investors in films has been extended to October 31. B/Day 15/9/93

Inland Revenue spokesman Sydney Pope said the regulations and the form on which acceptance had to be made were not yet available and it was too close to the September 30 deadline to finalise matters. (320)

The offer was set out in the 1993 amendments to the Income Tax Act.

A taxpayer who accepted the offer would be allowed a deduction equal to 1,5 times the net amount paid as a contribution to the partnership that manufactured the film.

Acceptance of the offer would be binding on both parties. No other deduction would be allowed for the manufacture or marketing of the film in the period to February 28 1993.

After that date income from the film would be subject to tax.

IMF warns SA over fiscal discipline need

CT 16/9/93 (320) (181)

Own Correspondent

JOHANNESBURG. — The IMF has warned SA no finance will be forthcoming without a written undertaking of monetary and fiscal policy discipline in future — a move that rules out excessive social spending after the election.

Monetary officials said the SA government had already made a formal application for the $850m drought-related loan — with the backing of the ANC. They said an IMF team, headed by senior official Lesley Lipschitz, had spelled out conditionalities in Pretoria last week at a meeting of government, ANC, PAC and other political players.

The IMF team visited SA for preliminary discussions on the drought's effects on the country's balance of payments, and to spell out the undertaking needed from key political players in SA before the loan would be granted.

SA needs the funds urgently to top up its foreign exchange reserves ahead of a huge payment next year of 10% of $5bn of foreign debt in terms of a rescheduling agreement finalised last week. Efforts to change the terms of the agreement failed and without IMF assistance the SA economy would face a crippling debt burden.

It is understood the conditionalities will be discussed again when SA attends the IMF/World Bank annual general meetings in Washington from September 26. Expectations are that further progress towards obtaining the loan will be made during the meetings, but it is unlikely that the loan will be granted at that time.

Meetings are also scheduled with the World Bank, which has said $1bn could be made available to SA. Officials said government would use as its point of departure in these meetings a new document quantifying SA's social spending needs.

The discussion document was drawn up by a development initiative co-ordinated by IDT CE Wiseman Nkuhlu and including representatives from development institutions, key political parties and the labour movement. The document, which has not yet been released formally, is the first effort to quantify social spending needs in detail. The exercise is complemented with an analysis of the macroeconomic constraints on implementing a massive social spending programme.

The document said capital spending of almost R90bn would be needed over a ten-year period to do away with backlogs. This would imply recurrent spending of about R14bn in the tenth year of the programme. It is understood the government hopes World Bank finance will be obtained for a substantial portion of SA's social spending needs. It is unlikely, however, that this will be finalised in September.

The programme, which is understood to have Finance Minister Derek Keys's backing, sets out specific targets. These include a pupil-teacher ratio of 32-to-one in primary school classes, the building of 75 000 classrooms, 50 new community health-care centres, formal and informal housing for more than seven million households, a R6,5bn investment in water supply and sanitation, support for small farmers, small business development and employment creation.

Business Report

DIGEST

US trade deficit narrows

WASHINGTON. — The US trade deficit in July shrank 14% to $10,3bn, narrowing because consumers in the US reduced their purchases of overseas goods, the Commerce Department said yesterday. In other government reports, industrial production climbed a third straight month by 0,2% in August, while the number of US jobless filing new weekly claims for unemployment insurance rose slightly by 2 000 to a seasonally adjusted 324 000.

Tokyo's stimulus plan

TOKYO. — Japan yesterday announced an economic stimulus package worth 6,15 trillion yen in an attempt to revive Japan's listless economy by boosting consumption and end the fleecing of consumers by ensuring that windfall exchange profits are passed along. A key part of the package tackles the problem of regulations that hamper business expansion and prevent Japan's consumers from enjoying benefits the stronger yen has given to their global buying power.

Foreign loan clinched

HARARE. — Zimbabwe's tobacco farmers have secured a foreign exchange loan facility worth Z$288m to import vital inputs for the 1993/94 farming season, a senior industry official said yesterday.

Govt revenue nears budgeted target

320

CT 17/9/93

From GRETA STEYN

JOHANNESBURG. — The government's revenue situation improved significantly last month, as fiscal drag and tax payments on public sector salary increases swelled state coffers.

The Finance Department said revenue in the first five months of the fiscal year had risen 16,2% from last year, bringing government within striking distance of the budgeted 17,3% increase for the full year.

This is a far cry from the situation in the first month of the fiscal year, when revenue was slightly lower than in April 1992.

The government has steadfastly maintained revenue would pick up to acceptable levels, while economists projected a substantial shortfall for fiscal 1993/94.

The department said spending rose 10,6% in the first five months compared with the previous year — not too far away from the budgeted rise of 8,8% for the full year.

But economists said the eventual rise in spending would be above budget because of substantial extra allocations for job creation, drought relief and an increase in teachers' salaries.

However, despite the extra spending, the government still maintained that the deficit was not likely to exceed the budgeted R25,3bn. Economists said the view depended on a changed definition of the deficit, which was out of line with the Reserve Bank and international practice.

The extra spending will be financed from the sale of state assets, instead of from long-term loans — hence the government's view that it does not add to the deficit. But economists, including the Reserve Bank, regard the sale of assets as a one-off source of finance — a "below the line" item alongside loan finance.

A breakdown of the revenue position to July (the latest available) showed the increase in the VAT rate was paying dividends, while the fall in the company tax rate was holding back receipts.

VAT receipts were up almost 55% from the previous year, while income tax receipts were only 1,3% higher. "The effects of salary increases in the public and other sectors and of fiscal drag will be reflected in the August figures, which are not yet available." Finance said.

SA nets R10m at trade fair

By AUDREY D'ANGELO
Business Editor

ABOUT R10m worth of business was done at the SA trade fair in Singapore at the beginning of this month — and it will probably lead to orders worth at least R100m in the longer term, according to Mario Angelucci, the SA Foreign Trade Organisation's manager of trade fairs and exhibitions.

CT 17/9/93

Meanwhile, international freight forwarder Renfreight reports that interest is already being shown in the SA Chinese Exhibition (SACEX), to be held in Beijing in March.

It is being organised by Times Media Exhibitions. First National Bank is one of the sponsors and the bank's manager of financial institutions, Richard Mooruth, says two-way trade between SA and China is expected to reach R500m this year compared with $232m last year.

Mooruth says this does not take into account the substantial indirect trade through Hong Kong.

Derek Holmes, national export strategist at Renfreight — who are freight managers for SACEX — said the organisers had indicated that between 80 and 100 firms were already showing interest.

China was a very big market, with a population of 1,4bn. But it was important for exporters to research the market before going there, and make sure that rival products were not available for half the price.

Holmes said it was also important for everyone taking part in the exhibition to work together to promote SA industry as a whole, even though they competed in the domestic market.

Lack of finance hits low-cost housing

CT 17/9/93

JOHANNESBURG. — The lack of end-user finance is strangling the development of low-cost housing projects and exacerbating SA's estimated housing backlog of 1,4-million units.

Representatives from the private sector, local authorities and civic associations agreed at a National Association of Home Builders meeting yesterday that end-user financing was the key issue in the future of housing in SA.

In addition, the replacement of the national housing commission by a national housing board, already agreed upon in principle, was seen as essential for the formation of a comprehensive housing policy which would release funds through a formalised subsidy mechanism.

SA whites have heaviest net tax burden

EAST LONDON. — The net tax burden borne by white South Africans is more than twice that imposed on individuals in industrialised countries.

This, says Ernst and Young tax partner Mr David Clegg, highlights the danger of the brain drain becoming a flood if a new government increases tax rates.

Net tax burden, as a percentage of contribution to GDP, was 23% for white South Africans in 1987 and has risen since then.

The comparable figure for industrialised countries was 10%.

South Africa's gross taxation as a percentage of GDP was 24% in 1987, with 14% returned in the form of state services, leaving an average tax buredén of 10%.

Blacks received a net return of four percent in 1987 after paying taxes that amounted to 13% of their contribution to GDP. The average black person therefore received more from the state in the form of services than he or she paid in direct and indirect taxes.

Coloureds had a net return of 11%. Asians bore a two percent net burden after tax that was 24% of group GDP, and whites 23% net burden after tax that was 32% of their contribution to GDP. (320)

Mr Clegg predicted that South Africa would introduce a capital gains tax within the next three years.

He said South Africa would have to reduce company taxes to about 40% to compete for foreign investment.

CT 17/9/93

INCOME TAX FM 17/9/93

Forex losses

The tricky question of taxing unrealised forex gains and losses is not fully resolved, despite this year's amendments to the Income Tax Act, which extend the taxability and deductibility of most of those items (*Economy* July 22). Talks are going on with Revenue to sort out outstanding questions. (320)

One concern, says Coopers & Lybrand tax partner Koos van Wyk, is the tax status of what might be called permanent loan capital. Foreign subsidiaries of local companies are often capitalised largely by loans designated in foreign currency. The subsidiaries in turn might invest those funds in foreign assets such as fixed property or trading stock which would also be subject to fluctuation if measured in rand terms.

If variations in the rand value of this type of loan were recognised for SA tax purposes, but not corresponding rand variations in the underlying foreign assets, mismatches might occur.

Van Wyk says this problem is likely to be dealt with on the basis that permanent loan capital advanced to subsidiaries will not broadly be defined as part of a trade carried on in SA, unless the loan is advanced by a bank or reflects any other money lending operation within the corporate group.

A related problem concerns branch operations, where the source of activities is not SA. Could forex variations on a branch account give rise to tax consequences, bearing in mind that a branch is not a separate legal entity? Van Wyk says Revenue should clarify this in a practice note.

Also sensitive is the purchase of billions of rands of plant for drawn out projects. In these cases, forex hedging contracts are taken out long before the transaction has to be brought to account for tax purposes — even under the new requirements.

When the rand is falling, taxable differences under the new legislation will be generated on the hedging contracts, while the underlying foreign debt and related rand losses are not yet accounted for. Van Wyk understands Revenue intends to grant relief through a further amendment to the Act.

Recent amendments leave unresolved some problems, such as cession of forward exchange contracts to the acquiring party in the case of corporate takeovers. Additional amendments might be passed with Revenue's backing this month. If they have to wait for a 1994 session, they will have to be made retroactive and that, unusually, would gain everyone's approval. ■

'Restructure government finances'

(320) [illegible] ARG 17/9/93

□ Task group presents wide-ranging proposals to negotiators at World Trade Centre

BRUCE CAMERON
Business Staff

WIDE-RANGING recommendations of a high-powered committee of the Consultative Business Movement for proper control of government finances were presented to all the major World Trade Centre negotiators this week.

The Consultative Business Movement — which is backed by the country's top mining, industrial and commercial interests — appointed a 21-member task group to undertake the study, drawing its membership from most political spectrums as well as government and overseas economists.

The report covers a wide field — from recommendations on how to reblend the government and fiscal institutions of the apartheid era into the structures proposed in the new constitution, to how taxing and spending powers should be split between central government and the proposed regions.

The committee sees a total restructuring of government taxing and spending, with regional authorities being given limited responsibility.

They recommended that the proposed regions be given limited taxing powers and that the main source of taxing remain under the control of central government.

One of the reasons for the control to remain at the centre is because of the wide disparity between the regions in services and infrastructure.

The committee pointed out that there was "limited scope" for increasing the overall tax burden as a percentage of gross domestic product — with the exception of taxation for social security.

It warned that if regional taxes were increased markedly it would limit economic growth.

If regional income tax was considered, it should be limited to a percentage of between two and five percent of central government tax and be collected at the same time as central government tax.

The committee wants to see certain minimum standards laid down in social services, including education, for all the regions, with a percentage of funding from the central government allocated specifically to achieve minimum levels of service.

However, the committee felt that some taxing powers should remain at regional level to ensure accountability to voters.

The committee saw an important role for a Financial and Fiscal Commission (FFC), which would advise parliament on broader policies for taxation and the allocation of funds.

The committee recommended both the Senate and the Chief Justice of the Constitutional Court have hands in appointing the members of the FFC.

It also favoured the use of bodies like the National Economic Forum and the National Housing Forum to form the basis of future bodies which would allow the private sector an input into government financial decisions and policy.

The committee said it was important that a number of "critical" issues received attention. These included continuity of government financing and accountability and financial discipline in the interim government period, as well as planning for the restructuring process.

The committee was concerned about how the civil service would be restructured when the TBVC countries and the self-governing homelands were reincorporated and warned that measures should be taken to prevent a growth in the interim period of the civil service, or that civil servants should enrich themselves through such measures as promotions.

It recommended a technical subcommittee to the Transitional Executive Council be formed on regional and personnel issues with the task of researching and monitoring personnel and financial developments.

A freezing of civil service posts — with a complete or partial moratoria on expenditure of human resources — should be considered as an interim measure.

The changing status of regional administrations had implications for continuity of financing.

It was necessary to "complete a picture of the assets and liabilities" of these administrations in anticipation of the new regional government structure. An example was the R14 billion total debt of the TBVC countries and the self-governing homelands.

Central government control of regional government finances should include:

- Decisions on how much money would be given in grants;
- Decisions creating greater economic equality between regions;
- The balance between central grants for the regions for general spending and grants earmarked for specific spending to ensure minimum levels of services between the regions;
- Decisions on the level of regional borrowing;
- Laying down the framework for budgeting and auditing; and
- Setting which taxes regions may levy and parameters within which the regions may vary the tax bases and rates under their control.

Regional governments would be responsible for:

- Setting tax bases and rates;
- Deciding on their own budgets;
- Auditing; and
- Deciding on borrowing, which should be limited to capital expenditure, within the limits set by the central government.

No simple answers to problems of regional taxation

BlDay 23/9/93

BILLY PADDOCK

320

FEDERALISTS who demand autonomous regions each with their own tax base have not fully considered the implications of financing a regional dispensation in the face of existing disparities and the need for national standards.

This is the conclusion of a well-researched and -argued study commissioned by the Consultative Business Movement and conducted by a team of local and foreign experts on the implications of "multitier" fiscal relations.

The team of economists, development experts, businessmen and academics — including strong federalists like Inkatha Freedom Party negotiator Joe Matthews and Wits University political economist Prof Charles Simkins — examined the fiscal dimensions of regions in SA with a view to the national goals of economic growth and equity and political legitimacy.

Two key constitutional principles guide the study. First, national, regional and local governments should have fiscal powers and functions defined in the constitution. Second, each level of government should have a constitutional right to a fair share of national revenue, to ensure regions and local governments are able to provide basic services and carry out their functions.

Given the existing disparities in regional tax bases due to the varied distribution of income, population and economic activity, the CBM team says any regional demarcation will fail to offer most regional authorities a tax base sufficient for fiscal autonomy from central government. Central government grants will therefore become a key to any regional dispensation.

Interregional transfers (see diagram) become active only if the flow from regionally controlled revenues becomes so powerful that some regions obtain more than their entire defined needs from this source. This mechanism allows revenues to be transferred from such a region to others.

There are two overall constraints on regional revenue sources, the study argues. First, there is limited scope for increasing the overall tax burden in SA, and if regions increase it, economic growth will be impeded. Second, there is no longer much scope to move further from direct to indirect taxes.

Other problems exist in defining a region's tax base, such as regional income statistics which superficially appear to support a certain level of taxation but which may not equate to a taxable base. For example, of the apparent high income of the eastern Transvaal, only 41% is retained in the region, probably because income accrues to urban corporate head offices. Another example is rapid population changes within regions.

Given these constraints, there is limited scope for new regional "own taxes" or overlapping taxes (levied nationally but with rates under regional control) in comparison with the scope for various shared taxes. But the CBM argues that regions should have meaningful control over these taxes to permit fiscal flexibility and accountability to their electorates.

As an alternative to shared taxes (where regions are guaranteed a specified percentage), the regional level of government as a whole could be entitled to a minimum share of all centrally collected revenues. This would be supplemented by general purpose grants or specific grants from central government as well as the regions' own non-tax revenues and own-tax revenues (if any).

The CBM study proposes three guiding points in designing a system of fiscal relationships between regions and central government:

- ☐ It must have built-in checks and balances to ensure fair and efficient allocation of resources;
- ☐ Its operation must ensure built-in fiscal discipline; and
- ☐ It should enable regions to compete in a fiscally healthy way.

Regional governments should, therefore — given the differences in tax bases — be granted reasonable powers to design appropriate tax systems. The system should encourage regions to exploit their tax bases efficiently while penalising over-exploitation. To encourage greater accountability, some proportion of total taxation should be levied at regional level.

In dealing exhaustively with 17 different forms of existing taxes, levies and duties, the team concludes there is little scope for regional own taxes or overlapping taxes, and opts for a system of shared taxes and grants. The study shows that with the complexities involved in administration, among other issues, most taxes should be centrally collected.

The three key sources of the country's revenue are personal tax, company tax and VAT.

Company tax collection and administration is best done centrally. The technical difficulties in trying to determine a company's taxable income from different regions are virtually insuperable. For example, should the tax revenue of a Free State gold mine accrue to the Free State region or to the Witwatersrand where its head office is?

Equally, VAT is not necessarily levied at the point where the underlying business activity takes place.

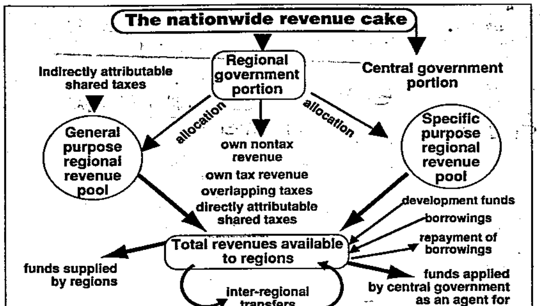
However, the study provides for certain taxes to carry a regional surcharge, as well as the possibility of collecting this regionally.

But it says clearly that any such scheme must ensure it does not increase or decrease the overall level of each tax as a percentage of GDP. So where a regional surcharge is levied, there would have to be a concomitant reduction in the basic tax due to central government.

The study argues it is technically possible to make personal tax an overlapping tax. Regional governments could be given the option of imposing a surcharge on tax paid within their regions, subject to nationally imposed constraints — such as a maximum of 6% and a minimum of 2%. This surcharge could then be paid to the centralised tax administration for distribution to regions.

For other sources of revenue, the team proposes user charges at all three levels of government, within the general rule that no charge should be levied in excess of the aggregate cost of providing a service.

Where uniform standards are required, regional governments must be guaranteed sufficient revenue. Where regions do not have the resources to meet the required standards, a mechanism of grants, using objective criteria, should be instituted. This is to avoid regional favouritism and undue regional influence over the allocations.



Graphic: LEE EMERTON

ANC, Keys agree on outline of fiscal policy

(320) CT 28/9/93

Own Correspondent

WASHINGTON. — The government and the ANC will today hand the IMF a joint "letter of intent" setting out the fiscal policy South Africa will follow in the next few years.

The letter of intent is a prerequisite to SA receiving $850m from the IMF in terms of its Compensatory and Contingency Financing Facility.

A joint delegation of government, ANC and Inkatha representatives meet IMF head Mr Michel Camdessus today. They met senior World Bank officials at the weekend and will meet bank chief Mr Lewis Preston later this week.

The SA delegation, led by Finance Minister Mr Derek Keys, declined to release the contents ofthe letter, but ANC economics head Mr Trevor Manuel said no significant disagreement had emerged in discussions.

Bankers said the letter would play a major role in setting international bankers at ease about policies in a new SA. Although the letter of intent is less specific than those associated with IMF structural adjustment programmes, it still gave creditors something to latch on to. It would serve as a benchmark for SA's performance and a test of credibility.

Discussions with the World Bank at the weekend are understood to have focused on the need to draw up a coherent development strategy for SA which carries the stamp of political legitimacy.

Gearing up for Gatt (320)

WM 1-7/10/93

Mondli waka Makhanya

FOR a country plagued with so much turmoil, South Africa deserved to be commended this week for presenting a unified proposal to the General Agreement on Tariffs and Trade (Gatt).

In most industrialised nations the issue of compliance with Gatt requirements and other trade bloc rules is usually the subject of much confrontation between unions, governments and other players on the economic scene. Protest by French famers, German steel workers and American unions over the issue of trade liberalisation has resulted in many a deadlock in these negotiations.

But this week the National Econiomc Forum (NEF) — a tripartite body involving business, labour and the government — tabled joint proposals to the Gatt secretariat, which is busy negotiating a new round of trade agreements for the world, the Uruguay round.

The proposals suggest South Africa phase in the lowering of tariffs for industrial products over the next eight years. The process will include certain chemicals, clothing and textiles, footwear, motor vehicles and components as well as certain electronic equipment. The General Export Incentive Scheme is to be replaced by "Gatt-friendly" measures such as the introduction of duty-free importation of materials to be used in the production of export goods.

On the agricultural front, tariffs and other protective measures are to be reduced by 36 percent over the next five years.

There will be no changes in the services industry as South Africa already complies with Gatt requirements there.

NEF member Phillip Kotze cautions that although there was agreement on the proposals, this does not necessarily guarantee that the offer will be accepted as is.

"Trading countries jealously guard their own interest and the fact that it's a tripartite agreement will not count that much where some of our trading partners feel short changed," Kotze says.

Film industry expected to hand over large sums in tax

B/Day 29.9.93

CHARLOTTE MATHEWS

COMPANIES whose main business is the production or marketing of films have made or will make particularly heavy tax payments to the Receiver of Revenue as a result of the compromise offer announced earlier this year.

In May the Receiver made an offer of settlement to all taxpayers who had invested in a partnership to manufacture and market a film. The offer allowes a deduction from income 1,5 times the net amount contributed by the taxpayer to the partnership which has made the film, but all interest due on the underpayment of tax up to May 31 1993 is waived.

According to tax experts, deductions claimed since the film subsidy was introduced in some cases amounted to R8 or R10 for every R1 invested in the film.

BDO Spencer Steward partner Matthew Lester said the offer did not give much consolation to the high-flyers of the mid '80s who now had to pay substantial tax bills. However the waiver of interest alone over the six years it took Revenue to finalise the matter made most film ventures a worthwhile investment.

Rob Smithyman, financial director of Interleisure — whose subsidiary Toron International was a major film producer — said that if the group accepted Revenue's offer, the impact against group reserves would be about R27m.

Because the group had been involved in the financing, production, distribution, marketing and exploitation of films for more than 50 years, with assessments routinely issued in the past, it would be unrealistic to expect it to merely accept the Receiver's compromise.

"We will be reviewing our position on a film by film basis with the Receiver of Revenue. This will require us, among other things, to obtain supporting documentation in the form of invoices from international sub-distributors."

Philo Pieterse Productions financial director Leon Brummer declined to name a figure but said the company's tax liability through Pan Films would be significant. It has not yet decided whether to accept the offer.

Heyns Films MD Johan Heyns welcomed the Receiver's offer but he emphasised he was talking as an outsider in this matter, because the company had made films for other investors.

(320)

"From the point of view of a film producer I am glad that there is some form of finality on the matter and we can start again."

Although the film subsidy scheme did attract funds to the industry, Heyns believed it was for the wrong reasons. The new structure, where those engaged in making a film could claim a subsidy from the Department of Home Affairs for specified local inputs, seemed to be "more genuine and credible", he said.

Lester said the normal course of objection was available to taxpayers who did not wish to accept the Receiver's offer. However, the costs of taking a case to the Income Tax Special Court were considerable and if the case is lost the appellant will get nothing.

Attorneys Hofmeyr van der Merwe partner Fiona Peart agreed. "There may be public companies who may wish to fight it. But it is an expensive and lengthy process and there has already been a judgment in the Transvaal Special Court against a taxpayer who invested in a film. It would be quite risky."

Fisher Hoffman Stride partner Anthony Chait said if a film transaction yielded a commercial profit but a tax loss, the Appellate Division was likely to "do everything possible to find against the taxpayer".

Most taxpayers would accept the offer, Chait said, and anyone who took the matter to court would find he was fighting on his own.

Secondary tax has little impact

B/Day 1/11/93

CHARLOTTE MATHEWS

THE Secondary Tax on Companies (STC) introduced in the March Budget to encourage companies to retain funds has not had a noticeable effect on the dividend policies of companies that have reported in the last seven months.

Reasons advanced by financial observers range from companies' established dividend policies to a lack of projects to invest in.

STC was introduced at a rate of 15% on dividends paid out and the company tax rate was lowered to 40%. Since then, some companies have declared scrip dividends, which do not incur STC, rather than cash dividends.

One analyst said it might still be too early to tell whether companies had changed their dividend policies in response to STC, as many had September year-ends. No change was evident among public companies so far.

Deloittes tax manager Louise Vosloo said most listed companies declared dividends in line with established policies that took into account amounts needed in reserves.

One analyst said it was unlikely that companies would hold to their dividend policies because they cost 15% more than last year. He expected a move towards reinvesting.

Although a tax on payouts had altered the relative attraction of retention, companies still needed to find projects that would earn fair returns.

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"If a company had a threshold of 25% for a new project, failing which they would pay surplus cash as dividends, the consequence of increasing the tax on payouts means that they can lower their threshold rate of return to 22,85% and therefore more projects become eligible.

"But it does not mean that companies will invest in more projects. It is still hard work to find good projects in this economy."

Mark Anderson of Labour Research Services, which will publish shortly a study of the dividend policy of companies reporting in June, said an earlier study had showed that even though profits had fallen significantly, profit retention rates had also fallen.

"Companies say there is a recession and no opportunities but we would argue that there are a lot of opportunities, especially in exports after the lifting of sanctions. The only way we are going to get economic growth is through investment and we should be preparing for that now."

Terms for settling tax disputes published

CHARLOTTE MATHEWS

THE final terms and conditions for the settlement of disputes over tax avoidance involving film and music have been published in the latest issue of the Government Gazette. B/Day 2/11/93

According to the amendments, any taxpayer who has participated in a film or music recording scheme may accept Inland Revenue's general offer of settlement in writing by November 30. (320)

If taxpayers accept the settlement offer, they will be allowed a maximum deduction of 1,5 times their actual contribution to the acquisition, production or marketing of the film or music recording.

No interest is payable by taxpayers for overdeductions claimed up to May 31 1993 for film schemes or October 31 1993 for music recording schemes.

The special form on which acceptance must be made would be available shortly from local Receiver of Revenue offices, Inland Revenue director Ronnie Stadler said. Photocopies were also acceptable.

Area taxes will swell govt funds

CT 6/11/93 (320) ~~262~~

JOHANNESBURG. — Regions will be allowed to raise some taxes themselves in addition to monies they will receive from central government after the April 27 election.

Multi-party negotiators at the World Trade Centre at Kempton Park agreed yesterday that:

- Each region will be entitled to an equitable share of revenue collected nationally to allow it to provide services and to carry out its powers and functions;
- Regional legislatures will be allowed to raise taxes, surcharges or levies.

However, the bulk of regions' income will come from the central government.

Revenue received from central government will consist of:

- A percentage, fixed by parliament, of income tax on individuals, collected within a region's boundaries;
- A percentage, also fixed by parliament, of value added — or other sales — tax collected in a region, and
- Other conditional or unconditional allocations of national revenue. Again, an act of parliament will decide what allocations.
- The Freedom Alliance has disputed a statement by the negotiating council that the interim constitution provides for much power to regions.

Instead the new constitutional system and the powers of the authorities would be determined by the central government. — Sapa

SITE overpayment refund likely

B/Day 12/11/93

BEATRIX PAYNE

GOVERNMENT has decided in principle to make refunds to employees who overpaid Standard Income Tax on Employees (SITE) during the past three years of assessment.

The office of the Commissioner for Inland Revenue said yesterday that "refunds may be made to employees who can provide proof of over-deductions".

However, it emphasised that refunds could be made only once Parliament had amended the Income Tax Act.

Applications would be considered once the legislation had been amended and procedures had been finalised.

Enabling legislation would be introduced during the next session of Parliament, which was scheduled to begin later this month.

Overpayments made because of incorrect information on IRP2 forms sparked a row late last year, with Cosatu describing the overpayments as a national scandal which would "make the VAT conflict seem like a lovers' tiff" if workers were not repaid.

Sources in Cosatu estimated that its members had paid R720m too much in SITE since the tax was introduced in 1989.

(320)

Commissioner's spokesman Sydney Pope could not estimate the amount which would have to be refunded to employees.

"Until we have applications we don't know where we stand," he said. The funds would come from the fiscus, he added.

Sources in the department said it expected to pay out hundreds of millions of rands in refunds.

New IRP2 forms would have to be completed for employees whose personal particulars had changed. Employees who failed to complete IRP2s would be taxed at the highest rate.

The office said it had become apparent that not all employees realised the importance of the IRP2 form. The finality of SITE was perceived by them as unfair.

As a result, many taxpayers paid more SITE than was due because their employers did not have the correct information about them.

Commissioner Hannes Hattingh appealed to employers to assist employees who wished to make claims once the enabling legislation had been passed.

Employees who lodged claims would have to submit their ID numbers, all original or duplicate IRP5 certificates, proof of marital status and details of children qualifying for child rebates, he said.

Bumper tax breaks in revised EPZ draft proposal

320 / CT 12/11/93

PRETORIA. — Businesses established in Export Processing Zones would pay no company tax for ten years and would be exempt from Value Added Tax, import duties, excise duties and surcharge payments, the Department of Trade and Industry proposed yesterday.

The department's revised draft proposal on the establishments of EPZs in the country, also makes provision for the unrestricted transfer of dividends, royalties and interest through the commercial rand and allows for exporters to hold foreign currency accounts with South African banks.

Non-residents would be allowed to invest through the financial rand.

The draft proposal said recently incorporated companies with new manufacturing capacity could establish in an EPZ. The relocation of existing companies to an EPZ, if they were rationalising or expanding, would be considered on merit.

The entire production of each user in an EPZ would have to be exported to buyers outside the Southern African Customs Union.

Successful EPZs would provide a vehicle for investment in industry, stimulate export and foreign exchange earnings, create jobs and encourage improved productivity, the draft proposal said.

Approval

The establishment of an EPZ would require the approval of the Minister of Finance, Trade and Industry acting on the advice of the EPZ Board.

Applicants to the board must have, among other things, an acceptable business plan, suitable land within 100km of an international port or airport and an arrangement concerning the involvement of the local authority.

Local authorities might also, at their own discretion, provide further benefits in the form of lower rates and taxes. — Sapa

Taxpayers to pay for Site bungle

ST Times 14/11/93

(320)

By CIARAN RYAN

TAXPAYERS will have to foot the bill for the estimated R900-million the Government overcharged on Site since 1990.

The Government backed down this week in its battle with Cosatu over standard income tax for employees (Site) repayment of over-deductions for the past three tax years.

"Site is not working," says David Heyman, managing director of Workers Tax Consultancy, which handles claims for hundreds of thousands of Cosatu members.

"How is an illiterate supposed to know what information he is expected to supply and the consequences if he fails to give it?"

Ian Meiklejohn, director of legal drafting at the Department of Inland Revenue, says the Site is basically sound.

"It will run smoothly once we overcome this hurdle."

But there are fears that the problem of overcharging will recur because employers are slow in updating information about employees.

Mr Heyman says: "We have been working for three years to get Transnet to update its database and it hasn't succeeded despite having the resources to do it.

"What will happen at companies which do not have the resources?"

The Government has urged companies to help employees to submit refund claims.

An amendment will be made to the Income Tax Act at this month's parliamentary session.

Department of Inland Revenue spokesman Sydney Pope says refunds will come from the State revenue account, although there is uncertainty about the time span over which repayments will be staggered.

Government sources cannot say how the additional revenue will be raised.

Based on a sample of 45 000 workers employed at 800 companies, Workers Tax Consultancy says the amount owed is R900-million.

But Cosatu estimates it at R720-million. About 60% of its million members are estimated to have been incorrectly taxed.

There are 3,5-million Site payers, more than 2-million of whom are thought to have been overcharged because of incorrect information supplied to employers.

Inland Revenue charges the highest applicable rate of tax if no IRP2 is supplied.

Many workers married by custom are unable to show legal proof of marriage and have been charged a higher tax rate. Child rebates are another problem.

A trade unionist says Inland Revenue has agreed to appoint 650 assessors to handle the claims. Revenue cannot confirm this.

Mr Pope says: "The logistics of handling claims have not yet been worked out."

Claimants will have to submit ID numbers, IRP5 forms for the three years of assessment and proof of marital status and children who qualify for a rebate.

Mr Heyman says: "We have fought a lone battle for two years to get refunds."

Star 15/11/93

Government decision on SITE refunds welcomed

BY ABDUL MILAZI

The Congress of South African Trade Unions has welcomed the Government's decision to make refunds to employees who overpaid Standard Income Tax on Employees (SITE) during the past three years.

The office of the Commissioner for Inland Revenue said on Friday it would make refunds to employees who could provide proof of over-deductions, but only once Parliament had amended the Income Tax Act.

The amendment is expected to be introduced during the next Parliamentary session. 220

A spokesman for the commissioner said the overpayments were due to incorrect information on IRP2 forms but he could not estimate the amount which must be refunded.

Millions of rands would be paid out, the spokesman said but could not disclose where the money would come from.

Cosatu spokesman Zwelinzima Vavi said the decision was good news because his organisation had been fighting for the refunds for some time. He said when Cosatu had discussed the issue with the Government early this year, it had been reluctant to make the refunds and obviously wanted to "pass the buck" to the next government.

Employees who wished to lodge complaints would have to submit all original or duplicate tax certificates, their identity documents and information on marital status and dependents.

SITE refunds 'may top R700m'

BiDay 16/11/93

BEATRIX PAYNE

SITE tax repayments could exceed R700m, Cosatu said at a news conference yesterday.

Cosatu's negotiations co-ordinator Jayendra Naidoo said an independent audit conducted by Cosatu found that an average of R350 in refunds was owed to each worker — regardless of union affiliations — in the manufacturing, heavy industrial, textiles and catering sectors.

According to the audit, one in every four workers had paid too much SITE tax, Naidoo said.

Commissioner of Inland Revenue spokesman Sydney Pope could not confirm the R700m figure and reiterated previous statements that the department could not quantify figures until applications had been received.

Sources said the department could pay out hundreds of millions of rands in refunds. Many non-Cosatu members, such as teachers and office workers, earned less than R50 000 and may have overpaid.

Research showed workers with children and female breadwinners had made the most overpayments, said Cosatu information officer Sarah Cliffe.

Under SITE tax new IRP2 forms had to be submitted every time an employee's personal circumstances changed.

Naidoo said overpayments had occurred where many employers had not bothered to ascertain the personal circumstances of their employees and had classified their workforce for the highest rate of deductions.

Claims that Cosatu had encouraged workers not to fill in IRP2 forms were incorrect. He said, however, the unilateral nature of the introduction of SITE had meant it had not received the co-operation of workers at the time. (320)

Cosatu vice-president Connie September said the refunding process should be speeded up so that employees could receive repayments as soon as possible. She said refunds should be granted before April 27 to ensure they came from current government's coffers.

Pope could not say when refunds would be paid, but the department would process applications as swiftly as possible. This would depend on how quickly employees and employers were able to collect IRP5 forms and ID documents, he said.

Cliffe said the tax was unwieldy and not understood by employers or employees.

Cosatu would begin a campaign from November 20 to inform and educate its membership to assist fellow employees and non-union workers to make applications for refunds, said September. She said unemployed and retrenched workers would also be urged to make applications if they had paid too much SITE.

Leather workers' strike called off

BiDay

Own Correspondent

CAPE TOWN — A national strike planned for today by the National Union of Leather Workers' was called off yesterday after the union and the Footwear Manufacturers' Federation agreed to meet this morning and discuss wage issues. 16/11/93

Union spokesman Kessie Moodley said yesterday that although members at 80% of SA's footwear factories had "downed tools" as part of a one-day protest when the federation failed to respond to a 10am deadline yesterday, the union later called off the action after the federation agreed to talks in Johannesburg this morning. (~~190~~) (~~184~~) (452)

Moodley said the "vast majority" of footwear manufacturers had agreed to a 10% salary increase and urged the federation to sign an Industrial Council agreement granting a 10% increase to all footwear workers retrospectively from July 1.

"The Footwear Manufacturers' Federation has agreed to hold a meeting with the union this morning and also agreed to discuss the 10% wage increase and the signing of an Industrial council agreement. What is left is to agree to a 10% wage increase retrospective to July 1," Moodley said.

The union would go ahead with a nationwide strike if the talks failed.

Moodley said the largest footwear group, Conshu, had signed a written undertaking to grant a 10% wage increase. However, the union's demand that the increase be made retrospective to July 1 had not been met.

Defiant station still on air

Star 16/11/93

BY JACQUELINE MYBURGH

Right-wing-backed Radio Pretoria has continued to broadcast without a licence for the past two weeks despite the issuing of new and more stringent regulations regarding temporary licence applications earlier this month.

The chairman of Radio Pretoria's management committee, Mossie van den Berg, would not say yesterday whether the rebel radio would continue to broadcast illegally, but said station owners and Home Affairs Minister Danie Schutte were engaged in talks.

Ministerial spokesman Jack van der Merwe said Schutte wanted to meet representatives from Radio Pretoria to discuss the matter, but he was currently tied up with constitutional negotiations.

Only two temporary licences have been issued since the new regulations were introduced: one to Solid Gold FM Stereo and the other to Portuguese Radio Cidade.

Cosatu to help the overtaxed

Star 16/11/93

BY PAUL BELL
LABOUR CORRESPONDENT

Cosatu is to launch a campaign to assist workers — most likely to be women — to reclaim SITE tax they were overcharged by the Receiver of Revenue during the past three fiscal years.

The Government's decision to repay affected workers follows months of protracted negotiation between it and Cosatu. The Income Tax Act is expected to be amended accordingly at the forthcoming session of Parliament. 320

The federation claims workers may have been overcharged a total of R700 million — largely because workers were not fully informed of the regulations.

These required that they provide the correct information to employers in order to be taxed at the right level. The Government claims the fault was that of employees; Cosatu claims it was largely the fault of negligent employers.

Cosatu says workers most likely to be eligible to reclaim tax would be:

- Women who were married and/or have children, but their employers did not know this.
- Women whose husbands were unemployed or earn less than R10 000 a year.

Last week the Receiver announced that refunds might be made to employees who could prove that tax was over-deducted from their pay by employers under the SITE system during the three years of assessment that ended on the last day of February in the years 1991, 1992 and 1993.

Claimants will have to submit proof of ID, copies of the relevant IRP5 tax certificates, and proof of marital status and any children who qualify the taxpayer for a rebate.

Cosatu says workers should wait until 1994 to present their claims, by which time the necessary procedures for reclaiming the tax have been put in place.

It will be aiming at assisting all workers, not only its members. To this end, it plans an extensive information campaign, as well as intensive training of shop stewards. The first Cosatu training courses will begin this Saturday.

Ghost's account is now finall

STAR BUREAU

London — The Queen's bank, Coutts, has closed the account of its oldest visitor — Thomas Howard, the fourth Duke of Norfolk.

Thomas, wrongly executed on a trumped-up charge of treason in 1572, has been wandering the bank's Strand branch, proclaiming his innocence.

Since he appears dressed in Elizabethan costume, alas minus a head, this has had an unsettling effect on those members of staff who have met him.

In desperation last year, Coutts invited psychic consultant Eddie Burks to mediate.

Advisers propose pension vehicles are all taxed alike

BDay 18/11/93

LINDA ENSOR

CAPE TOWN — All retirement and pension vehicles should be taxed on a single, fair basis, tax advisory committee chairman Michael Katz said yesterday.

He told delegates at a labour research service seminar on taxation that the committee had given its recommendations to Finance Minister Derek Keys. However, these could not be made public as the establishment of a transitional executive council was imminent. Any new policy would have to be looked at with the new government.

The committee believed treatment of contributions and withdrawals for the purpose of tax deductions should be the same, and that the build-up should continue to be tax-free.

No one should be barred from withdrawing from a fund, but anyone who withdrew prematurely should recieve different tax treatment.

Current treatment of retirement vehicles such as pension and provident funds, retirement annuities, and benefit funds differed significantly.

The tax system's failure to match income and expenditure was a serious technical deficiency. Statutory inclusions in the net and deductions and allowances did not match. Tackling this problem was a priority.

ANC economic policy deputy head Tito Mboweni told delegates it was highly unlikely that a democratic government would push up the already high corporate tax rate.

The international trend in corporate taxes was downwards, but this trend had to be weighed up against the need to generate revenue for social upliftment.

While the unpopular issue of a wealth tax would be avoided by politicians in the run-up to elections, Mboweni believed it had to be challenged. It was more important to address backlogs than to catch votes, as the super-rich would not be able to continue living amid poverty.

Anglo American tax consultant and SA Fiscal Association chairman Marius van Blerck did not think wealth taxes would form part of a rational transformation of tax policy, though there was scope for property taxes to play a more significant role in the tax system. (320)

Mboweni said the JSE had often raised with the ANC the question of abolition of Marketable Securities Tax (MST), which it argued created major difficulties for unbundling and market liquidity. Phasing out this tax — which, at 1%, generated revenue of about R200m — would have to be considered if the argument of its effect on liquidity was accepted.

Katz did not believe it was possible to abolish MST without abolishing stamp duty, as the tax system could not provide benefits to dealing on the JSE rather than outside it.

Mboweni said the ANC had insisted that a reserve bank which did not coordinate its policies with other government departments involved with economic policy-making was a "non-starter". However, the central bank could not be made subservient to any one department. "The Reserve Bank will be independent in the sense that it will not be an arm of the Department of Finance, but it will not be able to go off on its own without consulting other departments."

Mboweni believed a transitional executive council subcouncil on finance would have to tackle financial and economic affairs and deal with foreign bodies such as the IMF, the World Bank and foreign trade delegations as well as ensuring equitable expenditure of public funds.

It was necessary to maintain a balance between market-friendly policies which ensured the system operated efficiently and people-friendly economic policies which addressed basic needs. If this was neglected the possibilities of the system's survival "are very limited indeed".

Wealth tax unlikely, says top OM exec

ARG 18/11/93 (320)

Business Staff

JOHANNESBURG. — Although the feared reconstruction levy has some merit, it is unlikely to eventuate.

That is the view of Abrie Meiring, Old Mutual's market development manager.

In an address to the Transvaal Chapter of the Institute of Life and Pension Advisers (ILPA) here he contended the levy would not materialise for the simple reason that it would not achieve its desired redistribution effect.

"The super-rich, at whom the levy would be targeted, would hide their assets away. They don't need their capital to generate an income.

"This means the middle income group would have to bear the brunt. They can't hide their assets because they need the income accruing to them from their capital.

"And since this group provides 80 percent of the nation's personal income tax take, the bulk of the tax base would be eroded, thereby rendering the reconstruction levy self-defeating."

He suggested a more practical alternative in the form of a reconstruction fund at local and regional level, which funds would be applied to specific local projects.

"Also, it is likely that such a scheme would be viewed with favour by the World Bank, which might well consider supporting it on a rand-for-rand basis."

Tax breaks for unlisted companies

CHARLOTTE MATHEWS

TAX concessions for unbundling would be extended to unlisted companies planning to go public within six months, in terms of the Income Tax Amendment Bill tabled in Parliament yesterday. B/Day

Reuter reported from Cape Town that the Bill proposed extending the unbundling concessions already enacted for listed companies to unlisted companies on condition that their shares were listed within six months of such distribution. (320)

The unbundling concessions introduced earlier this year included exemption from the 1% stamp duty on share transfers and exemption from the 15% secondary tax on dividends paid in terms of an unbundling operation. Finance Department legal adviser Kosie Louw said the provision was in response to requests from companies planning to go public, but wanting to unbundle before seeking a listing. 24/11/93

The Bill also permits a company to transfer the tax phasing-in concessions allowed on its consumable stores, certain work in progress and leave pay provisions to the company to which its operations are sold. This is conditional on both companies being managed, controlled or owned by substantially the same management.

The Bill also allows the Inland Revenue Commissioner to refund overpayments made under SITE in the past three years.

No major surprises in Bill to amend taxation

Star 24/11/93

■ BY LEIGH ROBERTS

The unbundling net is to be extended, rationalisation of company operations is to be facilitated and overtaxed SITE taxpayers are to receive their refunds.

These are the provisions of the Income Tax Amendment Bill which was tabled in Parliment yesterday.

The provisions of the Bill offer no major surprises.

The unbundling transactions, brought in as an incentive to companies earlier this year, will be extended to include a distribution of unlisted shares.

A major condition, however, is that the unlisted shares must be listed on the stock exchange within six months of distribution.

This provision applies to the distribution of unlisted shares by a listed holding company to its shareholders in an unbundling transaction.

Another condition of the provision is that the unlisted shares must equal at least 30 percent of the equity of the unlisted company.

Alternatively, the shares should represent at least 70 percent of the assets of the holding company (at market value).

Deloitte and Touche tax partner Gerald Lambert said: "Although this provision widens the unbundling net it is not a major move.

(320)

Listed

"The amendment is intended to facilitate the unbundling by companies of shares about to be listed".

The Income Tax Amendment Bill removes some obstacles hindering the rationalisation of operations within group companies.

The amendment provides for certain tax phasing-in provisions to be maintained by the acquiring company.

Anglo American senior divisional tax adviser Paul de Mare said that the amendment would allow the acquiring company to continue with the existing phasing-in provisions allowed on consumable stores and the accrual of leave pay.

Previously, the acquiring company in an intragroup transfer would have lost the ability to phase these in and borne the full tax in the year of acquisition.

De Mare said this amendment should facilitate most group rationalisations.

The third area of the Bill empowers Inland Revenue to refund to taxpayers a prior over-payment of SITE tax.

This provision is retrospective for three years to the February 1991 tax year.

SITE taxpayers (those who earn under R50 000 a year) would have overpaid SITE tax if their correct personal details had not been lodged with their employers.

METROPOLITAN

Manuel gives hint on taxes

ARGT 24/11/93 (320)

□ 'Better budgets key to equality'

ALIDE DASNOIS, Business Staff

MORE efficient allocation of state funds in future budgets could go a long way towards correcting inequalities without raising taxes, African National Congress economics head Trevor Manuel said today.

Government spending had to be made more efficient, he said at a Clothing Industries Federation conference in Cape Town.

Conservative estimates put the housing shortage at 1,5 million units, yet state spending on the secret security account was 2½ times as high as on housing.

On the other hand, South Africa was already spending more than 7 percent of the gross national product on education.

"We can't just throw more money at the problem — we have to look at efficiency," Mr Manuel said.

"We can do a lot with the budget without raising taxes."

In the longer term, it would be necessary to correct the skewed distribution of income. White South Africans were still earning 9½ times as much as blacks.

"This will be much slower to treat," Mr Manuel said.

Correction of inequalities should go with a new growth path for the economy and re-entry into world markets.

"These issues must be addressed simultaneously," he said.

For two decades the economy had been characterised by substantial but erratic state intervention.

Concentration on mining and energy had left the country vulnerable to changes in world commodity prices.

Capital rather than labour-intensity had been encouraged, the skills base was stagnant and tariff protection had "feather-bedded" inefficient producers while a reliance on import substitution had led to inefficient projects like Mossgas.

South Africa's reintegration into the world economy would not be easy, he warned.

Tobacco tax may be tripled in '94

CT 25/11/93 320

JOHANNESBURG. — A large increase in the tobacco tax is expected in next year's budget following a meeting between the government, ANC representatives and international tax experts last week.

Medical Research Council spokesman Dr Derek Yach — who chaired the meeting between senior government officials, a range of leading economists and the ANC-linked Macro Economic Research Group (Merg) — said there was "substantial agreement" that the tax level be raised.

While further calculations needed to be done before a final figure could be proposed, Mr Yach said there were indications at the meeting that consensus would soon be reached on tripling the present tax level.

Canadian tax expert Mr David Sweanor said South Africa's tobacco tax of 30% was the lowest in the world. Taxes in the rest of the world ranged from 64% to 90%, with developing nations among the highest taxers.

Increasing the retail price of a pack of cigarettes by R1 would bring in an extra R1bn revenue.

By directing the proceeds to the poorest sections of the community, tobacco tax was internationally the most popular way of raising taxes, said Mr Sweanor.

Meanwhile, health officials have called for the immediate promulgation of the Tobacco Products Control Act.

Receiver set to pay back R1-bn

Star 27/11/93

THE Income Tax Amendment Bill will allow SITE payers to reclaim monies to which the taxman was not entitled, paid because of incorrect personal details on employers' files, writes LEIGH ROBERTS.

New law remedies SITE oversights

320

THE unimaginable is about to happen: the taxman is to pay back about R1 billion to taxpayers who were overcharged for Standard Income Tax on Employees (SITE) during the past three tax years.

The Income Tax Amendment Bill, passed in Parliament this week, will authorise these refunds.

The enactment of the Bill will bring to an end the battle between the Government and some trade unions over repaying the monies.

The saga began last year when trade unions discovered that many factory workers were being overcharged for SITE, which is a final (non-refundable) tax on the income of employees who earn less than R50 000 a year.

Overpayments undetected

The amount of SITE deducted from the employee's pay packet is calculated by the employer on the basis of the employee's personal particulars (marital status and number of dependent children).

As SITE is a non-refundable tax, these taxpayers (unless they earn other income) are not required to submit an annual tax return, so overpayments are likely to have gone undetected.

According to a recent statement issued by Inland Revenue, the problem with SITE overpayments arose from employees not having supplied, or been asked to supply, employers with correct personal details.

An employee is obliged to complete an IRP2 form (available from the employer) which details his personal particulars.

Other reasons for the overpayments were that the IRP2s were completed incorrectly or had not been updated with changes to details.

If no IRP2 form was completed, the employer was compelled to deduct SITE at the highest possible rate.

Men were taxed according to the "unmarried persons" tables and women taxed according to the "married women" tables.

An incorrect tax classification would have resulted in a significant overpayment of SITE.

A married man with two children, whose annual taxable income (salary less pension contributons) of R45 000 in the 1993 tax year was incorrectly taxed as if he were an unmarried person, would have paid R10 550 instead of R7 975 — an overpayment of R215 a month.

Married women whose husbands were unemployed during a period would probably have been overcharged the most. Such a woman would have been regarded as the breadwinner and taxed at the lower "married person" rates.

However, SITE taxpayers eligible for a refund should not go out on a Christmas spending spree just yet, as the refunds are likely to be made only next year.

Inland Revenue has yet to create the refund procedures, train extra staff and design the necessary forms.

Taxpayers will be advised through the media on how to apply for a refund.

Employers have also been asked to assist affected employees.

Any taxpayers in doubt over whether they overpaid during the past three tax years should submit an application for a refund anyway.

Controls will be in place to ensure that only the correct amounts are refunded.

Proof of the grounds for the application will be required: in the case of a married taxpayer taxed as unmarried, it will be necessary to produce a marriage certificate.

If mislaid, get duplicates

Copies of IRP5 certificates for the years in question will also have to be submitted to Inland Revenue. If mislaid, duplicate copies may be obtained from employers.

The problem of overpayment will be avoided in the current tax year (February 1994) as Inland Revenue will compel all employers to confirm each employee's personal details before the end of the tax year.

Any overcharge will be corrected by the employer.

VAT boosts govt revenue

B/DAY 30/11/93

KELVIN BROWN

GOVERNMENT would get R1bn in unexpected revenue this year largely because it had underestimated the higher VAT rate's effect on tax collections and a pickup in demand, economists said yesterday.

Latest figures showed growth in VAT collections in the first six months of the fiscal year were running at 50,1%, way above the budgeted 43,1% increase for the entire year. Customs and Excise revenue was also above budget.

Finance Minister Derek Keys has indicated that total revenue for the year would be R1bn up on a budgeted R89bn.

Economists said most of this increase was likely to come from indirect taxes. Direct taxes would be influenced by the reduction in the company tax rate and the declaration of scrip dividends to avoid secondary tax on companies.

Growth in total income tax receipts was only 4,9% higher than that of the same period last year, far below the budgeted increase of 11,7%. (320)

Economists said the VAT base appeared to be larger than was estimated. An increase in budgeted income from VAT could also come from a higher growth rate in the economy. GDP was expected to grow 1% in 1993, more than the original estimates of between 0% and 0,5%.

Income from Customs and Excise duties would also contribute to the bigger revenue figure as many consumers had not cut down on alcohol and cigarette consumption after higher duties were imposed on these items, said economists.

Net receipts from Customs and Excise were 13,6% higher in the first half, compared with last year. Government had budgeted for growth of 10%.

Sanlam economist Adriaan Mocke said the authorities could have miscalculated the effect of a pickup in demand on VAT collections as more traders in the informal sector paid indirect taxes than under the old GST system. Many informal traders

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were forced to pay VAT if they bought goods from wholesalers, unlike under the GST system, he said. (320)

An improvement in goverment's administrative procedures could also have contributed to higher collections.

Old Mutual senior economist Rian le Roux said government appeared to have adopted a more conservative approach to predicting the effect of a rise in the VAT rate after overestimating the effect of changes in indirect tax rates in the past.

The higher revenue from VAT could not be explained by higher prices as the overall inflationary position in the economy was lower than expected when the budget was drawn up, he said.

Tax refunds in SITE for workers

WM19-25/11/93 ~~330~~

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THE government may wish that it never again catches sight of SITE tax when it pays out about R700-million rand to workers who have had their tax incorrectly deducted.

By January next year, reclaim procedures will have been put in place and workers may stake claim to their tax refunds. After a year long battle to secure the payment of these refunds, the Receiver of Revenue last week announced that it would pay back the over-deductions. It is a mammoth task that will need legislative changes.

The refunds will be paid for the full three years SITE has operated and moreover, the Congress of South African Trade Unions is demanding that all payments be made before a transitional authority is put in place in April next year.

"We have always insisted that the money be repaid by the current government," the federation said in a statement.

Evidence of over-deductions first emerged last year when Transnet workers queried their deductions with a tax consultant who alerted Cosatu to a problem that soon spiralled. Cosatu then ran an audit at various factories and found that the problem was widespread.

The federation calculated that the refunds would total about R700-million and that the average refund owing to workers (both Cosatu and non-Cosatu members) is R350 each. One in four workers canvassed were owed money, according to the federation.

Married women whose husbands are unemployed are likely to make up the biggest chunk of those owed refunds, while those who are married or who have children are also likely to be liable for refunds.

Where documents — like marriage and birth certificates — are not available to prove a change in tax status, letters from coummunity leaders like priests and teachers will suffice.

Cosatu will kick off an information campaign for shop stewards tomorrow to teach them how to help workers reclaim their money and employers have also pledged their assistance.

Personal tax revenue falls short of target

BIDAY 17/12/93

GRETA STEYN

GOVERNMENT is receiving less income from personal taxation than expected as sluggish wage increases and retrenchments drag down Exchequer receipts.

Collections from companies have also been slow to pick up because of the lag in payment of secondary tax on companies and the squeeze on companies' profits.

But booming VAT and customs and excise collections offset the problem and government looks set to end the fiscal year with revenue slightly above target.

The latest breakdown of receipts shows income tax collections — from companies and individuals — rose only 5,4% in the first seven months of the year. The Finance Department said this was substantially below the budgeted rise of 11,7%. (320)

While the Finance Department did not distinguish between companies and individuals the Reserve Bank, in its last Quarterly Bulletin, provided some details on the trend in the first half of the fiscal year. It noted receipts from companies had been lower compared with the previous year. A small increase had been expected in the Budget. "This disappointing behaviour of income tax receipts from companies was probably related to the lower profits under generally depressed economic circumstances and the lag in the collection of the newly introduced tax on distributed profits

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Tax

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(secondary tax on companies)". (320)

The Bank said proceeds from individuals in the first six months had also been lower than envisaged, probably because of lower than expected salary and wage increases and further labour retrenchments.

However, VAT collections were still running above Budget expectations (45,7% versus a targeted 43,1%) while customs and excise revenue was also booming (up 16,4% in the first seven months against a budgeted 10%). In the first eight months of the fiscal year, revenue rose 17,4%, virtually the same as the budgeted rise of 17,3%.

Finance Department figures also showed that government had virtually completed its borrowing programme for the fiscal year. At end-November R29,5bn had been raised, including rollovers and investment in government stock by the Public Investment Commissioner. This compares with a gross borrowing requirement of R33bn for the year.

State to take more out of taxpayers' pockets

ARG 17/12/93

BRUCE CAMERON (320)
Business Staff

THE government will take more money out of taxpayers' pockets this year than it estimated in the Budget in April.

However, it is collecting less in direct individual and company tax but it is way up in indirect tax from VAT and customs and excise duties.

The latest figures released by the Department of Finance confirm government claims that it will not push the deficit before borrowing higher than it anticipated.

Along with the additional tax earnings the government has also been selling off strategic reserves to pay for the additional expenditure it has incurred during the year.

The difference in budgeted estimates in direct tax are a result of competitive trading conditions squeezing company profits, lower salary increases and the change in the structure of company tax with the introduction of secondary tax on companies (STC).

Indirect taxes have increased as a result of gradually increasing economic conditions as well as the increasingly efficient collection of VAT.

The government's borrowing programme is also now nearly complete which will relieve pressure on the capital markets.

The Finance Department said income for April to November totalled R55,6 billion — an increase of 17,4 percent compared to a year earlier.

Exchequer receipts from Customs and Excise are 15,7 percent higher than last year and compare favourably to a budgeted increase of 10 percent.

Inland Revenue collected revenue of R47,9 billion which is 17,7 percent higher than last year but below the budgeted increase of 18,6 percent.

Total exchequer issue in the period April to November this year amounted to R75,3 billion — 65,4 percent of the total estimated expenditure of R115,2 billion. This is 13 percent higher than the same period a year earlier.

The Finance Department said the trend in issues and receipts could result in a budget deficit of less than R25 billion.

It said any smaller than budgeted financing requirement that could arise would be dealt with by borrowing less, either by not rolling over stock that expires or by raising less new loans.

At the end of November R29,5 billion had been borrowed, which included roll-overs and financing by the Public Investment Commissioners but excluding Treasury bills.

Multi-tier VAT for new SA?

320

By ARI JACOBSON

A MULTI-tier value added tax (VAT) could be introduced in the next few years to get additional revenue for the government suggests Ernst & Young tax partner Dave Clegg.

Speaking in an interview yesterday Clegg says that rates could vary from zero for basic foodstuffs, 5% for medicine and electricity, 15% - 17% on standard rate items and 20% to 25% on luxury goods.

He does say that while the current Vat system has proved to be a success in terms of "revenue collections" this new multi-rate tax may lead to problems of "leakages" and "administrative burdens".

Clegg outlining the possible tax structure, come 1994 adds that tax incentives for the local economy should be avoided.

Clegg's comments come in the wake of the signing of the General Agreement on Trade and Tariffs (GATT).

He says that there is an argument for industries such as exporters, tourism and low-cost housing to gain benefits from incentives but this would lead to distortions and abuse of the system.

CT 17/12/93

He argues that incentives could be granted outside the tax system, subject to the limits placed by GATT.

According to the Uruguay round of Gatt — SA must reduce and remove tariff barriers but in exchange will be allowed easier access to world markets.

The good news out of all this is that SA's growth is expected to be built around exports.

Incentives and subsidies by goverment are seen however to create distortions in the Gatt agreement.

Moreover Clegg feels for SA to be competitive and to encourage new investment, the corporate tax rate must be reduced to the 35% level.

Clegg has his doubts about this being achieved in the medium term given "the need for tax revenues".

He mentions that "it is also not clear how successful STC will be as a revenue raising mechanism" pointing out that many companies avoid this tax by offering scrip dividends.

Clegg also mentions that "relief is merited" for the individual taxpayer.

"The maximum marginal rate of tax of 43% for married and unmarried persons is not high in relation to many overseas countries but the top rate of tax is reached at a much lower level than elsewhere."

He adds that "married women" reach the maximum tax rate at the R50 000 level.

The maximum tax rate for individuals should "ideally" be at 40% and should be be reached at an income level of R150 000.

CPA joins critics of proposed book tax hike

THE Cape Provincial Administration has joined other bodies criticising the proposed tariff increase of 20% on imported books. (320)

The deputy director-general, general provincial services, Dr J C Stegmann and the director, library services, Mr Frans van der Merwe, yesterday expressed their deep dissatisfaction with the proposed increase on behalf of the Cape Provincial Library Service. CT 23/12/93

They said the implementation of the proposed increase — which will push up the tax on imported books to 36,8% — will result in nearly 65 000 fewer books being acquired by the Library Service in 1994 than in 1993. — Sapa

FM 17/12/93

320

Signs of life in Jurassic Park

The Commissioner for Inland Revenue has finally produced detailed regulations for settling outstanding assessments involving movie schemes which, in some cases, date back to 1987. The regulations will resolve disputes over tax deductions worth millions of rands and settle an issue that threatened to undermine the integrity of the tax system because of the large sums of tax revenue at risk.

Vast sums of money had been committed to movie production on the basis that sleeping partners in a movie-making venture would be able to use generous marketing and export allowances, available to movie manufacturers under the Income Tax Act, to shelter income from other sources. Ingenious (perhaps over-ingenious) financing arrangements were devised and, together with the allowances, these enabled taxpayers to claim deductions of as much as eight times the amount of money committed to a scheme.

Revenue was reluctant to address the issue of movie-related deductions and failed to issue assessments involving movie schemes for years on end. Then, about a year ago, assessments were issued on a large scale, all of which disallowed deductions.

Taxpayers who had participated in making the movie *Jake Speed*, and had their claims for deductions disallowed, took the matter to the Income Tax Special Court and lost (based on Section 103, the general anti-avoidance section of the Act).

Left to the normal workings of the courts, the situation would have taken years to reach finality in the Appellate Division on that case alone. And, if deductions were then disallowed, taxpayers would have faced enormous, even ruinous, bills for interest on provisional tax underpaid.

Settlement

In the circumstances an ad hoc settlement, announced by Finance Minister Derek Keys in his Budget speech in March, made sense — though some said the deduction worth R1,50 for every R1 invested in movies, announced in April, was niggardly. Taxpayers were given until November 30 to apply but this deadline can still be extended by the commissioner on good cause.

The regulations contain many pitfalls for taxpayers, some of which relate to timing issues. Not least are rules determining the date from which interest payments will run on underpayment of provisional tax, and others which permit the adjustment of deductions between different tax years.

The regulations carefully explain how to calculate the amount put into a scheme (net contribution). Kessel Feinstein tax partner Ernest Mazansky says the definition of net contribution prevents the taxpayer benefiting from "loans" arranged within the partnership which never have to be repaid, except out of income received from the scheme. Revenue blocked this practice by basing the 1,5 times formula on the taxpayer's cash expenditure, defined as his contribution to the partnership and any other amount paid by him in cash, provided these amounts were funded from his own resources or from any loan repayable by him.

The position of taxpayers in large partnerships and subpartnerships has also been clarified.

To accommodate many sleeping partners in movie schemes, tax planners often set up complex structures with partnerships and subpartnerships. These might not have qualified as partnerships under law as it could be often argued they infringed the requirements in the Companies Act that partnerships may not have more than 20 members.

Now the regulations have extended the definition of a partnership, for settlement purposes, to any arrangement purporting to be a partnership.

A curiosity, says Mazansky, lies with the requirement that a movie must have been manufactured. Surely a definition of manufacturing is needed, as many movies forming the basis of schemes were shot outside SA and the rough cuts imported for editing. Nor do the regulations state that manufacturing should have taken place in SA.

There are several important provisions dealing with the sensitive issue of timing. The regulations provide that, in determining net investment, the taxpayer must deduct income (including income from outside SA) received before February 28 this year. This means income actually received and not just accrued from the scheme — contrary to normal income tax usage which taxes income either accrued or received.

Not surprisingly, the regulations provide that — in the year of actual receipt — the income will be exempt from tax. This is necessary, because otherwise the income would effectively be taxed twice, once in the year of receipt and a second time by reducing the net contribution subject to the 1,5 ratio.

KPMG Aiken & Peat tax manager Vinnie Roodt raises the issue of the three-year prescription period for reopening an assessment — in this case, one in which a deduction had been disallowed.

This would be a serious matter for film investment cases which were assessed more than three years ago and where the deductions were disallowed. Roodt argues that these should be reopened and reassessed in accordance with the offer, provided the taxpayer lodged an objection to the disallowance at the time.

Mazansky says the settlement regulations provide that movie-related deductions, previously allowed by Revenue (in cases where the assessments have prescribed under the three-year rule), have to be deducted in arriving at the net contribution to which the 1,5 factor is to be applied.

Perhaps the most important timing issue concerns interest on provisional tax under- or overpaid. Mazansky says the overall effect of the requirements of the Act on the earning of interest on provisional tax overpaid — read with the settlement terms — would have left some taxpayers in an inequitable position.

This is because they would have incurred nondeductible interest in some years where tax was underpaid and have earned taxable interest in years where tax was overpaid. The regulations take account of this problem, by effectively permitting, on application, a transfer of the tax overpaid to those years where there was an underpayment.

Coopers & Lybrand tax partner Koos van Wyk argues that the settlement discriminates retroactively against law-abiding investors in movie schemes who — when their claims for marketing and other deductions were disallowed — paid their taxes according to assessment. Some received assessments in July-December 1992.

The regulations provide that these taxpayers who paid according to assessment will, from October 1 1992, receive no interest from the date of payment until the date of final refund, when the settlement ratio applied to that particular taxpayer throws up a credit in his favour. This would be the case whenever the taxpayer had paid an assessment in which the movie deduction had earlier been disallowed in full.

So taxpayers who postponed payment to May 31 1993 achieved interest advantages.

Mazansky notes that at the time of an April press release, Revenue indicated that if tax payments were made before May 31, no interest would be chargeable for underpayment of provisional tax.

Music recording

Until publication of the regulations, no mention had been made of music recording schemes. But they are now subject to the same regulations. The interest-free period for those schemes runs to October 31. But regulations were published only on October 29.

Ian Meiklejohn, of the Commissioner's office, contends that a taxpayer who reacted promptly to the publication of the regulations would have had to pay only interest for the days it would have taken him to arrange payment of the overdue tax.

Ernst & Young tax partner Ian McKenzie notes the wording of the claim form, concurrently published, could be read to imply that Revenue has a discretion as to whether to accept the taxpayer's offer to settle. This would be a disconcerting and totally unexpected outcome, as all earlier official pronouncements indicated that taxpayers could accept the settlement as a right.

Wealth tax plan 'is pure socialism'

B/Day 14/12/93

WILSON ZWANE

THE ANC alliance's proposal to fund its reconstruction and development programme through a wealth tax has been slammed by the NP and DP, who called it a "socialist" measure. ([redacted])

And Sanlam said the insurance industry would be happy to invest in the alliance's proposed reconstruction bond only if it was a secure investment and yielded market-related returns. (320)

NP spokesman Danie du Plessis said the proposed tax was "a pure socialist policy which spells disaster". Overtaxing "hard-working and productive people" had proved "a dramatic failure" in all countries which had experimented with the system.

The alliance's attempt to make the tax appealing by labelling it temporary was a smokescreen to "hide the introduction of a socialist economy".

DP finance spokesman Ken Andrew said the proposed tax indicated that socialists in the alliance were in the ascendancy. The tax was misdirected because it focused on distributing rather than creating wealth.

Sanlam MD Desmond Smith said it was "totally unacceptable" to use funds set aside by individuals as savings for retirement to subsidise recontruction and development.

"The insurance industry has funds available, but these will only be ploughed into secure investments, which yield market-related returns," he said.

Proposals for the wealth tax, the reconstruction levy and the reconstruction bond are contained in the latest draft document of the alliance's reconstruction and development programme.

The document was discussed at a three-day summit of mass democratic movement organisations in Johannesburg at the weekend. It was announced that the ANC had agreed to incorporate the programme's key elements into its election manifesto, due to be drawn up this week.

The document says the reconstruction levy will be a temporary tax which will affect only the "higher-income group". This proposal is still to be considered by the alliance's regions, but it has been suggested that the tax be in place for five years — the duration of the government of national unity.

In amending the document, delegates said provident and pension funds should be required to put 10% of their assets into the reconstruction bond, which would be marketed locally and internationally.

Sources close to the programme said yesterday details of the bond and the tax would be thrashed out and incorporated into a sixth draft due for completion by January 10.

ANC economics department deputy head Tito Mboweni said yesterday the organisation would spell out its position once it had studied the document fully.

The document calls for the restructuring of institutions such as the Independent Development Trust and the Small Business Development Corporation.

The trust said it had no objection to the alliance's proposal that the roles of development agencies be reviewed.

CE Wiseman Nkuhlu said there could be no objection to a review of the roles and functions as well as "governance structures" of development organisations.

"I hope that any review which takes place is carried out as quickly as possible so that development itself can be put first," he said.

Delegates to the summit said the role of small business had to be clearly defined and development organisations had to be accountable to a ministry of reconstruction.

The proposed ministry would ensure reconstruction and development programme supported small business.

● See Page 4

Personal tax won't be increased says Naidoo

ARG 2/12/93 (320)

□ Money 'will be used to benefit the people'

SHARON SOROUR
Labour Reporter

A FUTURE government would not increase personal tax, which was already too high, former Cosatu general secretary Jay Naidoo told workers at a rally to launch the ANC/Cosatu election drive in the Western Cape.

Addressing a crowd of about 400 at Sacks Circle in Bellville yesterday, Mr Naidoo said the future government would need tax — "any government needs tax" — but the money would be used to the benefit of the people.

Mr Naidoo, who is on the ANC's national election list, said the important thing was for people to know what happened to the money. The ANC would use it to build houses and clinics.

He said companies claimed to pay 48 percent tax but in real terms it amounted to 28 percent, while banks paid 12 percent.

"The tax burden is carried by consumers . . . we say that it must be equally spread, and there will be no increase in the personal tax burden."

Mr Naidoo told workers VAT on basic foodstuffs would be removed.

Speaking on a platform with SA Municipal Workers' Union regional leader Salie Manie and Stellenbosch University lecturer Wilhelm Verwoerd, grandson of the architect of apartheid Dr H F Verwoerd, Mr Naidoo said:

"You must remember that the election in April is only one election, there will be others after that, and you can withdraw your vote if you are not happy with them. If they do not realise the struggle does not end after the election, you have the right to call general strikes and voice your protest."

However, Mr Naidoo said the union federation was confident there would be co-operation between the ANC and Cosatu after the election.

A new government would not be able to meet all demands made on it, but it would address the problems.

Mr Manie said workers were important as they were the people who created wealth in the country — but they had not shared in that wealth.

"The National Party says it has put apartheid behind it and it wants to give everyone the vote, but the vote will mean nothing to workers — it won't pay the rent and won't feed their families.

"We need more than the vote . . . if the new South Africa does not improve the quality of life of people, the freedom it brings will mean nothing."

Mr Manie told workers the NP and the DP were more concerned about white fears than improving the quality of life of people who suffered under apartheid.

"The ANC is telling us that workers' interests are very important, and Cosatu has put forward people to ensure that those interests will not be forgotten."

Receiver to rule on car strike issue

B/Day 10/12/93

ERICA JANKOWITZ

THE Receiver of Revenue will meet two representatives of the car manufacturers' National Bargaining Forum on December 17 to give a ruling on whether tax should be deducted from year-end gratuities. And once this ruling has been given, both parties have undertaken to abide by it, Midlands Chamber of Industries spokesman Madeleine Loyson said yesterday. (320)

Meanwhile, the threatened strike in car plants did not materialise yesterday, with only Samcor's Rosslyn plant and the Toyota vehicle assembly plant in Prospecton still reporting no production.

Toyota closed its plant yesterday, a day ahead of schedule, saying it was impractical to reopen it for one day with production having been disrupted since Monday. But management denied it had locked workers out.

The company said workers had not complied with a National Union of Metalworkers of SA (Numsa) undertaking for workers to return to work pending the outcome of Wednesday's meeting. Both its component and stamping divisions operated normally yesterday.

A Samcor spokesman said the plant could not operate either yesterday or on Wednesday because of "a high level of delinquent absenteeism". Three days of production were lost and today was not a scheduled production day as the plant would officially close for its year-end break.

Samcor did not foresee problems with the January 10 resumption of production as the issue should have been resolved by then, he added.

Other manufacturers — including Delta, Nissan and Volkswagen — reported limited or no disruption yesterday, but a National Automobile Association of SA spokesman said there were "rumblings" of further action in the industry.

These manufacturers are scheduled to close for the Christmas break later in the year, but most will reopen on January 10.

Numsa said it would await the outcome of the scheduled meeting and study the Receiver's opinion.

● Comment: Page 8

Reconstruction funding plan

Wealth tax proposed by ANC alliance

B/Day 13/12/93

WILSON ZWANE

THE ANC alliance wants to fund its reconstruction and development programme through a temporary wealth tax and a reconstruction bond which will be marketed locally and internationally.

This emerged from the latest draft document on the proposed reconstruction programme, which was discussed at a Johannesburg conference at the weekend. The conference was convened by Cosatu, the SA National Civic Organisation (Sanco) and the National Education Co-ordinating Committee. Cosatu strategist Alec Erwin told more than 200 delegates the programme's objectives would be incorporated into the ANC's election manifesto, which is to be drafted at a two-day conference this week.

The document, a synthesis of the reconstruction and development programmes of, among others, Cosatu and Sanco, states that the programme should be financed in a manner that does not fuel inflation and precipitate an exchange rate crisis. It says that besides government funds, a reconstruction bond and a "reconstruction levy" will be used to finance the programme.

The levy will be a form of temporary wealth tax, which will affect only "the higher income group". This proposal is still to be considered by the alliance's regions. It has been suggested that the levy be in place for five years — the duration of the government of national unity.

Delegates to the summit said insurance and pension funds should be required to put 10% of their new assets into the reconstruction bond "without reducing their holdings and purchases of other government stock". It was decided to include this suggestion in the draft document.

Another proposal was the establishment of a housing bank by 1996. The bank, 50% of whose funds would come from the state, would ensure "affordable bond costs".

The document emphasises the need to restructure institutions such as the Independent Development Trust and Small Business Development Corporation. "The existing regulatory system is rigid and in many cases inappropriate to the development of a financial system able to serve the reconstruction and development programme." Delegates said the role of these institutions in small business should be clearly defined. They added that these organisations, to which non-governmental agencies would have access, had to be accountable to a ministry of reconstruction. The proposed ministry would ensure the reconstruction and development programme supported small business as far as possible. (320)

The delegates stressed, however, that the "restructured" development agencies should maintain their independence from the state.

The draft document also spells out what needs to be done in areas such as electrification, education and health.

It proposes 500 000 new electricity connections a year. This, it says, means that about 75% of homes will have electricity by the turn of the century.

It says the electrification programme will cost about R12bn in capital invest-

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Wealth tax

B/Day 13/12/93

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ment. Cross-subsidies from other electricity consumers, especially those who have enjoyed electricity for many years, could meet a large part of the costs.

However, the state should provide "concessionary finance", particularly for the electrification of poor households in rural areas. An electrification fund, underwritten by government, would raise funds.

The document stresses that all households should pay for their consumption. "Communities should end boycotts of electricity payments."

Erwin said the draft would be reworked and a further draft would be ready for discussion by January 10. Mass democratic movement organisations would then hold meetings to discuss the plan and begin consulting a wide range of role players, including big business. (320)

The ANC will convene a three-day conference from January 21 to ratify the programme. However, Erwin said contributions to the programme could still be made after the ANC conference.

Motor firms braced for more disruption

ERICA JANKOWITZ

MOTOR manufacturers are bracing for more production disruptions when they reopen their factories in January following a ruling by the Receiver of Revenue that year-end gratuities are liable for tax.

Non-procedural strikes broke out at some plants earlier this month when workers found employers had deducted tax from ex gratia payments. The National Union of Metalworkers of SA (Numsa) and employers agreed to ask the Receiver for his opinion on the dispute. B/DQ4

An Automobile Manufacturers Employers' Organisations spokesman said yesterday the disputing parties had agreed that the Receiver's decision would be honoured, but Numsa had since indicated it would review its options if it was ruled that the payments were taxable. 21/12/93

Employers would try to resolve the issue before the January 10 reopening of plants after the Christmas recess. While no meetings had been planned due to the unavailability of Numsa, employers were available for discussions with the union, he said.

Toyota and Nissan closed their plants earlier than their scheduled December 10 shutdown after workers downed tools.

The payments formed part of the wage agreement signed between Numsa, the SA Iron, Steel and Allied Industries' Union and employer representatives on the National Bargaining Forum. Only Numsa members participated in the strike, which brought production at two of Toyota's Durban plants and the Nissan facility in Rosslyn to a standstill for several days.

Another ex gratia payment is scheduled for early next year and this may lead to further strike action. (320)

Numsa was not available for comment.

TAXATION – 1994

JANUARY — ~~SEPT~~ OCT.

Government looking at bigger deficit

Star 14/1/94

BY SVEN LUNSCHE

Despite a sharp increase in tax receipts, particularly from Value Added Tax (VAT), the Government is unlikely to meet its budgeted deficit before borrowing in the current fiscal year. (320)

Releasing the Exchequer account for the first nine months of fiscal 1993/94 yesterday, Finance Department director-general Estian Calitz said, however, that budgeted targets "were well within reach".

For the nine-month period, government expenditure totalled R83 billion — 13,4 percent higher than in the same period last year and 72,1 percent of this year's R115,2 billion budgeted total.

The Government has budgeted for an increase of only 6,7 percent for the full financial year and previously explained that the percentage increase was not a true reflection because certain amounts had already been paid over to state departments, but not yet spent.

However, many economists still believe that the eventual expenditure figure could exceed the budgeted target by some R5 billion.

The news on the income side is more positive, however.

Revenue income in the first nine months, at R63,6 billion was 15,4 percent higher than in the comparable period last year.

While this is short of the budgeted 17,3 percent increase for fiscal 1993/4, the rising trend in quarterly revenue from an annual 13,7 percent in the June quarter, to 15,2 percent in the following three months continued in the December quarter, with a growth of 17,2 percent.

VAT receipts, in particular, have been rising sharply, and in the nine-month period were 51,1 percent higher than in 1992. Total tax receipts so far this year are 16 percent up at R54,6 billion.

It its recent economic report, Absa estimated that income for the full year could exceed the Budget by about R1,5 billion to total R90,5 billion. Together with projected expenditure of R118,8 billion, this would leave the Budget deficit — the difference between revenue and expenditure — at R28,3 billion.

At the end of December, the deficit had already reached 19,4 billion and unless spending can be reined in significantly until April, it is unlikely that the targeted deficit of R25,26 billion will be met.

Keys overstated revenue overrun

GRETA STEYN

GOVERNMENT is set for a R226m revenue overrun this fiscal year as buoyant indirect taxes offset sluggish income tax receipts to take the deficit slightly below budget. BDay 14/1/94

However, the revenue overrun is substantially below the R1bn mentioned last year by Finance Minister Derek Keys. A Finance Department spokesman said the R1bn included proceeds from the sale of strategic assets and land, and only about R226m of the total overrun would be from indirect taxes. (320)

Economists said the inclusion of the proceeds from the sale of state assets in the revenue figures was incorrect, and led to the deficit being understated. Standard Bank said in its latest review the Budget deficit would be R27bn, or more than 7% of GDP, rather than the 6,5% budgeted and expected this fiscal year.

The latest Exchequer figures, released yesterday, show revenue rose 15,4% in the first nine months of the year compared with a budgeted rise of 17,3%. However, the statement showed the budget targets remained within reach, and indirect taxes had continued their buoyant trend.

The breakdown for the first eight months of the financial year showed VAT running at more than 50% above last year's levels — compared with a budgeted 43,1%. Customs and Excise was also run-

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Revenue

BDay 14/1/94

☐ From Page 1

ning above targets. Indirect taxes came to the rescue as income tax receipts were only 6,4% up, against a budgeted 11,7%.

Economists said government might have overestimated the inflow from individuals as the tax take from last year's retrenchment packages had artificially inflated the base. Company tax receipts could also fall below budget, as the company tax rate had been lowered and many firms had issued scrip dividends to avoid the new secondary tax on companies.

The Reserve Bank's Quarterly Bulletin showed that, after six months of the fiscal year, companies' tax was running below last year's levels. However, a Finance spokesman said there had been a "marked" improvement in the rate of company tax collection since September.

Yesterday's statement also said government had completed its borrowing programme for the year, with the exception of rolling over short-term stock that expires on February 28. (320)

Land levy proposed

ANC calls for review of taxes

CT 14/1/94 (320)

Own Correspondent

JOHANNESBURG. — The ANC alliance has proposed that its reconstruction and development programme be funded by levies on, among other things, capital transfers, land and luxury goods.

In the sixth and "almost final" draft document on the programme, it says the restructuring of public expenditure will also serve to finance the programme.

The draft document is a synthesis of the reconstruction and development programmes of Cosatu, the SA National Civics Organisation and the National Education Co-ordinating Committee, among others.

The controversial wealth tax which was mooted by the ANC's Mr Tito Mboweni was not mentioned in the document. ANC spokesman Mr Carl Niehaus said last night that the concept of a wealth tax was not part of ANC policy. It was merely an idea which was raised by Mr Mboweni and did not appear in the document, he added.

The document will be debated on January 22 and 23 and, if approved, incorporated into the ANC's election manifesto.

"We will aim to maintain existing levels of government spending as a share of the GDP while increasing capital spending," it says.

This strategy will mean the current level of government borrowing, about 6% of GDP, will not increase for several years. "As the economy starts to grow, it will gradually decline. The overall tax burden, as a percentage of GDP, should not increase until strong growth is achieved."

The document proposes that a financial and fiscal commission review the tax structure. A restructuring would include:

- Eliminating tax bias against women;
- Reviewing personal income tax to reduce the burden caused by fiscal drag on middle-income earners;
- Rationalising company tax breaks for health, education and housing;
- Simplifying the complex company tax system, which is biased against small and medium-sized enterprises, and
- Zero-rating VAT on basic necessities.

It states that the reconstruction fund should be set up by a new government.

The document stresses that the programme must use foreign funding only for those elements of the programme that have the potential to increase "our capacity for earning foreign exchange".

Relationships with international financial institutions, such as the World Bank and IMF, must be conducted in a way that protects the integrity of domestic policy formulation and promotes the interests of the people and the economy. Policies must be pursued which enhance national self-sufficiency and reduce dependence on interna-

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Land levy

(320)

tional financial institutions. CT 14/1/94

The document also calls on local banks to assist by funding individual programmes to meet basic needs, especially housing, and by improving their services to small-scale producers and blacks.

It adds that if excessive risk aversion prevents banks from taking up "socially desirable" investments, the government should consider some form of legislative compulsion such as prescribed assets.

The document does not contain a submission, made by delegates at a recent summit, that insurance and pension funds be required to put 10% of new assets into the reconstruction bond. Instead, it calls on a new government to change legislation to ensure adequate worker representation on funds through trade unions to make them more accountable to members.

The plan also proposes a national electrification fund. Future energy policy must concentrate on providing energy services to meet the basic needs of poor households.

An electrification programme must provide access to electricity for an extra 2,5 million households by the turn of the century at a cost of about R12bn. This must be financed from "within the industry as far as possible via cross-subsidies from other electricity consumers".

Reconstruction levy on

(320) Star 15/1/94

WHILE a wealth tax is not official ANC policy, reconstruction levies are likely to feature in the party's election manifesto after a conference next week, writes MAGNUS HEYSTEK.

Wealth tax would not be feasible – experts

THE fear that a new government will introduce some form of wealth tax refuses to die, although most tax experts feel such a plan would not be feasible.

This fear has been uppermost in the minds of many people, especially white and Indian landowners, who feel property is a likely target as ANC spokesmen have been voluble on this subject since the organisation was unbanned in 1990.

While the ANC has not adopted a wealth tax as official policy, it has introduced proposals for a reconstruction levy as part of its Reconstruction and Development Programme (RDP), released yesterday.

If the proposal is accepted at its congress next week it will be introduced in the ANC election manifesto.

The issue of a wealth tax — in essence, a tax on white assets, as whites own 93 percent of all private property in South Africa — has long been an emotive one and is likely to continue to be of great concern to many homeowners, whether they are wealthy or not.

Alternative to volatile JSE

Property developers and estate agents report that the fear of such a tax is, in certain cases, acting as a brake on the local property market, despite signs that prices are moving higher on the back of surging confidence in the broader economy.

This is especially true in the case of investors considering second or even third properties as an alternative to a volatile stock market.

Analysts canvassed on the issue this week poured cold water on the idea, saying a wealth tax was unlikely to be implemented.

Board of Executors tax and financial planning manager Niel Raubenheimer said: "Wealth taxes have been implemented in other countries — notably in France, where, on a sliding scale, a percentage of an individual's wealth is paid to the State on an annual basis.

"This tax has not raised a great deal of revenue and has proved both difficult and expensive to administer.

"Both a land tax and a wealth tax could be used to penalise people with second residences, but for the aforementioned reason this is unlikely," he said.

Much the same goes for a reconstruction levy, often mooted by ANC deputy economics head Tito Mboweni, as a way to generate revenue to rebuild South Africa.

A reconstruction levy was introduced in Germany in 1949 to compensate those who lost property during World War 2.

The tax was levied over a period of 30 years on people who did not lose their homes. Final payments were made in 1979.

Mboweni has often used this as an example of the form a reconstruction levy would take, if implemented.

Tax experts doubt that such a levy would be feasible, mainly because it would be expensive and difficult to administer and would not generate much revenue.

The same goes for a land tax.

Raubenheimer added: "South Africans already pay taxes at onerous levels on land in the form of municipal rates and transfer duties."

However, analysts warn that certain taxes are likely to be increased quite soon. These are likely to include capital transfer tax and estate duty.

The only tax on capital that exists in South Africa is estate duty, which is paid once (at death) at a flat rate of 15 percent of the dutiable amount of an estate in excess of R1 million.

Increase on the cards

To prevent estate duty avoidance, the Income Tax Act levies donations tax at 15 percent on all donations in excess of R20 000 a year. Together the two taxes constitute a capital transfer tax.

The rate at which estates are likely to be taxed in future — possibly even as soon as August, when the Budget will be introduced — will most probably be increased to 35 percent or more.

The threshold at which estate duty becomes payable could be reduced from R1 million to R500 000.

Experts say this would be a minor adjustment and could not be considered a wealth tax.

Increased RA tax forecast

By ARI JACOBSON

A SENIOR manager at a leading financial institution claimed yesterday that an increase in the tax on retirement annuities was "imminent" in the 1994 tax year.

Syfrets' Mr John Karis said in a press release that the change would "probably see the phasing out of the tax exemption enjoyed by those that elected to receive a one-third commutation, when their annuities mature".

He added that "it is envisaged the tax-free exemption will be removed entirely or phased out over a period and the tax will then be levied at marginal rather than average rates of tax".

Other tax experts said yesterday they were not aware of new tax plans for retirement annuities.

Ernst & Young tax partner Mr David Clegg said that such action would be to "bizarre to contemplate". He said "it would create inequality between retirement annuities and pension funds and, more particularly between private sector funds and public sector funds (currently tax-free)".

Mr Karis was not available last night to clarify his claim.

CT 19/1/94 (320)

Annuity tax rumours 'a surprise'

By ARI JACOBSON

RUMOURS about imminent changes to retirement annuity taxation have come as "a surprise" to the financial services industry, the Life Offices Association (LOA) said yesterday. (320) CT 20/1/94

This follows press reports this week in which Syfrets' senior manager Mr John Karis claimed that an increase in the tax on retirement annuities was "imminent".

The acting chairman of the LOA, Mr Blignault Gouws, who is also the deputy chairman of Momentum Life, said "too much weight is being given to mere uninformed speculation".

He said: "We have ongoing contact with Inland Revenue, as well as with a broad range of leaders in parliamentary and extra-parliamentary parties and these discussions have not given any indication of an imminent change.

"The political leaders as well as senior officials in the office of the Commissioner for Inland Revenue and at the Financial Services Board have consistently agreed with the industry's view that the tax and rules for different types of retirement funds should be the same."

Mr Karis said yesterday he had pointed out that members over the age of 55 should assess the merits "of withdrawing" a lump sum from existing retirement annuity contracts, by maturing or part-maturing these contracts.

Experts slam ANC's new tax

By ARI JACOBSON (320)

AN ANC proposal to tax people who earn less than R5 000-a-year has been slammed as "political suicide" by tax experts.

At present, on average, only those who earn more than R12 000-a-year are taxed on income. ~~ARG~~ 22/1/94 CT

The ANC proposal — to help fund the "reconstruction" of South Africa — was proposed by Cosatu's Mr Alec Erwin and Mr Don Gumede this week.

Tax experts canvassed by the Cape Times yesterday said if the principle of a tax levy was accepted "there was an argument in principle" to "revise the income tax thresholds" to as low as the R5 000-a-year level with a nominal levy of for instance 1%. They said it could be cost effectively administered as a "surcharge" on wages.

Higher income earners would then pay normal income tax plus "a levy surcharge".

However, they were quick to point out that South Africans — especially middle income earners — are already "over-taxed", and added that "no additional revenue should be collected until the existing amounts are spent in a more efficient manner".

Retirement annuity tax 'speculation'

Business Staff (320) ARG 22/1/94

THE Life Offices Association moved quickly this week to quash rumours that an increase in tax on retirement annuities was imminent.

Syfrets senior manager Guy Hampson predicted early in the week that in the 1994 fiscal year the tax exemption allowed to investors who decided to take one third of their annuities in a lump sum would be phased out.

These exemptions currently apply to a maximum of R120 000 (or R4 500 multiplied by the number of years of membership of the fund).

Any excess over this amount is currently taxed more leniently at "average" rates.

But Syfrets suggested that once the phasing in period was over, tax would be levied on the full sum at marginal rather than average rates.

This was said to be in line with African National Congress thinking.

The claim was dissmissed by Jurie Wessels, executive director of the Life Offices Association.

He said he had been told by the Department of Inland Revenue that no legislation in this respect was being prepared.

It was true the authorities were looking at the whole question of taxation of retirement benefits, but any revisions would take years to complete.

Sanlam senior general manager George Rudman said the Syfrets' statment was "no more than speculation".

He said he did not expect the tax-free portion of the lump-sum to be reduced.

INSIDE

Taxman considers revising late-payment interest rate

B/Day 24/1/94

CHARLOTTE MATHEWS

A REVISION of the 18% interest rate charged by Inland Revenue on late tax payments was being considered but no decision had been taken, Inland Revenue legal drafting director Ian Meiklejohn said on Friday. (320)

The last revision of the rate was in June 1989, when it was raised from 15%. However, the rate payable by Revenue to taxpayers who overpay provisional tax was lowered to 12% from 14% last July.

According to Kessel Feinstein's 1993/94 Tax Handbook, since the 18% interest rate was non-deductible for tax purposes, its pre-tax equivalent to a corporate taxpayer was 30% and 31,6% to other taxpayers paying the maximum marginal rate.

Kessel Feinstein tax partner Beric Croome said the 12% interest rate payable to taxpayers, which is taxed, worked out to 7,2% after tax for companies and 6,84% for individuals. He said a revision in the rate on late payments had been expected last July but had not occurred. In contrast, other rates had been revised fairly quickly, such as the recent reduction in the official rate used to calculate the taxable value of a fringe benefit.

"There could be a punitive element in the high rate, but then Revenue should say so," Croome said. "In any case it is already punitive because the interest paid to Revenue is not tax-deductible."

Fisher Hoffman Stride tax partner Anthony Chait said there had been no official indication from Inland Revenue but it was likely the department was concerned that, if the rate were brought down or allowed to float with the prime rate, taxpayers would be inclined to use Revenue as a bank.

"If a company was a bit short of cash and due to pay its employees' tax, it might be tempted, if Inland Revenue's rate were favourable, to keep Revenue waiting."

Chait said the SA Institute of Chartered Accountants had been lobbying for parity in the treatment of interest.

"There has been some sympathy on the part of Inland Revenue and the response has been that they are looking at it," Chait said.

Born free, taxed to death? 320

WM 28/1-3/2/94

Reg Rumney reports on the implications of the recent ANC economic policy announcements for taxpayers

AS the ANC moves towards government its policy on tax has become clearer, though by no means final. Surprisingly, perhaps, thinking on tax in ANC circles is disposed towards alleviating the direct tax burden, boosted for so long by fiscal drag, on the long-suffering middle classes. On the other hand, a "reconstruction levy" is on the cards, as are heavier taxes on alcohol and tobacco. A tightening up of anti-avoidance legislation, a regional land tax, higher VAT for "luxury goods" and the hidden tax of higher "user charges" all point to a heavier tax burden for the same middle class.

Centre for Applied Legal Studies director and tax adviser to the ANC Dennis Davis is quoted in the December edition of *Syfrets Money Matters* as saying the ANC and International Monetary Fund recognise that with income tax already at 30 percent of GDP there is no room for increases in direct tax.

However, he is also quoted as saying, many individuals and companies pay much less tax than they should and the ANC would like to achieve a more effective collection of taxes as well as a more effective spending of tax rands. Bringing tax defaulters to book could well spread the tax burden more equitably.

Momentum Life tax department assistant general manager and co-author of a new book on tax* Martin Kourie believes commonsense will prevail on tax matters. And he expects no big changes immediately.

●Reconstruction levies: These — note the plural — are specifically mentioned in the last draft of the ANC's and Congress of South African Trade Unions' Reconstruction and Development Programme (RDP) as a source of money for a reconstruction fund. However, the document also mentions the use of a dedicated reconstruction bond and some self-funding.

Dennis Davis ... Capital gains tax unlikely

●Wealth tax: The RDP does not mention a wealth tax, in the form of a tax on assets. Kourie, outlining the options available to a new government on capital gains tax and capital transfer tax, says South Africa has no capital gains tax, and a capital transfer tax only in a the limited form of estate duty.

Davis, according to Syfrets, believes a capital gains tax is unlikely.

Kourie reckons it would be more logical to build on existing taxes rather than create new ones. The concept is not novel, he notes. Property transfer taxes are a kind of capital transfer tax. The infrastructure exists to collect such a tax. Kourie thinks any move towards broadening a capital transfer tax from its base in estate duties would take in all existing tax mechanisms.

●Estate duty/capital transfer tax. Here there will be changes over time. Davis believes some form of estate duty anti-avoidance legislation similar to section 103 of the Income Tax Act is likely. Section 103 deems invalid any scheme whose main purpose is to avoid tax. Now the flat rate of tax is 15 percent. Kourie believes this my be raised this year, possibly to 20 or 25 percent.

Kourie reckons an increase in the top marginal capital transfer tax to between 30 to 35 percent is likely, with the exemption threshold being cut from R1-million to R500 000. Davis believes the R1-million limit will not be changed, but that a 35 percent rate is likely by 1994. There will probably be moves to close various complex loopholes.

●Trusts: These are often used to escape capital transfer tax or estate duty and are likely to come under scrutiny. The Margo Commission on tax proposed various "anti-generation-skipping devices" to tax trusts and other methods of side-stepping tax. These never made it into law, possibly because the rich who use trusts for this purpose would merely resort to other means to avoid tax, including moving money offshore. So moves to tax trusts could cause capital flight. "The whole area of trusts needs to be approached with extreme caution," cautions Kourie.

●Land tax: Davis reckons we will almost certainly be called upon to pay a regional land tax, in the form of existing rates paid to local authorities. A land levy, similar to previous loan levies, is possible to compensate those who suffered forced removals.

●VAT: Kourie reckons a multiple VAT system is being mooted, with increasing rates in three tiers of basic, intermediate and luxury goods. The RDP says food will be zero-rated.

●Other taxes: The ANC's National Health Plan wants dedicated health funds sourced from increased excise on alcohol and tobacco.

A social security tax has also been mooted.

Finally, user charges for services such as schooling represent a hidden extra tax for middle-class families who have counted on these being cheap in the past.

*Momentum Life Tax and Trusts Easiguide, by Martin Kourie and Kobus Oosthuizen, published by Digma. R169,86 (including VAT).

TAX POLICY

A delicate balance

FM 28/1/94

Can a sensible policy survive the temptations of power?

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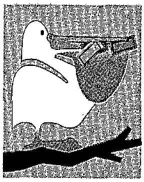


A scrutiny of the ANC's tax proposals reveals, for the most part, moderation. Even if it is too much for a new ANC-dominated government to accept that lower taxes will stimulate economic growth, the organisation does seem to accept that rising levels of taxation will block prosperity.

However, taxpayers will remain concerned — if for no other reason than that these moderate proposals seem strangely out of kilter with the ANC's romantic and extravagant plans for reconstruction and development, along with its declared objective increasingly to nationalise health care. For it is not clear how the rising costs of such policies would be met.

There is also some obscurity — perhaps understandable ahead of an election — but which creates uncertainties in areas where precision is of the essence.

For instance, the extent of a proposed land tax is not clear; the threat of a reconstruction levy has not been completely removed. And some assurance would be welcome that the proposed capital transfer tax, to replace estate duty and donations tax, will be imposed at reasonable and not punitive levels.

Essentially, however, while it is easy to reflect upon desirable changes in the tax system when in opposition, it is notoriously difficult in practice to balance revenue and expenditure. This could be an even more difficult task for a new government, anxious to bring about visible change and unused to the application of fiscal moderation.

The temptation to change existing balances could be extreme, especially the balance between direct and indirect taxes. Modern tax systems rest on two pillars — direct and indirect taxes.

Direct taxes are those imposed on income or capital in one form or another, while indirect taxes are imposed in essence on consumption, mostly in the form of sales taxes or Vat. SA has established a balance between direct and indirect taxes and it would be economically destabilising to upset this balance.

Income taxes are — internationally speaking — imposed on companies (and their equivalents such as close corporations) at a flat rate, though some jurisdictions have certain concessionary rates. Gold mining companies in SA may be taxed on their own special sliding scale, unless they opt to be taxed as normal companies.

It has also been a feature of company tax in SA that industrial companies have tended to pay tax at a much lower effective rate than the nominal 40%, as the consequence of various concessions for capital and other expenditure. This factor is now of diminishing importance as most of these concessions have been repealed.

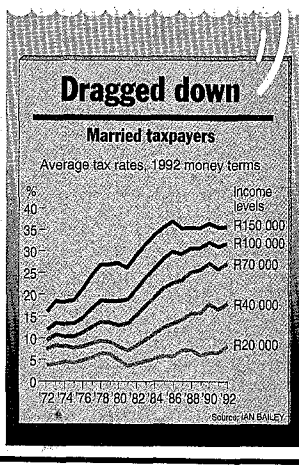
Indirect taxes have two benefits. Because they are regressive and apply uniformly to rich and poor, they do not specifically discourage the entrepreneurial instinct and are, therefore, economically neutral. And because they are consumption taxes, they extend the tax base by including some informal sector undertakings — some of which (like the taxi industry) are substantial.

The drawback of informal taxes for an egalitarian regime is that while they foster economic growth from which all benefit — according to their skills, enterprise and aversion to risk — they proportionately press harder on the poor.

An area of tax policy that has not yet been specifically raised by the ANC is the possibility of re-introducing a tax on dividends. This may be because the present 15% secondary tax on companies (STC) is really a tax on dividends paid by companies; perhaps the ANC's tax advisers regard this as adequate for now.

However, there are several technical objections to this tax, notably that it overtaxes the small investor without other income — such as widows living on the proceeds of a policy.

If the STC is regarded as an interim measure, then a more sophisticated system than the old dividend tax needs to be examined — specifically, one which links together a shareholder's indirect interest in company profits with his other income (an apportionment system or some equivalent). But the maximum marginal rate of tax on dividend plus earned income, allowing for company income tax, should be kept moderate.



Taxes on personal incomes are generally imposed at a sliding scale which taxes successive slices of income at progressively higher rates, so that high earners pay a greater proportion of their income than the modest earner.

This progression is particularly steep in SA in the way it affects middle-class incomes. Admittedly there has been some progress in offsetting fiscal drag and in limiting the maximum marginal rate on personal incomes (now 43%). But there is a danger that the ANC's egalitarian philosophy will cause it to reverse the process as far as high earners are concerned. This would be highly damaging to the motivation of the wealth creators.

The ANC's stated goal of counteracting the long-standing and painful effects of fiscal drag on middle income purchasing power (*Leaders* August 6) is commendable, though a more stable general price level will reduce its harsh effects. If implemented, it would have great political benefits for the new government among a rising middle class, provided these are not offset by punitive measures in the fields of education, health and affirmative action generally.

SA lived for many years with a general sales tax (GST) which suffered increasingly from shortcomings, notably susceptibility to evasion. In the end, GST virtually collapsed and government was forced to replace it with the internationally recognised value-added tax (Vat).

The difference is that GST is imposed only at the final sale to the consumer, while a layer of Vat is imposed at each stage in the economic process — in fact, whenever the goods change hands. Vat, of course, has also been imposed on most types of service transaction, so broadening the tax base. While basic foodstuffs have now been zero-rated, the balance of goods and services is taxed at the same standard rate — currently 14%.

The ANC proposes to establish differential Vat rates for luxury goods, which would certainly complicate the administration of the system. The ANC also proposes to extend the list of zero-rated items.

If we accept the political necessity for some visible economic sacrifices by the affluent in the new SA, then higher taxes on luxury consumption should be regarded as the least of possible evils. They do not affect capital or income and can be avoided simply by postponing the purchase of luxuries. Of course, the definition of "luxuries" could be controversial.

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FM 28/1/94

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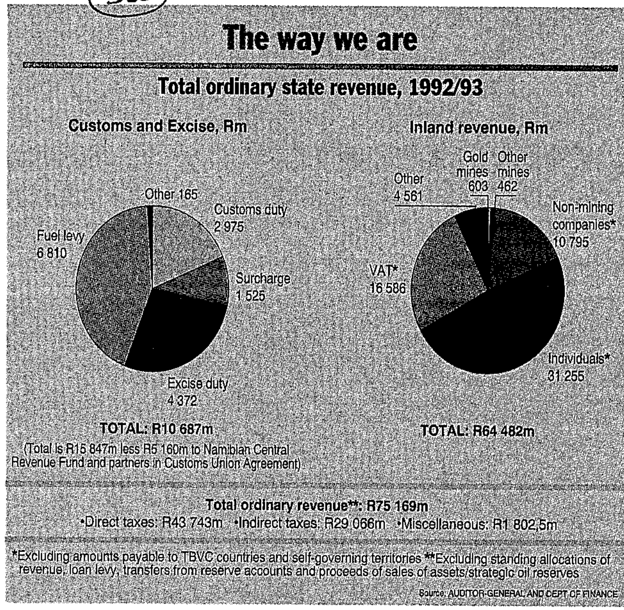

The tax on petrol is now an important source of revenue in SA as in most industrial countries (with the notable exception of the US). This tax is unpopular and will remain so, but — judging by the rates of tax on petrol in Europe — it is still moderate. The ANC has hinted that this tax, too, might be increased.

Also deserving special mention are "sin taxes" on tobacco products and alcohol — both still moderate in SA, undoubtedly because of the powerful influence of certain business groups on successive Nationalist governments. Considering the high social costs associated notably with cigarette smoking, there may be a case for higher excise taxes, especially in a country with a Third-World vulnerability to nicotine addiction.

A sensitive political area is that of taxes on capital. Taxes on the value of deceased estates or on inheritances have been widely imposed in the industrial world for a long time. Taxes on donations followed, as a means of limiting the avoidance of estate (or death) duties through donations during the lifetime of the donor, as well as avoidance of income tax by diverting income-producing assets to other family members.

In the post-war world, tax on capital gains (at a generally lower rate than the income tax rates) has been imposed in many Western countries — including, perhaps surprisingly, the capitalist US. Taxes on capital, generally, do not bring in much revenue, but find a place in the fiscal system as a tribute to populist resentment of concentrated wealth.

SA has no formal capital gains tax and estate duty now affects only estates above R1m at a modest 15%. There is a significant donations tax, to discourage the affluent from disposing of their estates in their lifetime. It should be emphasised, nevertheless, that jobbing gains in property and shares (the main ways in which wealth is accumulated) remain vulnerable to assessment as income — subject, of course, to the five year safe haven for quoted shares.

If an assessor considers that an asset was acquired as part of a scheme of profit-making, then the gain on its disposal is technically regarded as income. This is an area of tax law still in need of rationalisation to provide greater certainty for investors, despite the major benefits afforded by the safe haven.

In terms of social philosophy, socialists with redistributive tendencies favour progressive income taxes. But social democrats have been forced to recognise, over the years, that there comes a point at which soaking the rich through highly progressive rates becomes counter-productive, serving mostly to enrich tax consultants. Those who place a higher priority on economic growth tend to support flat-rate or indirect taxes, including taxes on consumption.

But flat-rate taxes on consumption weigh more heavily on the poor than on the rich — a fact which the present government has been forced reluctantly to acknowledge by zero-rating basic foods. And the ANC has accepted that the total tax take should be kept to around a third of GDP to preserve the vitality of the private sector. This itself is a reflection of a strongly positive evolution of sensible policy.

The ANC favours continued rationalisation of the remaining tax concessions to companies (including not only capital expenditure but also, for example, employee education and housing). This goal has already been unambiguously recognised by the outgoing government and implemented in important respects.

The ANC's associated goal of reducing the wide disparity between the effective and nominal company tax rates (already propounded by this government) is sound — but it should be accompanied, so soon as economic circumstances permit, by continued reduction in the nominal rate to bring it into better alignment with international trends.

The future structure of regional as well as local government — despite these encouraging trends in national tax policy — remains perhaps the most dangerous potential source of aggressively redistributive policies, via the rating mechanism. The top leadership of the ANC needs to keep a wary eye on the redistributive zeal of its counterparts at regional and local level.

They should not forget that lack of money is only one of the factors that has held back social progress in black urban areas. Boycotts by the civic organisations and lack of technical skills have also played a major role, so throwing money at the problems may not always be wise.

To make matters potentially worse, there may be other heavy "off-balance sheet" imposts, such as national insurance contributions, special electricity levies to finance infrastructural backlogs, higher training levies and even special mining royalties to fund certain public corporations. The aggregate of all of these classes of imposts could seriously aggravate the total burden of taxation.

The proposed tax on agricultural land is a complex and sensitive issue. If applied aggressively it could imply land confiscation — with grave risks both for investor confidence generally and for food production in particular. The future government has, however, other powerful sources of leverage at its disposal to make land available for black farmers.

These are the pool of land already under government's control; further rationalisation of agricultural pricing towards a free market situation; and the heavy debt load of farmers through the Land Bank.

Far better not to run risks with a land tax, but to deploy these sources of persuasion with discretion to bring land on to the market.

It is to the ANC's credit that it has resisted pressures to adopt economically destructive soak-the-rich policies, advocated by those who probably do not understand the degenerative consequences of redistributive policies; they end up with the poor being worse off.

But the real test will come when the ANC has to govern and finds — as it inevitably will — that its resources fall short of its aspirations. That is when the danger of a recidivistic slide into ever higher and destructive taxes will be at its height. That is when the pelican is most likely to swoop. ■

P.T.O

Tax avoidance schemes under review

CHARLOTTE MATHEWS

INLAND Revenue's settlement offer on disputes arising from the legitimacy of tax avoidance schemes, which has to be made before February 28, was receiving attention, chief public relations officer Sydney Pope said last week. B/DAY

Under an amendment to the Income Tax Act passed in 1993, the Commissioner for Inland Revenue was empowered to make a settlement for past and future years of assessment, even if the Income Tax Special Court had given judgment in a particular case or an appeal had been lodged to the Appellate Division. 31/1/94

A compromise offer was made to investors in films late last year and offers are now expected on investments in plantations and aircraft. (320)

Fisher Hoffman Stride tax partner Anthony Chait said claims were lodged by investors in the plantations and aircraft schemes under, for example, Section 11(a) of the Income Tax Act. This section decreed that, once an unconditional liability for an expense was established, the expense was incurred, even though it might not have been paid. In using that provision, investors took expenditure up front.

"In plantation schemes, interest for many years was taken in advance through the issue of a promissory note which ensured the liability was immediate, although the note was long-dated," Chait said. "In the aircraft schemes the liability for the maintenance contract for, say, four years was established in advance."

Receiver acts on Site refunds

BDay 1/2/94

WILSON ZWANE and
CHARLOTTE MATTHEWS

THE Inland Revenue Department had employed at least 500 people countrywide to process applications for the refund of Site tax for 1991, 1992 and 1993, an informed source said yesterday. (320)

The source said the process, which was agreed upon by Inland Revenue and Cosatu, was expected to be completed within two months.

A Cosatu spokesman said the development was a major victory for workers.

The spokesman said Cosatu would do everything possible to help workers get their money back. National organisers had been trained in this regard and the training was to be extended to regional organisers and possibly shop stewards.

Workers earning under R50 000 a year pay Site, which is deducted by employers and forwarded to the Receiver of Revenue. Cosatu raised the issue of refunds after it had been found that incorrect or incomplete information supplied by employees on IRP2 forms had resulted in excessive deductions.

Estimates of Site tax refunds due have varied between R700m and R1bn.

The Cosatu spokesman said it was anticipated that employers would co-operate with the federation by checking workers' IRP5 forms. "The employers have a responsibility to keep workers' IRP5 forms for five years."

According to Cosatu, Site overpayments occurred in cases where many employers had not bothered to ascertain the personal circumstances of their employees and had classified their workforce for the highest rate of deductions.

Government and Cosatu negotiated for seven months on the Site refund issue.

Applications for refunds had to be made on a special IT11(A) form.

A form for each year of assessment had to be completed. Each form allows for a maximum of three employers in a tax year. Where there had been more than three employers an additional IT11(B) had to be completed for each extra employer. Each IRP5 submitted for a refund will generate a separate refund cheque.

Receiver set to pay back millions

Star 2.12.94

BY JOVIAL RANTAO
LABOUR CORRESPONDENT

Women employees and those who are married are among the South African workers who are to claim millions of rands in refunds from the Receiver of Revenue for their contributions to the SITE tax.

The Congress of South African Trade Unions announced yesterday that workers, including those who had lost their jobs, would, from yesterday, be able to reclaim monies which they contributed — based on calculations made by their employers — dating back three years.

At a press conference yesterday, Cosatu general secretary Sam Shilowa claimed a Cosatu victory to the amendment last year of the SITE tax legislation.

WORKERS will now be able to reclaim SITE tax that they contributed, dating back three years, says Cosatu

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"As a result of pressure from Cosatu to get all wrongfully deducted money back to workers, the Government at the end of last year amended the SITE tax legislation, conceding workers' rights to reclaim SITE for the past three years," he said.

Workers most likely to be owed money were those who were married and/or had children, and women whose husbands were unemployed, or earned less than R10 000 a year.

From yesterday, the Receiver of Revenue started issuing forms for workers to use to claim back their monies.

The misappropriation of workers' money, Shilowa said, started when SITE was introduced in 1991. The responsibility of calculating the tax of all workers earning less than R50 000 a year was shifted to employers, yet there was no penalty on employers for miscalculating.

The amended legislation also placed on employers the responsibility for refunding overtaxation in subsequent years, including 1994. "This means that if workers have been taxed based on a wrong rate during 1993, at the end of February 1994 employers will be responsible for rectifying errors and refunding money owed," Shilowa said.

Cosatu's Sam Shilowa and Sarah Cliffe explained to a Johannesburg news conference yesterday the streamlined procedures workers must follow to check tax records and claim Site refunds. Picture: ROBERT BOTHA

Cosatu launches Site tax refund campaign

ERICA JANKOWITZ

COSATU has called on employers and the Receiver of Revenue to make funds available for a major advertising campaign aimed at informing workers about their eligibility to apply for Site tax refunds. B/Day

From yesterday, those who had overpaid Site tax due to employers not supplying correct details of marital status, numbers of dependants and whether husbands were employed, were able to claim money owed. 2/2/94

Cosatu general secretary Sam Shilowa said his organisation would train organisers to help millions of workers affected by over-deductions claim refunds for the 1991, 1992 and 1993 fiscal years. (320)

From March 1 employers themselves would be liable for refunding "wrongfully deducted money" to workers, making it impossible for companies to hide behind legislation which placed the onus of ensuring tax details were correct on workers, he said.

Once affected workers had filled out and submitted the necessary form, refunds would be paid into bank accounts or by cheque in a lump sum, said Cosatu first vice-president Connie September.

Land tax 'appropriate if its benefits are clear'

B/Day 3/2/94

CHARLOTTE MATHEWS

A LAND tax on rural land would be appropriate for SA but its benefits must be clear to the taxpayer, it must not be imposed at too high a rate and its purpose should be fiscal rather than punitive, according to Rand Afrikaans University law lecturer Lynette Theron.

Theron, who has researched the advantages and disadvantages of land taxes in SA and abroad for a doctoral thesis, has concluded that a land tax would be an excellent tax in SA.

"The perception exists in SA that farmers don't pay any tax, or are taxed more leniently, but enjoy the same benefits as anyone else.

"In 1981 48% of SA's wealth was in the hands of the farmers. They are seen to have benefited most from the years of apartheid — in 1983 half the MPs were farmers and for many years the voting system was loaded in favour of rural areas. In 1943 70% of the white population lived in cities but 53% of parliamentary seats were allocated to rural areas.

"But as a result of the drought farmers are no longer as rich as they were.

(320)

"I don't believe the goal of a land tax should be to right past wrongs because this would meet strenuous resistance from farmers."

One of the problems in imposing a land tax was valuing the land. This could be done by establishing a set rate a hectare, by estimating the unimproved value of the land, or the market value based on data from the deeds office or the agricultural value.

Ownership of rural land in SA was complex, with private, state, tribal and trust ownership. In all cases but private ownership identifying the taxpayer presented difficulties, but the problems were not insuperable.

Any form of land tax should have the support of the taxpayer and the only way to do this was to make the benefits visible by using it as a source of income for local government.

However, SA had no local government in most rural areas and if the boundaries of urban local governments were extended it would appear as if rural areas were subsidising the extensive infrastructure of the cities. The solution would be to create new rural local government areas.

Various studies had shown that a land tax should not be less than 1% of the market value of the land or 10% of the rental value.

Research in the US found a rate of 2% to be most effective. Above 5% land tax became a form of nationalisation.

Theron estimated that a land tax in SA, excluding the homelands, levied at a rate of 4% of market value would raise R1,1bn, about the same amount raised by tax on companies excluding gold producers.

Tax benefits the African way

CT 4/2/94 320

By AUDREY D'ANGELO
Business Editor

OTHER African countries are amending their tax treatment of retirement funds to allow bigger deductions for contributions — but taxing lump sum benefits more.

These are among facts explained in the first update of Old Mutual's analysis of employee benefits in Africa, which has been enlarged to include Mauritius.

Next year's update is expected to include Mozambique, the Ivory Coast and Ghana.

The guide was first produced last year to help SA companies considering expansion into Africa — and showed that benefits were better in some other countries than here.

It analysed social security, labour relations and education and training, warning SA companies what their obligations to employees in other parts of Africa would be.

The original guide looked at 11 countries. The update looks at changes in some of these countries.

The new section on Mauritius, where a number of SA companies now have operations, also looks at the island's export processing zones (EPZs). The guide points out that EPZs have been proposed as a route SA should be following.

It says eight out of the 12 countries surveyed so far provide a fairly comprehensive system offering retirement, disability and death benefits. All 12 provide workmen's compensation.

In six of these eight countries contributions were funded by both employers and employees. In two of the eight countries a non-contributory system existed with the state providing the funding.

In Mauritius both employers and employees pay contributions to the national pensions fund. Minimum wages are set but most employees — especially in the EPZs — earn more than these.

Minimum overtime rates are fixed and range from 150% to 300% of basic rates.

Workers in most sectors are entitled to an attendance bonus and 13th cheque. In some sectors meal allowances have to be paid, and travel allowances to workers coming more than a specified distance.

The guide shows that average life expectancy is higher in Mauritius, where it is 70 years and two months, than in any other country surveyed.

SA comes second with an average of 62 years and nine months. Life is shortest in Mozambique, with an average of 48 years and five months, and Malawi with 49 years and one month.

In Botswana the average is 61 years and one month, in Zambia 55 years and four months, in Zimbabwe 60 years and eight months, in Namibia 58 years and eight months and in Lesotho 58 years and five months.

Fuel tax, vehicle licence levy proposed for Cape

EDWARD WEST

CAPE TOWN — The city's transport planning department wants to introduce a vehicle licence surcharge and local petrol tax to bolster flagging transport infrastructure funding from government.

Transport planning director Ian Speed said the council would make the levy proposals to the interim Cape metropolitan government structure as soon as the body was established. B/Day

The council supported the taxes in principle, but viewed the proposals as politically and economically inopportune at this stage. The proposals would also be put to the Western Cape Economic Development Forum, he said. 7/2/94

A report by the city's transport advisory board said the financial problems experienced by metropolitan areas were being aggravated by differing national and metropolitan priorities.

The report proposes a maximum fuel levy of 5c/*l*, for which ministerial approval will have to be sought, to generate an income of R40m a year.

A initial 2c/*l* levy was suggested to minimise the inflationary impact. A vehicle licence surcharge of up to 50% was proposed for Cape-registered vehicles to generate about R36,5m a year. (320)

The report said an annual government allocation of R90m was needed to reach the R150m that would be required to provide a minimum transport infrastructure in the Cape metropolitan area.

The planned necessary expenditure for the 1992/93 financial year required a Department of Transport subsidy of R23,4m compared with an actual allocation of R3,8m, the report said.

Moment of truth expected in 1995

Guessing which way the ANC tax cat jumps

Star 11/2/94

(320)

BY CLAIRE GEBHARDT

The big guessing game in town at the moment is the ANC's tax policy and just where and when the tax axe will fall.

But the consensus so far is that Budget 1994 will not produce too many changes.

In fact, there is likely to be a 12-month Indian summer before taxpayers are given their first sight of the new government's fiscal plans.

Tax experts and economists say the August Budget is likely to be little more than a holding operation, given that the new government will only have been in power for three months.

But it will probably set the scene for the "true fireworks" in March 1995 when taxpayers are given their first sight of what the government intends doing.

Frankel Pollak Vinderine economist Mike Brown expects the August/September 1994 Budget to be constrained by the "letter of intent" to the International Monetary Fund (IMF).

Mike Brown ... GDP growth of 2,8 percent.

He believes the budget deficit will be confined to 6 percent of gross domestic product (GDP). Recurrent spending by the Government, less interest payments on debt, should fall by one to 1,5 percent of GDP compared with spending in 1993/1994.

Brown expects total expenditure to rise by 8,3 percent to R124 billion in 1994/1995, with recurrent spending, excluding current transfers, increasing by 12,5 percent to R99 billion — mainly because of current transfers to the homelands being absorbed into the main budget.

Total revenue collection is expected to increase by 15,8 percent to R101,3 billion, slightly higher than the 14,6 percent rise in revenue projected for the present fiscal year.

The deficit before borrowing would thus total R22,7 billion for 1994/95.

He predicts real GDP growth for 1994 of 2,8 percent.

Forecasts for 1995 get down to the nitty-gritty of tax changes.

Brown says taxpayers can expect a 3 percent hike in VAT, bringing the rate to 17 percent.

Some relief will, however, be forthcoming from a reduction in the list of items subject to VAT as some so-called essential items are to be zero-rated.

Some adjustments to private and corporate tax rates may also be made.

The "VAT effect" will push the consumer price index (CPI) up from an average of around 7 percent in 1994 to 9 percent or more in 1995, he says.

"Interest rates will rise by an expected one percent to offset the inflationary impact of the VAT increase.

"The VAT increase, rising inflation and a weakening current account position will limit the growth potential of the economy in 1995."

With momentum slowing in the second half of the year, he is forecasting a real GDP growth rate of 2,9 percent for 1995 as a whole.

Private consumption expenditure should continue to expand, but only at a rate of about three percent in real terms.

"Although the total wage bill could rise by 13 percent to 15 percent, rising indirect taxes, higher inflation and tightening interest rates will limit the rise in real disposable incomes."

The forecast excludes restructuring measures to boost employment.

Average rates of inflation of below 10 percent for 1993, 1994 and 1995 will signify the best inflation performance for three decades.

Benefits tax dips by 1%

Star 12/12/94

LEIGH ROBERTS

TAXPAYERS will be paying marginally less on certain fringe benefits from this month. The official rate of interest applicable to low-interest or interest-free loans offered to employees by their employers has been dropped from 15 to 14 percent. The taxable benefit of such loans is calculated as the difference between the official rate of interest and the actual interest paid (if any).

With the official rate of interest being lowered, it is surely time for the Receiver of Revenue to bring his other rates of interest in line with the market.

320

Grossly unjust

A hefty 18 percent is charged by the Receiver on late payment of tax assessments. When compared to the current prime rate of 15,25 percent, the Receiver's interest rate is grossly unjust.

On the other hand, the Receiver pays 14 percent interest to taxpayers who overpay their tax bills, which could be a worthwhile avenue for taxpayers to invest their surplus cash. The best they can get in the marketplace is about 9 percent on a credit card account or around 10 percent for a six-month fixed deposit.

It is believed, however, that Inland Revenue is currently reviewing these interest rates.

Star 15/12/94

SA, Taiwan sign tax accord

A double taxation agreement was signed in Pretoria yesterday by Finance Minister Derek Keys and his Taiwanese counterpart Chen-Kuo Lin.

It was described as a breakthrough for the business communities of both countries.

Keys said it established an environment in which investors from either country were not subjected to tax in both countries.

In its years of isolation, SA had long battled to sign such agreements.

So far it had signed with 14 countries, with ten others on line for signing, he said.

"For foreign enterpreneurs to invest in SA, the tax position must first be clear and attractive," he said. (320)

A double taxation agreement establishes rules to determine when the country of source has the right to tax and when the country of residence has the right. — Sapa.

Union calls for wealth tax

CT 17/2/94 (320)

JOHANNESBURG. — The National Union of Mineworkers (NUM) wants a new government to levy a wealth tax on individuals to help finance reconstruction after the April election.

Wealth tax contributions would go into a reconstruction fund whose main aim would be to lend money to developmental agencies, to state health and education departments, democratic local authorities and rural development agencies.

The reconstruction fund was one of several resolutions taken by NUM delegates at the union's eighth national conference in Pretoria last week. The resolutions were released yesterday.

NUM — which is the biggest affiliate member of the ANC-aligned Congress of South African Trade Unions — said a new government would empower the reconstruction fund to borrow money by means of a reconstruction bond. — Sapa

'Yes' to healers

JOHANNESBURG. — The National Union of Mineworkers will negotiate with employers to secure recognition of medical certificates and sick notes issued by traditional healers.

It said it wanted 56 days sick leave a year for its members and 10 days paternity leave for its male members. — Sapa

INTERNATIONAL TAX

Fm 18|2|94

SA-Taiwan sign up

The double-tax treaty signed this week, between SA and the Republic of China (Taiwan), paves the way for large-scale investment from capital-rich Taiwan, with which SA has extensive and long-standing trade relations. (320)

Ernst & Young tax partner Ray Eskinazi says the treaty is based on the OECD model. This was designed for countries at roughly the same stage of economic development and with bilateral trade and investment links.

Fm 18|2|94

One ambiguity concerns SA's secondary tax on companies (STC). The treaty applies to all forms of SA "normal tax" as well as nonresident securities tax but it is not clear whether it applies to STC. The treaty terms apply to "any tax of substantially similar character imposed after its signature." This is sensible, but doesn't help with STC as its imposition long predates the treaty.

Eskinazi says he believes the wording could be interpreted to include STC. But UK Revenue recently issued a ruling that STC is not to be considered a "creditable tax" — ie the UK doesn't consider it a "normal tax" under the UK-SA treaty. This is an important unresolved issue — as our STC is levied at the significant rate of 15%.

The important definition of a "permanent establishment" — which is the basis for taxing profits earned in the host country — is wide. It includes a building site or construction project continuing for more than 12 months. It applies not only to a construction company but also to supervisory activities such as consulting engineering or architecture. (320)

Agents for creating a permanent establishment are also broadly defined. If an agent, whose business is entirely or mainly derived from a Taiwanese principal, has purchased its goods for resale in SA this can bring the principal within the definition. Even merely having an SA agent who secures orders mainly or entirely for the Taiwanese principal is enough to constitute a permanent establishment.

Curiously enough, says Eskinazi, this definition imports elements of the UN model for double tax treaties (between developed and developing countries).

An important provision covers transfer pricing (the establishment of an artificially low or high price between two parties which do not negotiate at arms-length). This provision is commonplace in OECD model treaties, as transfer pricing is a tempting method for manipulating the tax burden in international transactions.

The treaty allows the two signatories to

Cont → P

Fm 18|2|94

adjust a transfer price either upwards or downwards to bring it to a realistic level, when the transaction takes place between two connected parties. It contains an important innovation — if one signatory makes such an adjustment, the other must make a corresponding adjustment in order to avoid double tax. (320)

Of course, the double adjustment could still leave a company paying either more or less tax than in the absence of a treaty, because tax levels in the two signatory countries may differ.

The treaty imposes a maximum withholding tax on dividends of 5% if the recipient owns at least 10% of the dividend-paying company in the host country. SA's non-resident securities tax is otherwise 15%. Taiwan's rate in the case of non-treaty countries is 35%, but this reduces to 20% if the Taiwanese investment has been specifically approved by its government.

Eskinazi says this provision seems to block current efforts by SA Revenue to impose STC on SA branch profits remitted to Taiwan. In any case, this approach seems both unreasonable and impracticable.

Interest paid across the national frontiers is subjected to a maximum withholding tax of 10%. SA today does not impose any withholding tax and the treaty would prevent it imposing one of over 10% unilaterally.

The source state may impose a maximum tax on royalties of 10%. SA's rate is now 12%. Significantly, the definition of royalty includes lease payments on equipment used for industrial, commercial and technical purposes.

Expatriates working in SA for a Taiwanese company (or vice versa) will — as usual — become liable to SA income tax if their total period of residence is 183 days or more within one tax year. And grants by the source state, to a taxpayer to promote decentralisation or economic development, will not be subject to tax in the other state.

The treaty has still to be ratified and comes into effect after the expiry of two full calendar months following the month during which it is ratified by both countries. ■

No escaping death and its new taxation

S1 Times (Buss) 20/2/94

(320)

By TERRY BETTY

ESTATE duty and donations tax are each expected to increase by between 130% and 230%.

They are now 15% and are expected to be rise to between 35% and 50%. For donations the first R20 000 a year is tax free. The first R1-million in a deceased estate escapes tax.

The tax-free amounts are also expected to be reduced and that possibility should be considered in financial planning.

Investec Investment Management Consultants manager Andrew Bradley says the three common estate planning vehicles are trusts, close corporations (CCs) and private companies.

Individuals either sell or lend their assets to one of the three and so limit the amount of estate duty payable on death. In effect, the estate's value is pegged at the founding amount.

If a donor places R1-million worth of assets in a trust or CC and such assets appreciate to R5-million by the time he dies, the beneficiary pays estate duty only on the R1-million.

The capital appreciation is in the name of the trust or CC.

The trust pays tax on the undistributed income. Beneficiaries pay tax only on the income they receive.

Syfrets general manager John Doidge says: "People may consider transferring assets to their children now before the higher tax rate comes in to effect. However, they must consider whether paying 15% now is cheaper than 50% several years later.

"As inflation whittles away the value of money, 50% of the pegged value of the asset may be worth less than 15% is now."

In the above example, if the donor transfers the assets now, the 15% tax will be R150 000.

When he or she dies, 50% of the pegged R1-million might be demanded. Considering that the assets would then be worth R5-million, estate duty would amount to only 10% (R500 000). It would be better to pay the tax later.

Mr Bradley says: "Remember, tax deferred is tax saved."

But if a person expects to die in a few years, it may be better to transfer the assets and pay the lower tax rate now.

It is possible to lower the value of the loan account, or pay it off. In that case, no duty is payable on the donor's loan.

The first R20 000 of donations in a year is tax free. The donor can thus reduce the loan account by R20 000 a year.

"The donor pays the tax now by passing ownership of the assets to the trust or CC.

"If the assets are only lent to the CC or trust, tax is paid when the donor dies. The liability of the trust or the CC to the donor is reflected in a loan account."

A person who lends assets to a CC or trust may sell them at any stage to avoid higher estate duty.

Mr Doidge says a trust set up when the donor is alive is called an inter vivos trust.

"Trusts prevent beneficiaries from squandering money. A trustee controls the money according to the donor's wishes."

Disadvantages are that a trustee might be inefficient and the trust might cost more than a CC to administer.

Syfrets charges R2 000 to set up a trust. It takes 7,5% a year of the trust's income and levies 1,5% of all amounts distributed on its termination.

A capital management fee of 0,5% is charged if the trust's assets require active management, such as with a share portfolio.

Lower fees for exceptionally large trusts can be negotiated.

Mr Bradley says a close corporation costs from R150 upwards to establish.

However, a drawback is that an accounting officer has to submit CC accounts every yearend. A CC pays a higher effective tax rate than a trust.

Trusts pay tax at the rate of an unmarried person to a maximum of 43%. However, beneficiaries of a CC pay an effective 48% tax because of 15% secondary tax on companies (STC) on all income distributions.

But the 15% is levied only on income paid to the beneficiaries as members of the CC. Distributions to a person in repayment of a loan account does not carry STC.

"Private companies have similar benefits to CCs when used for estate planning," says Mr Bradley.

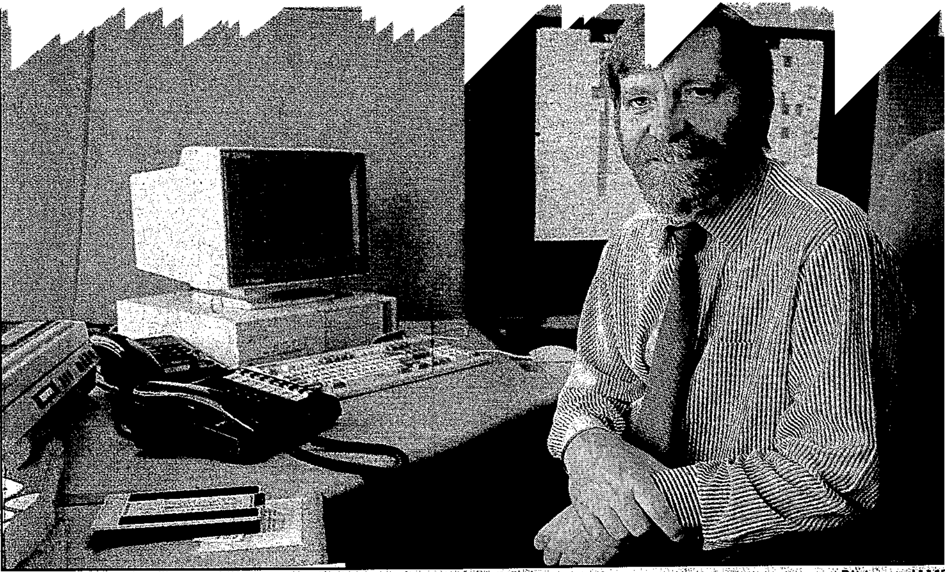
The advantages of pegging the capital value in a trust may be under threat.

Mr Bradley says: "The Margo Commission recommended capital growth in a trust be taxed, although this may never be implemented because of the practical difficulties.

"Should a future government decide trusts are for fat cats and levy a higher tax rate on them, they are easily identifiable.

"A CC has millions of other CCs to hide among and the Receiver would struggle to find those being used for estate planning."

Mr Doidge says it is unlikely that such a tax will be introduced because more than 90% of trusts are established for widows and orphans and more than 60% are worth less than R100 000.



SYFRET's JOHN DOIDGE: Estate-planners face a choice between inflation or taxes Picture: JAME

FM 25/2/94 (320)

curred over the period to which the agreement relates in equal monthly instalments.

Immunity from interest payment ends on February 28 1994 for both timber and aircraft schemes.

And the taxpayer is not entitled to interest up to that date, on provisional tax overpaid or assessed tax paid (under protest) and which has now become an overpayment in terms of the settlement proposals — except in certain circumstances.

In timber schemes sleeping partners are deemed to qualify as farmers, so they gain access to their special tax concessions.

In the case of aircraft schemes:

☐ The scheme must have been entered into before December 17 1993, which is presumably when agreement was reached with representatives of the industry on the terms of the settlement;

☐ The offer is not available where terms of the scheme provided for variation of the taxpayer's participation, except in the event of the death, insolvency, default or withdrawal of any partner. Presumably Revenue felt the right to vary a participation was so flagrant an abuse of the tax law that taxpayers who participated on this basis deserved no concessions. (This point is an element in one Income Tax Special Court case, lost by Revenue and now on appeal);

☐ A sleeping partner of a licensed carrier will qualify for the same concessions as that carrier;

☐ Some of the concessions on accelerated depreciation relating to aircraft are allowed only if 40% of the cost is paid within the period required under section 14*bis* of the Act (normally within two years). This payment requirement is waived for settlement purposes. Also the ring-fencing provisions applying to financiers are waived for settlement purposes;

☐ A loss on resale of an aircraft incurred, eg because of the international slump in the secondhand market, is treated as a loss of a capital nature, as the cost was subject to the (generous) specific write-off schedule authorised in Section 14*bis* of the Act. But, if the aircraft was resold for more than the cost, the excess is treated as revenue and is taxable; and

☐ In the case of secondhand aircraft the cost price will include the costs of refurbishment.

The brief period for submitting acceptances of these offers seems unfair; the *Government Gazette* with the detailed terms was only published on February 18. This deadline cannot be extended by administrative action, as it is written into last year's amendment to the Income Tax Act which authorised the Commissioner to offer settlements.

But a fortuitous political development offers a remedy. Parliament will be recalled soon for a short session, to make last-minute amendments to the Constitution. It would be simple to propose a one-clause amendment to the Act, empowering the Commissioner to extend this deadline.

The counter-argument offered is that parliamentary opposition to the idea of compromising long-standing and important tax disputes might lead to a repudiation of the whole settlement structure. This seems unlikely. ■

THE RAND

Why not now?

Despite the rand's recent weakness against the US dollar (early this week it traded at an historic low of US$/R3,47), the Reserve Bank has apparently not intervened as it did in October, when the exchange rate fell to $/R3,46.

There are two reasons.

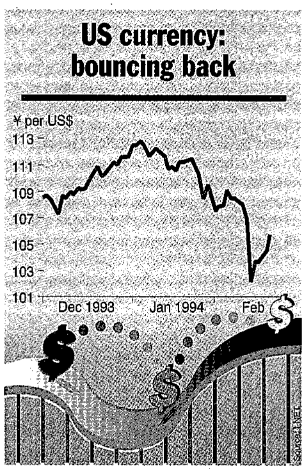
One is that the rand has so far this year remained stable against the cross-currencies. Much of the unit's weakness has really been dollar strength as that currency was boosted by rising US interest rates (see p40). Economic fundamentals have been strong in relation to those in other major countries. So, despite an attempt by the US Federal Reserve to depress the dollar (and damage prospects for Japanese imports), the currency has bounced back (see graph).

In the circumstances, it made little sense to spend foreign reserves further to defend the rand.

Foreign liabilities

Secondly, the Bank had its hands tied by the need to pay off short-term foreign liabilities incurred last year when R8,5bn of foreign exchange was sold into the market to support the rand. Reserve Bank Governor Chris Stals told the Frankel Pollak Vinderine conference last week that the Bank's foreign liabilities rose from R2,6bn at the end of September to R5,3bn at the end of December — excluding the R2,8bn raised from the IMF.

Stals said he decided to intervene in October on the assumption that the outflows were temporary. He hoped that "in the second half of this year, a substantial decline in the net capital outflows could occur."



He pointed to the large potential involvement in SA by foreign investors as well as international agencies such as the World Bank.

Meanwhile a large portion of the Bank's foreign liabilities, R1,8bn, was reduced in January. This repayment, together with R1,7bn paid earlier this week under the Final Debt Arrangement, has put the gross reserves under strain. But it seems that net reserves are starting to improve. ■

ECONOMIC POLICY

Jurassic Park and after

It's hard to see what role remains for the Economic Advisory Council established by Hendrik Verwoerd in 1960. The council, reconstituted every three years, published nine economic development programmes which were either ignored by government or only partly implemented. In the past few years it has produced documents on a long-term economic strategy for SA and an anti-inflation policy.


Liebenberg


McDonald

The term of office of the present council, headed by Barlows chairman Warren Clewlow, is due to expire at the end of June. The last meeting was held in Cape Town on Friday, after members decided in November to cancel May's meeting and wind up business before April's general election.

The council is controversial because critics see it as a creature of apartheid. It was initially conceived as a triangle consisting of government, business and labour — but only in the context of white SA.

In 1985, its constituency narrowed when former President P W Botha refused to reappoint representatives of organised labour and business (though he retained individual businessmen including Clewlow). In 1990, President F W de Klerk drew the SA Chamber of Business and the Afrikaanse Handelsinstituut back in. But attempts to involve the labour movement, dominated by black federations, failed.

The council has had a low profile ever since. Clewlow says: "The council worked out of the limelight. Its discussion and recommendations to government were extensive over a long period. Matters were dealt with in strict confidence to avoid speculation and prevent them losing their effectiveness."

City council's vehicle tax plan

CT 25/2/94 (320)

By PETER DENNEHY

THE City Council yesterday decided to push for a petrol levy of 2c per litre and a 20% surcharge on vehicle licence fees which will affect the whole of greater Cape Town.

This dramatic plan was drawn up by the council's transport experts to help pay for future road construction, because they expect a new national government will not view road maintenance as a priority.

The proposed new petrol tax will hit all private vehicle owners and the licence fee surcharge all those with CA, CY, CJ, CFR, CEY, CFM or CL registrations, according to a report drawn up by director of Metropolitan Transport Planning Mr Ivan Speed.

The council resolved yesterday that "once an interim Cape metropolitan government structure has been established, it be recommended to that body that levies be imposed on vehicle licences and fuel".

The interim Cape metropolitan body is due to be established within months.

A proposal for a R20 monthly levy per parking bay in all central business districts was abandoned by the council. Mr Speed said tolls on a few city roads could be considered in the future, but the council made no comment on this.

The council does not have the power to impose the new taxes, particularly over such a wide area, but it agreed to support them in principle yesterday.

According to a report both new taxes should come into effect in the forthcoming financial year (1994/5) and the funds raised — an expected R14m a year from licences, and R16m a year from the petrol levy — should be allocated specifically to roads and bridges in the metropolitan area.

The vehicle licence surcharge will not be levied on either buses or taxis (minibuses or sedan), or any other public transport vehicles. Both the new taxes would increase the cost of using private cars.

Automobile Association general manager of public affairs Mr Robin Scholtz said yesterday that the private motorist was being taxed out of sight. They are not the only road-users, and taxes are supposed to be fair and across the board, he said.

On the other hand, he said, the AA had campaigned for years for the reintroduction of a "dedicated road fund" — a way of earmarking some taxes specifically for expenditure on roads. "We had such a (dedicated) fund until 1988," he said.

CASUALTY . . . ANC and Azapo supporters drag away the body of a man killed in running battles against IFP members in Bekkersdal township, west of Johannesburg yesterday. The fighting flared over territory disputes in the area. ● **Report Page 3.** Picture: AP

Govt oblivious to tax goldmine, says ANC

B/Day

THE ANC could finance more than half its reconstruction and development programme out of current taxes and raise an additional R3bn to R5bn without any radical change to the tax system, according to ANC tax and legal adviser Prof Dennis Davis.

2/3/94

"The Department of Inland Revenue is sitting on a goldmine, which government seems totally oblivious to," Davis told delegates at the Australian Investment Conference in Johannesburg yesterday.

Major changes were needed in the department. A new government needed to pump money into revenue collection and renew the relationship between narrow-minded, bureaucratic officials and the taxpayer.

~~(310)~~ (320)

Davis said it was estimated that for each inspector, R1,4-million in additional net revenue was collected.

Revenue had fallen in certain offices of the department since the end of the SA Defence Force scheme under which commerce graduates were sent to Inland Revenue rather than serve two years' national service in the SADF.

But the economy would have to grow between 3% and 4% a year and company tax could not be set below 40% if tax revenues were to continue to grow as equal tax for married women would see a fall in payments to the exchequer.

While there were not likely to be any major changes in the 1994/95 Budget, the 1995/96 Budget would see the introduction of a capital tax — most likely a capital transfer tax.

He said it would be "insane" to have more than one kind of capital or land tax and the ANC would choose one that was likely to contribute the most to government coffers.

It had been found that a capital gains tax would not bring in much revenue as the country's GDP was too small.

"However, it seems it's now on the (ANC's) menu and I can't discount the possiblity that a capital gains tax will be introduced in SA."

A wealth tax would not be effective as there were not enough people to tax, Davis said.

He warned a land tax would probably be introduced in some regions of a federal SA as only three regions were fiscally viable — the western Cape, PWV and eastern Transvaal.

A new government would be ill-advised to change the secondary tax on companies and should rather try to iron out the difficulties with group companies.

He did not see pension funds being taxed as they would fall under an individual's property as defined in the Bill of Rights.

"The government will be constrained by the Bill of Rights if it tries to stage an attack on pension funds."

Exchange controls would not be abolished for a number of years.

"That (the unlikelihood of the abolition of exchange control) I am prepared to bet on more than anything else". — Sapa.

Report by J Waters, Sapa, 141 Commissioner St, Jhb.

ANC says personal taxes will not increase

BDay 9/3/94

BILLY PADDOCK

THE ANC promised yesterday taxes on individuals would not be increased, but said it would increase revenue and prove that a better life could be afforded in SA.

Reacting to the latest report of auditor-general Henri Kluever, the ANC said: "Our money has been squandered recklessly, mismanaged, misappropriated and misspent. It is time for a change — not just of direction, but especially of management."

The same sentiments were echoed by the DP, which said it was "concerned about the overall audit", but particularly about all education departments. It called for an investigation of these.

(320)

The ANC said NP claims that its record showed it was fit to govern had been contradicted from "inside the heart of the NP government itself — the state auditor-general's annual report which catalogues a spending spree in which the public service dissipated taxpayers' money irregularly".

The report also sketched a picture of a public service which was "unaccountable and out of control", the ANC said, and quoted Kluever's summary: that there was an inability to manage state debts; there was poor regulation of spending by state entities; and there were deficiencies in accounting for financing of the homelands.

"After those comments, eyebrows will be raised by his curious conclusion that 'the public services were reasonably well managed'," the ANC said.

SA's gross gold and foreign exchange reserves had fallen 3,6% to R330m, state debt had risen 7% to R31,805m, and expenditure 3%.

The ANC said the auditor-general showed tax collection was not always efficient.

"So much for the official record of the NP's competence in government," the ANC said. "It is a record devoid of any sense of responsibility towards the taxpayers, and of total inability to manage matters competently."

It then promised that it would "increase state revenue through rapid expansion and efficient tax collection ... and show that a better life can be afforded without any increase of the tax burden on the people".

DP education spokesman Roger Burrows said the time had come to investigate all education departments, as he was concerned that the overall audit of education had not been done and that millions of rands were being misspent.

DP MP (Yeoville) Douglas Gibson said the report showed "scandalous mismanagement" that had not happened even during the years of President PW Botha.

He said President FW de Klerk had to bear the responsibility for the "extremely adverse comments of the auditor-general".

"What compounds the agony of the poor taxpayers is that millions of rands of this maladministration relates to secret projects," Gibson said, adding that government had to play open cards.

Responding to State Expenditure Minister Amie Venter's announcement of a 12-point plan to correct matters, he said: "When the Nats are at a loss as to what to do, they always announce new plans and a new beginning. It is the same rotten old Nat party."

Report by B Paddock, TML, 11 Diagonal St, Jhb.

Fm 4/3/94

Continued from page 28

M-Net injected a further R130m into FilmNet. Pacak argues it's not that significant in US dollars. It's a rand hedge, so there will be the opposite benefit when FilmNet starts to pay. Until then, FilmNet is absorbing considerable management time, with Bekker spending much of the past two years in Amsterdam.

He says that with interests in 39 countries, including six in Europe, it makes sense for him to spend what he says is about two-thirds of his time in Europe. "The rest I spend at M-Net in Randburg, which is a mature business and is in good hands." That may be so, but the perception is that his absence implies problems with FilmNet. This is the one consistent concern voiced by analysts, most of whom are bullish about the rest of the business.

It's also argued that FilmNet should follow the financial pattern of M-Net, launched in 1986. FilmNet, launched about the same time in Europe, should be successful now that it has shareholders prepared to invest (the problem with former owner Esselte AB, a large Swedish stationery group).

But the environments are different. M-Net's only competition when it was launched was the SABC; at that time competition was so weak as to make everything M-Net offered look good. Also, M-Net initially benefited from government's reluctance to deregulate the broadcasting industry.

It shows in growth of M-Net's subscriber base in SA, which has penetrated more than a third of all TV households. That's very high by international trends, and won't be repeated in Europe, where FilmNet, with about 680 000 subscribers, has only captured about 5,5% of the colour-TV ~~homes~~ in the countries it operates in.

M-Net argues this shows potential growth for FilmNet, and certainly after initial slow growth in subscribers, FilmNet has increased its base from about 600 000 subscribers in September to 680 000 now. It has, however, been expensive growth so far.

And unlike Africa, which has about 1% of the estimated 1bn TV sets in the world compared to Europe's 35%, FilmNet is up against real competition.

This is apparently limited, at the moment, to TV 1 000 Succé, a pay-TV company which concentrates on Sweden while FilmNet's focus is on the Netherlands. But some TV heavyweights in Europe are expanding beyond their traditional markets. For example Canal Plus, with 3,7m subscribers in France, has been venturing into Spain and has begun joint venture talks with German media group Bertelsmann AG about extending operations.

This is not an immediate threat to FilmNet because of its programme rights and other forms of protection in its target markets, but pay-TV is a fast changing industry. It would be unwise to discount serious competition.

After absorbing considerable costs and losses from FilmNet, M-Net is also diluting its ownership. The JCI investment was necessary after the SA Reserve Bank stopped offshore funding, but that reduced M-Net's effective stake in FilmNet. When hard currency earnings finally start to flow, M-Net will get less.

Since M-Net's split, Bekker has warned that MultiChoice is in for significant losses over the next two years. It could exceed M-Net's after-tax profits, he says. That means two difficult years, and only if M-Net has its estimates right. The investments could become spectacular successes — certainly management has shown the ability to take calculated risks. If the worst should happen, its European activities would probably still fetch a good price.

For now, the dearth of information on these important investments is not doing the share price any good. Some analysts are nonetheless rating the share an outright buy, on the strength of continuing strong cash flow from local operations and the long-term potential of new investments. But the exposure to FilmNet and the cellular phone activities, with uncertainty about how long losses will continue, adds a distinct speculative element.

Shaun Harris

FISCAL FEDERALISM

Fm 11/3/94

Has the balance really shifted?

Behind the words and clauses, power over money remains at the centre

(320)

A key Freedom Alliance objection to the interim constitution has been that the provinces will not have enough power to raise money. Though the fiscal sections of the latest amendments to the constitution might go some way to changing this, there is much that needs to be resolved — and enough potential confusion to ensure much work for the Constitutional Court. What is clear is that revenue collection and allocation will still be centrally controlled in most important respects.

What remains true of the constitution is that the workability of the revenue-raising system depends on the proposed Financial & Fiscal Commission. The success of the commission will in turn depend on the appointments made to it; but the wording of the constitution suggests that an appeal to the Constitutional Court would be available in certain circumstances.

Many Western countries are governed according to a federal constitution. Broadly speaking, there are two kinds.

The US version gives the states effective fiscal autonomy. Obviously, each state wants to maximise revenue, but to some extent an effective cap is set on taxes because the states have to compete in offering incentives for industrial development. Even so there are disparities between states — for instance, in sales taxes.

When the West German state was rebuilt in 1949 on federal principles, the issue of revenue was dealt with differently. A rigid formula was established for revenue-sharing between the federal government and the länder (states).

History helps to explain the different approaches. The US was formed by federating what had been sovereign states, West Germany from the ashes of an overcentralised system. The new SA has, like Germany, been forged out of a discarded unitary state.

Arthur Andersen tax partner Pierre du Toit says devolution of powers is desirable — but that the burdens of federalism should not be forced on to structures not yet strong enough to carry them. Remember that the nine new provinces will be artificial constructs to some extent.

To impose true fiscal federalism in these circumstances would be misguided — especially in the light of the vast disparities of wealth between the new provinces. Nor should administrative limitations be underestimated. But Du Toit says all this is not a plea for centralism, merely for gradualism. The constitution makes strong provision for gradual devolution if the political will is there. Certainly the stubbornness of the Freedom Alliance, and in particular of Inkatha, seems to have tilted the political balance a little more towards devolution.

A crucial point at this stage of SA's economic development is to have a mechanism in place which places an effective cap on aggregate taxation powers. This would ensure that the public sector's total claims (national, provincial and local) on GDP are held within prudent limits — otherwise the system becomes destructive and counterproductive. It is important that this argument has been accepted by the ANC, as well as other political parties.

But the pressures for social spending will be intense. Is the ANC's commitment to prudent public finance not to some extent compromised by its insistence throughout negotiations on strong central powers? For what ultimate purpose will those strong

The ANC proposed to review the slice of tax contributed by corporate South Africa to the national kitty to help finance its Reconstruction and Development Programme. ***Claire Gebhardt*** *looks at the implications for companies*

Star 18/3/94

Twisting the company tax screw

(320)

Tax experts and economists have expressed alarm at an ANC proposal to squeeze more revenue out of corporate South Africa.

They believe that any twisting of the company screw will discourage both local and foreign investment, a vital component of job creation and growth.

And rapid growth is the requisite for transforming a sophisticated economy, presently providing a first-world lifestyle for five million whites, to supplying 37 million other South Africans with the basic necessities of life.

At the heart of the debate is the funding of the ANC's controversial Reconstruction and Development Programme (RDP). ANC economics head Trevor Manuel, said in Paarl this week that companies would be targeted to pay for the RDP and that the ANC had done "all the sums".

What he didn't say is that the ANC still has not done its final costing of the ambitious programme, which offers free housing, education and jobs for all.

Although Ben Turok, the man who will implement the RDP in the PWV region, has put the estimated cost of the programme at R30 billion over the next five years, the Development Bank of South Africa (DBSA) is working on a capital cost of R55 billion over the same period, excluding the current cost of education.

Rumour has it that the ANC is having a close look at the DBSA figures.

However, an electioneering Manuel said working people paid extremely high taxes and married women were punished for having left their kitchens to earn salaries.

"We're going to turn it all around and look to companies which are so lightly taxed and strengthen our base from there," Manuel added.

Also this week, Turok intimated at a development strategy workshop that the ANC hoped to raise R5 billion a year by reducing the gap between the nominal rate of corporate tax of 40 percent and what he estimated was a 24 percent effective rate.

Incentives

Tax experts, however, argue that a gap between the rates is very common and doing away with it in a country where nominal rates are high, could have dire unintended consequences for investment decisions.

Historically the tax system, up to 1986, contained numerous tax-based incentives aimed at reducing the high corporate tax rate, "but only for those sectors of the economy nominated as beneficiaries of the incentives", says Ernst & Young's Ian MacKenzie.

"Incentives included investment on hotel and manufacturing plant and buildings, decentralisation allowances, accelerated depreciation for ships and aircraft, export marketing allowance, training allowance and the sponsorship allowance."

However, following the recommendations of the Margo Commission in 1986, most of these were eliminated or curtailed to a point where South Africa fell into the category of countries having no, or minor, tax-based incentives, he says.

"What remains consists of mildly accelerated depreciation allowances on certain assets."

On the personal tax side, South Africa's maximum marginal rates (top rates) have been reduced from 50 percent in 1982 to 43 percent in 1992/93, but no adjustment has been made for bracket creep which pushes individuals into ever higher tax categories because of inflation.

As a result, the individual's percentage of the total income tax take has risen massively over the past decade.

In 1993, companies contributed R11,8 billion, individuals R32,1 billion and VAT collections R17,1 billion to the Receiver's coffers.

Ernie Lai King, group tax consultant of Sentrachem, says radical adjustments to the Income Tax Act will make planning within the corporate environment almost impossible.

"Extracting R5 billion out of corporates will have a ripple effect throughout the economy and will disrupt medium term to long-term planning. Capital expenditure projects run over about 10 years and companies assume what the tax regime will be like then, based on current information.

"If taxes are radically changed, many multi-million rand projects may prove not to be viable. Companies may find themselves in a situation where they are too far down the line with the project to curtail the investment, with the result that other alternatives to reduce costs, such as retrenchment would have to be considered.

Focus long-term

"Instead of focusing on finding the money to meet the expectations of their constituency in the short term, the ANC should focus on where they want the economy to be in five to six years' time.

"Successful Pacific Rim countries have set themselves a vision, sold it to the people and got everyone to pull together to achieve it.

"Should politicians look to meeting the unrealistic expectations of their community in the short term at the expense of economic growth they may find themselves without a viable economy in the longer term."

McKenzie says there is clearly a gap between the two rates but believes the effective rate is probably between 30 percent and 34 percent.

Comparisons internationally revealed that in 1992 the United States had a nominal rate of 34 percent and an effective rate of 13,8 percent, while the United Kingdom had a nominal rate of 33 percent and an effective rate of 15,3 percent, whereas Japan had a nominal rate of 51 percent and an effective rate of 21,9 percent.

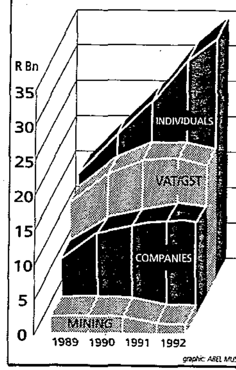
McKenzie said it would be impossible to eliminate the differential without a complete revision of the tax system which would take years, not months.

"Effective rates of tax also differ from industry to industry with the retail/wholesale industry having an effective rate close to 40 percent while in mining and manufacturing it was probably between 30 percent and 32 percent.

"Any interference on the mining side for instance could affect the viability of the whole mining operation."

Lai King said it was not clear how the ANC would reduce the gap between nominal and effective rates, but he expressed concern at the possibility of returning to the mid-1980s era when relationships between the Commissioner and the taxpaying public deteriorated because of confusion between legal tax planning and tax evasion.

TAX COMPOSITION FROM 1989 TO 1993



Efficiency boost for tax revenue

B/Day 23/3/94

GERALD REILLY

PRETORIA — Government is raking in increasing amounts of tax on the huge haul of undeclared income being discovered by Inland Revenue inspectors and auditors.

Latest figures show that tax revenue will be boosted by R2,7bn to be paid on income uncovered in the 12 months to the end of January this year.

Unpaid VAT discovered in the period totalled nearly R750m, compared with R360m in the preceding 12 months.

Unpaid pay totalled R117m, while unpaid stamp duty and transfer duties amounted to R9m.

A spokesman for the Inland Revenue service said a 100% leak-proof tax collection system was unattainable.

However, the leak could be contained by greater numbers of inspectors working on the tax delinquency problem, he said.

His department had calculated that R1,5m in lost tax revenue could be collected for every additional inspector employed.

"Currently we have 1 800 inspectors. Budget constraints make it impossible to employ more. Funds are just not available."

Tax collections had also been hampered in some regions because commerce graduates were no longer as available following adjustments to the national service system.

ANC tax and legal adviser Dennis Davis said the new government would have to pump more funds into its collection strategy. (320)

He said the ANC could finance half its reconstruction and development programme from current taxes and raise R5bnthrough greater collection efficiency.

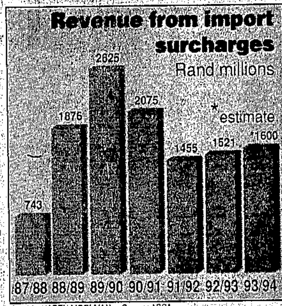
Meanwhile, Inland Revenue is serving more that 14 000 summonses a month on defaulting taxpayers — mostly those who had so far failed to submit returns for the 1993 tax year.

Up to 110 000 or 13,7% of return forms issued were still outstanding.

The spokesman said the massive load of paperwork involved in the system had been drastically reduced because the number of registered taxpayers — 1,8-million — had been reduced by the nearly 800 000 SITE payers who earned less than R50 000 a year and therefore did not have to submit returns.

ANC tax promise to IMF

BDay 24/3/94



Graphic: KAREN MOOLMAN Source: ABSA

GRETA STEYN

THE ANC has committed itself in a letter to the IMF to maintaining a competitive tax structure — including scrapping import surcharges this year if the balance of payments situation permits. (320)

The letter, which has not been publicly released because of the IMF's secretiveness, commits a future government to cutting the 1994/95 deficit to about 6% of GDP. The reduction would "in the light of the importance of maintaining a competitive tax structure emphasise expenditure containment rather than raising taxes".

The letter does not, however, refer to future fiscal years and the ANC has al-

□ To Page 2

IMF

BDay 24/3/94 □ From Page 1

ready indicated that the deficit could exceed 6% in future years. (320)

The letter also commits SA to changing from being an inward-looking economy (isolated by sanctions) to an export-oriented one with world demand providing an engine for growth. In line with this commitment, the import surcharge would be eliminated by mid-1994 — "provided the BoP situation is under control".

SA is already under pressure from GATT to scrap import surcharges, and was given a year's breather last July because of BoP difficulties. Scrapping the surcharge will, however, cause a fiscal headache for a government already strapped for cash. Losing the tax on imports — about R1,6bn this fiscal year — will add to the difficulties in delivering on the reconstruction and development programme in the first year of government.

The Industrial Development Corporation's model shows that scrapping import surcharges and reducing tariffs in line with the GATT agreement will have a "marginally negative" effect on the BoP. However, economists said the future government could build its case on the fragile nature of the capital account of the BoP and rising import demand as the upswing gained momentum. But the appeal could receive a frosty response if the fragile foreign capital situation was perceived to be linked to "dubious" economic policies.

The strategy, according to the statement to the IMF, was to "restore confidence by showing evidence of political stability and financial discipline".

Report by G Steyn, TML, 11 Diagonal St, Jhb.

● See Page 12

ANC aims to ease women's tax burden

(320)

WM 26-30/3/94

Cathy Powers

ELIMINATING bias in tax against women is one of the priorities listed in the sixth draft of the ANC's Reconstruction and Development Programme.

According to law firm Hofmeyr van der Merwe's International Trade and Tax Newsletter, tax for women will be "regardless of their marital status and will recognise women's childcare costs and the unpaid labour they perform", according to the RDP.

Hofmeyr van der Merwe note that although there have been some additions to the RDP on funding through tax charges the "language is still very vague".

"As in the fifth draft," writes Hofmeyr van der Merwe, "it appears that the Financial and Fiscal Commission will be mandated to review the tax structure in order to develop a more progressive, fair and transparent structure."

The RDP sixth draft says the democratic government should establish a Reconstruction Fund to mobilise fund for elements of the RDP that can generate income streams in the future. This fund would "possibly incorporate the wholesale financing requirements of the Electrification Fund and Housing Bank".

The Reconstruction Fund should include "some form of dedicated reconstruction bond" and should "draw on specific reconstruction levies".

According to the RDP, reconstruction levies could include levies on capital transfer, land and luxury goods.

Hofmeyr van der Merwe notes other priorities listed in the sixth draft of the RDP include:

- Reviewing personal income tax to reduce the burden caused by fiscal drag on middle-income people.
- Rationalising company tax breaks for health, education, housing and other expenditures which may conflict with RDP priorities.
- Simplifying the unnecessarily complex company tax system, which is biased against small and medium enterprises and leads to low effective tax rates despite a fairly high nominal rate.
- Zero-rating VAT on basic necessities.

ANC calls for higher car tax

By BARRY STREEK
Political Staff

THE tax of every private car should be increased but buses, minibuses and service vehicles should be exempted, the ANC said over the weekend.

320

CT 28/3/94

An additional R1 tax per parking space per day should also be imposed on all long-term parking bays in the metropolitan areas.

"This would compensate partially for the congestion and pollution caused daily by vehicles attracted to these parking bays," it said in its draft reconstruction and development programme for the Western Cape.

The use of public transport should be promoted by raising the profile and improving the image of bus services and making the metropolitan transport authority responsible for co-ordinating and facilitating minibus taxi services.

The provincial government should create the necessary authorities with full responsibility for organising, administering, managing and planning urban and regional transport.

"It should use economic measures to reduce urban sprawl, restrain private car use and raise revenue.

"Tax vehicles and parking to reflect the social costs of private car use currently borne by the people and government of the city.

"Increase vehicle tax through vehicle licence fees for each private car. This increase could be introduced over a three-year period. Buses, minibuses and service vehicles should be exempted," the document said.

Bill of Rights puts squeeze on the taxman

B/Day

11/4/94

CHARLOTTE MATHEWS

THE NEW constitution will allow taxpayers to ask the Receiver of Revenue to justify its tax assessments, a right they do not enjoy at present.

Ernst & Young tax partner David Clegg said the Income Tax Act required a taxpayer to furnish detailed reasons why he objected to a tax assessment, but there was no similar requirement on Inland Revenue.

The Income Tax Act also had no provision for pleadings, the legal mechanism which usually allowed a defendant to ask for reasons why an action was being brought against him.

But among the fundamental rights guaranteed by the new constitution, Section 24 (c) says that "every person shall have the right to be furnished with reasons in writing for administrative action which affects any of his or her rights or interests unless the reasons for such action have been made public".

A separate section provides that no other law can limit any right entrenched in that part of the constitution, effectively overriding the Income Tax Act.

Clegg said that being furnished with the reasons for an assessment might not necessarily help the taxpayer, but it might be a starting point for a defence. (320)

He added that the present regime was inadequate. "In one incident an individual was taxed on 'undeclared interest income' of which he had never heard. Requests to the Receiver for details proved fruitless. It turned out that income had been undeclared — but by another person of exactly the same name. But before that happened there had been immense frustration, to say nothing of cost, suffered by the taxpayer."

SA tax rate near Africa's highest

Star 19/4/94

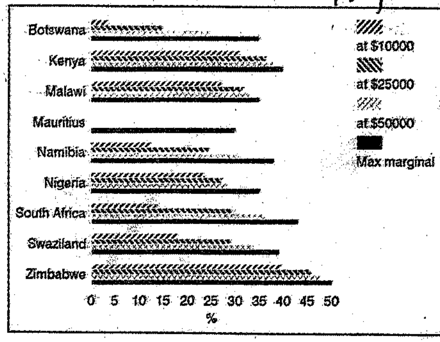
SA's maximum marginal personal tax rate is not only high by world standards, but also by African standards.

A study by Deloitte & Touche of several of the more advanced African countries shows that only in Zimbabwe is the top personal tax rate higher than in South Africa.

The firm says its calculations are based on three levels of gross income — $10 000, $25 000 and $50 000 — and on the percentage of total pay at each level that would go to the taxman, assuming the taxpayer is married with two children and has no pension, medical costs or fringe benefits.

"Clearly, there are problems in making comparisons, such as general costs of living, levels of indirect taxes like VAT and services provided by the government, but nonetheless the comparisons should give food for thought to policy-makers throughout the region."

Deloitte & Touche notes that there are two distinct groups of countries — those with progressive tax regimes and those where tax is just high across the board.



Effective tax rates at various income levels.

(320)

Botswana, Mauritius, Namibia, South Africa and Swaziland have rates that start off fairly low and become steeper as incomes rise.

Malawi, Nigeria and, especially, Zimbabwe, on the other hand, have rates which are high even at the modest $10 000 level.

The firm says only Botswana and Mauritius have serious claims to being low-tax countries.

"Malawi and South Africa are heavily taxed, but Zimbabwe wins the dubious first prize for taxation.

"On the other hand, South Africa and Zimbabwe do have reasonable services by regional standards."

Deloitte & Touche believes tax rates are on the way down in Botswana, Kenya, Namibia and Zimbabwe.

Taxing time for whites

Star 19/4/94

Whites pay 83 percent of South Africa's direct taxes, according to a report by Unisa's Bureau of Market Research released on Sunday.

Direct tax comprises mainly income tax. (820)

The report contains information on the surface areas, populations, per capita incomes, direct tax bases and expenditure patterns.

Regarding personal disposable income (income after direct taxes), whites earn 48,9 percent of the country's total pay packet, blacks 38,3 percent, coloureds 8,9 percent and Asians 3,9 percent.

The State gets 20,3 percent of whites' incomes, 11,2 per cent of Asians', 7,3 per cent of coloureds' and 3,4 percent of blacks'. — Sapa.

Milking corporate taxes could be a tough business

BDay 20/4/94 (320)

GRETA STEYN

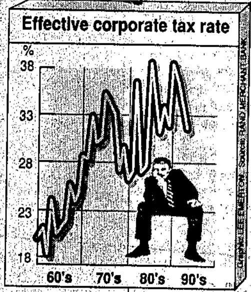
THE ANC's claim that it could help finance its reconstruction and development programme by squeezing more from corporate taxes would prove "extremely difficult" to implement, economists and tax experts said yesterday.

But they said the suggestion to improve Inland Revenue's efficiency could make a difference to tax collection "within months".

ANC head of economics Trevor Manuel last week said the effective tax rates paid by companies in SA was not much more than 22%. He pledged to close the gap between this amount and the nominal tax rate of 40%. This echoed the RDP, which noted as a priority "simplifying the unnecessarily complex company tax system, which ... leads to low effective tax rates despite a fairly high nominal rate."

Tax experts said effective tax rates were about 40% in the retail and services sectors, about 30% for manufacturing and a bit lower for the mining sector, which had generous allowances for capital expenditure.

Rand Merchant Bank economist Rudolf Gouws pointed out that many incentives and allowances which had reduced the effective tax rate had been removed in recent years.



These included investment allowances, employees training allowances, LIFO accounting, accelerated depreciation, the export marketing allowance, concessionary treatment of consumable stores, staff bursaries and many others.

Kessel Feinstein tax partner Ernest Mazansky said it was taking some years for these changes to translate into higher effective tax rates because they were being phased in. Over the next few years, the fiscus would continue to reap the benefits from the drastic action taken to remove allowances that could be exploited.

He said there was not a great deal left that could be done, except for paying attention to the timing of income and expenditure for tax purposes. The one area which was really open to improvement was the quantity and quality of Inland Revenue staff. This would improve collections from the existing tax base.

Ernst & Young tax expert Ian MacKenzie agreed a possible route for the new government towards squeezing more out of companies' taxation was to provide new rules for matching income and expenditure for taxation.

Manuel also said SA spent very little on revenue collection by international standards, and more resources would be devoted to creating a more efficient Inland Revenue.

According to the RDP, the Fiscal and Financial Commission would review the tax structure to develop "a more progressive, fair and transparent" system. Priorities would include eliminating bias against women, reducing fiscal drag on middle-income people, rationalising company tax breaks for health, education, housing and other expenditure which might conflict with RDP priorities, simplifying company taxes and zero-rating VAT on basic necessities.

Relationship between direct and indirect tax

B/DAY 22/4/94 (320)

This is the last in our series of questions to the main political parties. This week: Should the VAT rate rise and if so what about the balance between direct and indirect taxes?

Inkatha Freedom Party

THE IFP is not in favour of any further increase in VAT. In accordance with our commitment to creating conditions for vigorous and sustainable growth, we believe that both direct and indirect taxes should be reduced. If there is any need for government to balance its books there should instead be a cutback on wasteful consumption spending.

In principle, the IFP is in favour of a shift away from direct taxes towards indirect taxes. Direct taxes are imposed on income or capital whereas indirect taxes are imposed on consumption. A shift towards indirect taxes could thus encourage business development and boost savings and investment.

A second advantage of an appropriate shift towards indirect taxes would be the broadening of SA's tax base. The informal sector is said to contribute anything up to 40% of GDP. Informal operators are at present able to escape the direct tax net. A shift towards VAT will increase the informal sector's contribution to total revenue.

A third advantage is that since indirect taxes are regressive and apply equally to rich and poor, they do not discourage entrepreneurial spirit and are economically neutral.

A drawback of indirect taxes is that they are disproportionately borne by the poor. However, with improved economic growth which would result from lower direct taxes, the poor will benefit through greater social transfers.

National Party

ANY TAX such as VAT or GST tends to run into difficulties when the rate gets too high, because it then becomes more profitable for individuals and companies to devise ways to avoid paying tax. The ideal rate is considered to be not above 10%. Our VAT rate is already substantially above that and should therefore preferably not be raised any further.

The question of the ideal balance between direct and indirect taxes is a complicated matter which cannot be fruitfully discussed in the limited space available, except to state the obvious — that the balance must be carefully maintained.

African National Congress

THE ANC has committed itself to relieving the burden on the poor which has been caused by the imposition of VAT on basic foodstuffs. To date the use of poverty relief programmes has proved futile.

In the introduction of any tax change, consideration must be given to the overall tax burden. In this regard the Fiscal and Financial Commission will be charged with investigating the total framework of our tax structure. Short of a viable alternative, the zero rating of a range of basic foodstuffs must be considered. Our tax system is hopelessly retrogressive. To allow VAT to add to this burden is both inequitable and politically dangerous.

Should zero ratings be introduced, the benefit would flow not only to the poor but to all those who purchase these items. Consequent revenue losses could be recouped by a multiple system of VAT whereby luxury items are subjected to a rate of VAT greater than the standard rate. While this may complicate the VAT system, it would allow a government to alter the overall burden of tax imposed upon the poor without any loss of revenue.

Poverty relief is an urgent priority. It cannot wait until the commission has had the opportunity to consider the overall tax structure. However, among the commission's priorities must be a careful analysis of the optimum relationship between direct and indirect taxation as well as the appropriateness of alternative sources of taxation which could include reconstruction levies.

Democratic Party

THE DP is totally opposed to increasing the VAT rate. South Africans are already too highly taxed, which diminishes the country's prospects of economic recovery.

The DP believes both direct and indirect taxes are too high, but an increase in the VAT rate would create an even further imbalance between direct and indirect taxation. SA's VAT rate is very high when compared with other developing nations. It is erroneous to compare our VAT rate to industrialised nations, as their citizens spend a lower percentage of their higher incomes on goods and services than most South Africans have to do. A higher VAT rate would hurt the middle class and poor far more acutely and further delay the emergence of an expanding middle class.

The tax burden must be shared equitably between direct and indirect taxes, and a VAT rate increase would seriously undermine this balance by shifting a greater percentage of tax revenues onto the poor.

Middle income earners are also paying a larger share of tax revenues than they should. Any further tax increases would be disastrous for the economy.

The only sensible course of action available is to rationalise and refocus government expenditure, to reduce waste and mismanagement and ensure that tax rands are spent far more productively than in the past. There is tremendous scope for improvement in this field which would allow a new government to vastly improve on the delivery of social welfare backlogs.

LETTERS

Women in revolt over gender discrimination

Star 22/4/94

Single tax table mooted

BY CLAIRE GEBHARDT

MARRIED women threaten to suspend all tax payments after the election unless taxation anomalies are speedily rectified

A tax revolt by married women is likely to lead to a single tax table for both sexes being announced immediately after next week's election.

The reason for the remarkable about-turn is that married women are besieging Inland Revenue offices and are threatening to suspend all tax payments after the election on the basis of gender discrimination.

They are also gearing up for an application to the still-to-be-constituted Constitutional Court to set aside the present tax legislation.

The basis for their complaint is that any form of discrimination based on gender infringes the right to equality enshrined in the Interim Bill of Rights.

Delegates to a tax seminar on future taxation, presented by Accsys and chaired by ANC tax adviser Professor Dennis Davis, were told yesterday that the revenue lost by a change to a single tax table was likely to be about R1 billion.

(320)

Married men would probably have to fork out the difference through the loss of child rebates.

Justin Cowley, Ernst & Young tax partner, said that given present tax tables, married women paid more than married men up to the R50 000-a-year level, but even above this, lower rebates meant that women effectively paid more.

"At the R50 000-a-year income level, for instance, a married woman is R3 375 worse off than a man if rebates are taken into account.

"At the R80 000-a-year level the difference is R2 875; at R120 000 a year it's R1 675."

This was because married women received a lower primary rebate — R900 compared to R2 225 for married persons, a category that included a married male; a widower or widow; or anyone entitled to a child rebate, such as a single parent.

Married women also did not qualify for child rebates, which were currently set at R100 per child for the first five children and a further R150 for each subsequent child.

Cowley said the Government should also look at equating deductions available in respect of contributions made to retirement annuity funds.

"In certain circumstances a married women is entitled to only half the deduction available to her married-person counterpart."

Davis, who is also head of the Centre for Legal Studies at the University of the Witwatersrand, said the Constitutional Court would be most likely to uphold married women's claims.

"The difficulty, however, is that the Constitutional Court doesn't exist at this time and might not for a while yet."

However, Davis said, a single tax table was likely to be announced immediately after the election, although the Income Tax Act could not be changed until August during the next sitting of Parliament.

Tax experts believe legislation will be made retrospective to March 1.

April 25 1994

Tax practices 'discriminatory'

BDay 25/4/94

CHARLOTTE MATHEWS

THE next government would take steps to redress the potential clash between the constitution and discriminatory tax practices, ANC tax adviser Dennis Davis said last week.

Davis told a tax conference in Johannesburg the ANC was aware that taxing married women differently from married men could contravene the constitutional clause outlawing discrimination. (320)

Sage director Bernard Nackan and Kessel Feinstein tax partner Beric Croome said married women could contest their tax status in a constitutional court.

Davis said the issue would be pursued once the next government was in place. Future tax policy was not decided, he added, but the coalition government would allow more co-operation and the Finance Department would have a greater influence over tax policy.

PAC economics department director Sipho Shabalala said a married couple could decide who would assume the tax burden but Davis said this would make assessment difficult.

Inkatha spokesman Hennie Bekker said Inkatha would treat all taxpayers as single, but because that would mean increasing the tax burden, a reduction of 1% or 2% in the tax rate would be necessary.

The panellists were asked how they would advise a future government to fund social spending.

Shabalala said the PAC did not intend to increase personal or corporate taxes beyond a level that the economy could bear. It would rather try to persuade the business community to use current tax levels in a way that would promote economic development.

Bekker said Inkatha believed broadening the tax base would reduce companies' net after-tax profit, and that it would rather address the stability of labour.

"We believe in affirmative action and that social reconstruction must get under way. Capital resources should be applied to this goal, even if we have to raise funding by selling another Sasol."

Nackan said he would advise government to contain waste spending and conserve money through effective management of the economy.

Nackan favoured extending zero rating on basic items. He said a single universal rate of VAT was an ideal, but the problem of poverty was bigger than the ideal. Shabalala said the PAC would like to retain the levels of VAT, which meant sacrifices by certain sections of the community. It believed the people were more interested in what the government would do to uplift them.

Report by C Mathews, TML, 11 Diagonal St, Jhb.

Individual tax in relation to GDP has doubled in 20 years

Taxpayer stretched to breaking point

Star 18/4/94

(320)

MASSIVE growth of the civil service in both central government and homelands blamed

■ **BY CLAIRE GEBHARDT**

Taxation is used to reduce inequality everywhere in the world and South Africa is unlikely to be the exception, say economists.

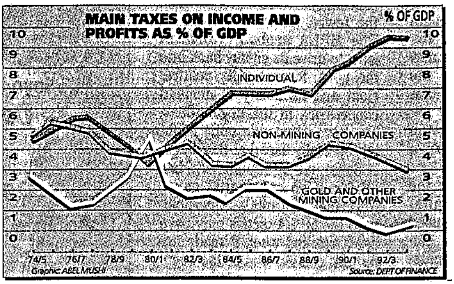
But to just what extent can a new government raise taxes in order to finance increased social expenditure, given present high levels of taxation?

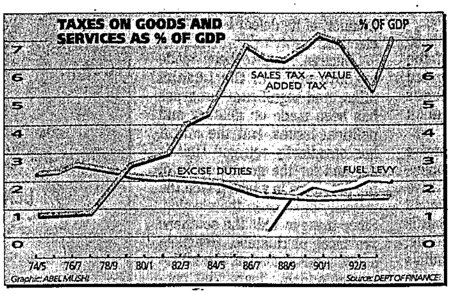
A fiscal review from the Department of Finance indicates just how steeply the individual's tax burden has had to rise over the past two decades to pay for burgeoning government spending — a process linked to declining economic growth.

Much of the government spending was the result of the massive growth of the civil service in both central government and the homelands.

Not only have higher taxes left people with less money to spend, but they have been a major disincentive to productivity.

The review notes that over the past two decades individual income tax in relation to gross domestic product (GDP) has almost doubled, largely as a result of fiscal drag or "bracket creep" and the abolition of the Black Taxation Act in March 1984, which increased the number of taxpayers markedly.





The tax burden of non-mining companies declined marginally over this period, compared with a marked decline in tax paid by gold and other mining companies from almost 3 percent of GDP in 1974/75 to an estimated 0,3 percent in 1993/94.

Indirect taxation, also borne by individuals, soared from less than one percent of GDP in 1974 to almost 10 percent.

A general sales tax rate (GST), introduced at four percent in 1978, was rapidly hiked to 13 percent by March 1989 and replaced in 1991 by value added tax (VAT), initially at a rate of 10 percent.

VAT was subsequently increased to 14 percent in April 1993 and zero-rating extended to a wider range of basic food stuff.

After declining in 1991/92 and 1992/93 as a percentage of GDP, VAT's contribution in 1993/94 now equals the 1990/92 collection of sales tax at a rate of 13 percent.

Collections from taxes on international trade and transactions have remained at about 1,5 percent of GDP.

Import surcharges, increased in August 1988 to protect the balance of payments, have since been lowered, but still contribute more than one-third of taxes on goods and services.

Comparing South Africa's tax burden with international trends, the review says that taxes on income, profits, capital gains and social security taxes make the greatest contriubtion to total tax revenue in developed countries.

The total tax burden also tends to be higher.

In developing countries, on the other hand, authorities tend to concentrate more on indirect tax sources such as sales taxes, VAT, excise duties and taxes on international trade.

The review notes that for the period 1987/88 to 1993/94, the average tax burden in South Africa was similar to the average of the selected developing countries in 1990.

"However the composition and level of direct taxes, excluding social security taxes, and of domestic taxes on goods and services clearly resembles the industrial country pattern.

"With regard to taxes on international trade and transactions, South Africa lies between the averages for the developing and industrial countries.

"If import surcharges are excluded, South Africa's reliance on import duties — chiefly customs duties — is more comparable with industrial countries."

Mandela pledges low tax to get investment

(320) CT 2/5/94

WASHINGTON. — ANC leader Mr Nelson Mandela pledged on Saturday to back a tax system favourable to investment in South Africa.

He also said the ANC would not seize privately owned land for redistribution.

Mr Mandela said the country needed "massive resources", including foreign capital, to rebuild the economy.

"I believe in formulating a fair, low tax system which will be able to attract foreign investment," he told CNN news in an interview by the Rev Jesse Jackson. Mr Jackson was in South Africa to monitor elections.

"A high tax rate can frighten investors," Mr Mandela said. "And I'll make every effort to ensure that although everybody should pay a fair tax, nevertheless we should not raise the tax to an extent . . . it will frighten foreign investors."

Mr Mandela said foreign capital, much of it from the United States, would play "a very vital if not decisive role" in rebuilding the economy.

"We need massive resources to ensure that our reconstruction and development plan takes hold, the plan to build — to create 2,5 million jobs during the next 10 years, to build one million houses during the next five years," he said.

Mr Mandela said the government he is expected to lead would not appropriate white-owned lands for redistribution.

"The white minority has more land than it deserves, but we have no policy to deprive those people who own land," he said.

"We have got vast tracts of state land which can be made available to the masses of the people who do not have land," he said. "In addition, we propose setting up a land bank which will provide the capital to those people who haven't got land, who haven't got capital, to be able to buy land in the market." — Sapa-AFP

Violence stifles revenue collections

Star 2/5/94

BY CLAIRE GEBHARDT

Political uncertainty and violence dropped revenue collections in February, latest Central Statistical Service (CSS) figures show.

A weak performance by both direct and indirect taxes dropped total Exchequer revenue for the first eleven months of the current financial year to 17,4 percent — 2,2 percent lower than the pro-rata budgeted amount. In January it was 0,1 percent higher.

Tax collections on net income and profits to February were 8,0 percent up on the same period in the previous financial year, but were 7,3 percent lower than the pro-rata budgeted amount. (320)

The level of income from indirect taxes also fell in February, compared with January, dropping 0,5 percent, compared with the pro-rata budgeted amount. In January it was 2,7 percent higher.

The increase in total net state revenue for the eleven months is attributed to a 29,7 percent rise in indirect taxes, mainly in the wake of a 49,1 percent increase in VAT.

Econometrix director Azar Jammine says the figures are not cause for concern, but indicate that the budget deficit could turn out to be 7,2 percent of GDP, rather than 6,8 percent.

JSE chief calls for scrapping of securities tax

320 CT 3/5/94

By AUDREY D'ANGELO
Business Editor

FOREIGN exchange control and the marketable securities tax (MST) should be lifted as soon as possible, Roy Andersen, executive president of the JSE, said yesterday.

And he told the SA Institute of Chartered Accountants, at the CA/Anglo Alpha Employee Report award luncheon here, that risk management must improve — preferably with a single regulator for the banks and financial markets and with stricter reporting requirements for unlisted companies.

He said the rapid development of the derivative markets over the past five years — and particularly the development of over-the-counter markets — had created the urgent need for risk management procedures "which take an over-all view of risk exposures."

Stressing "risk can no longer be managed on an instrument by instrument or even market by market basis," Andersen said that the exposure of an entire portfolio to risk had to be managed on an aggregate basis.

"Market operators who tend to slip into the grey area between banks and stockbrokers need to be more closely regulated."

"Similarly, in the case of companies other than banks, insurers, stockbrokers and other regulated entities, the easiest way to escape risk management procedures is simply not to report.

"The JSE's new reporting measures have significantly reduced the incidences of noncompliance among listed companies. But operators outside this net do not face such regulations.

"Non-listed companies can and do issue shares to the public and thereafter unscrupulous managements are able to avoid shareholder or auditor scrutiny by not publishing their financial statements.

"The resources of the Registrar of Companies should therefore be enhanced in order to provide more effective compliance with the Companies Act."

Announcing that the recommendations of the research sub-committee into the future structure of the JSE would be made public today, Andersen said they would have a major and beneficial impact on the future operations of the JSE.

SA had lagged behind the rest of the world as far as setting capital requirements and granting investment licences for over the counter markets were concerned.

"With the increased risks we are facing we need to implement a comprehensive range of new capital requirements based on the internationally accepted building block approach."

Advising the new government to lift foreign exchange controls as soon as possible, Andersen said they were a barrier to meaningful investment.

And it had been shown conclusively that the 1% marketable securities tax drove investment away from the equity market. "This is all probability costs the fiscus more in tax revenue through lost economic growth than it earns through MST.

"With JSE brokerage commissions in a range of between 0,2% and 1,2% depending on the size of the transaction, an additional charge of 1% doubles the cost of dealing on the equity market.

"It is essential that a level playing field be created between the equity market, which is subject to MST, and the derivative markets which are not.

"Our Marketable Securities Tax is the highest in the world and continues to impact adversely on liquidity and turnover in an already concentrated spot market."

Discussing accounting and auditing, Andersen called for filler disclosure. "We need to concentrate more on improving the quality of earnings rather than producing smooth trends which conceal the true volatility of the business from shareholders by the release of provisions created for a rainy day.

"We also need to extend the concept of audit committees beyond the banks and financial institutions."

Basic foodstuffs to escape VAT net

JACQUIE GOLDING

IN ITS agricultural policy unveiled yesterday, the ANC proposed exempting all basic foods from VAT and introducing multiple VAT rates on luxury goods. BIDay

It said zero-rated foodstuffs would help reduce the cost of food, while direct state intervention would improve and stabilise most consumers' purchasing power.

But an economist said that to offset VAT losses from zero-rating all food, the rate on durable goods would have to be doubled.

He said the Macroeconomic Research Group last year proposed a VAT rate of 30% on luxury goods by 1999 and reducing VAT on a wide range of foods. 5|5|94

However, the ANC said an important consideration of VAT relief was that it did not discriminate against informal markets or inhibit competition. (320)

Econometrix economist Tony Twine said: "It's ambitious for a new government, which will be seeking funds for its reconstruction and development programme, to give away VAT revenue."

The policy also said it would be inappropriate to impose excessive regulations that would prevent the informal marketing of cheap produce, but legislation would be enacted to ensure the strict enforcement of basic safety and hygiene standards.

On agriculture, the ANC believed that the state had a vital role to play in upgrading rural infrastructure to facilitate access to markets and guarantee floor

☐ To Page 2

VAT

BIDay 5|5|94

☐ From Page 1

prices for strategic commodities. It also intended removing most remaining statutory powers of control boards. (320)

"Export marketing reforms will be directed at allowing new entrants to the market, enhancing competition and promoting marketing efficiency," it said.

Agriculture Department deputy director-general Chris Blignaut said he was quite pleased with the ANC's policy. It was workable as deregulation of agricultural marketing was already slowly taking place in agriculture. However, the degree to which controls were relaxed had to be carefully considered.

SA Agricultural Union deputy director of general services Kobus Kleynhans said the policy would have to be scrutinised before being applauded. But the SAAU disagreed with the ANC's proposals for farm workers' labour and organisational rights.

SAAU deputy director of commodity services, Hans van der Merwe, said at least the ANC guranteed floor prices for strategic commodities, but he cautioned against too much state intervention.

VAT: ANC to follow Robin Hood policy

320

ARG 5/5/94

□ Higher rate on luxuries to subsidise food

The Argus Correspondent

DURBAN. — The African National Congress has announced a Robin Hood policy on value-added tax.

The organisation committed itself yesterday to exempting basic foods from VAT but slapping a far higher rate on luxury goods to subsidise this.

According to the organisation's agricultural policy document, basic foods would be exempt from VAT to reduce the cost of food.

The document said direct intervention was essential to improve and stabilise the buying power of South Africans and improve food security.

The ANC favoured the introduction of multiple VAT rates with higher rates on luxury products.

VAT relief may also be directed at promoting the consumption of certain foodstuffs with important nutritional benefits.

For now, there is no list of products that qualify for either exemption or higher rating.

A member of the team responsible for drafting the document, Jonathan Beynon, said basic foods would be defined as those foods which were primarily consumed by the poor or which constituted a big portion of the poor's expenditure on food.

"We are still discussing which products will qualify," he said.

Mr Beynon said the motivation for a higher rate on luxury goods was that the income generated from this would subsidise the zero-rating on basic foodstuffs.

The ANC said VAT relief should not discriminate against informal markets or inhibit competition.

The ANC would consider additional food subsidies, mindful of the risk of such subsidies leaking to better-off households, the cost of administration and its impact on informal markets.

"The ANC will also investigate targeted direct income transfers in the form of food stamps or vouchers, or social security benefits in cash."

Food security also required that consumers be protected against excessive levels of pesticide and toxins applied to most foods both on farms and in storage, the ANC said.

The organisation said it would be inappropriate to impose excessive regulations that would prevent the informal marketing of cheap produce. But legislation will be enacted to ensure basic safety and hygiene standards are strictly enforced.

● The Natal Agricultural Union called for the South African economy to be improved to enable incomes to rise so people could buy food at current prices rather than for the government to introduce a cheap food policy.

Director Steve Shone said the union had had talks with the ANC and it did not object to VAT being lifted on all basic foodstuffs or that VAT on luxury goods should be increased.

The problem was that if the VAT base was reduced, this taxation would have to be acquired elsewhere.

TAX ADMINISTRATION

FM 6/5/94

Unsafe havens

One consequence of reunification of SA and its former satellites is that tax havens which flourished in some TBVC states will vanish. Taxpayers who legitimately took advantage of generous concessions could find themselves exposed to overnight disaster.

The new administrators will have to find a way to deal fairly with taxpayers in this position to prevent endless litigation and avoid damage to the economy. Hasty harmonisation could harm businesses, which grew under local tax systems, in TBVC states. So the process must be carefully managed. (320)

This is only one of the problems that will arise when the tax systems of the TBVC states, the self-governing territories and SA Inland Revenue Department are merged. The Constitution requires that all governmental functions such as revenue collection fall under the jurisdiction of the national government after Tuesday when president-elect Nelson Mandela takes office.

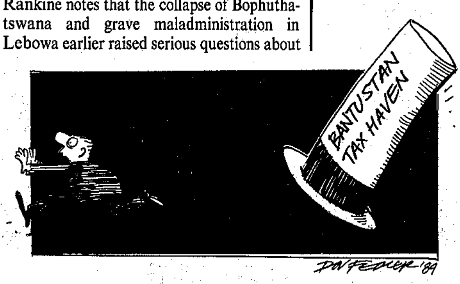
The practicalities are daunting and the process could take time and careful planning.

Until taxes the Constitution authorises are devolved to the provinces, all tax collections will be handled at national level.

As an interim measure, says a press release from Inland Revenue, the TEC has decided that taxpayers having difficulties in making payments in the TBVC states or self-governing territories may make them at any SA Receiver of Revenue office.

Taxpayers who use this facility must quote their reference numbers and — where necessary — submit tax returns with payments.

KPMG Aiken & Peat tax partner Ron Rankine notes that the collapse of Bophuthatswana and grave maladministration in Lebowa earlier raised serious questions about the wisdom of paying taxes to these authorities, despite the legal obligation to do so.



The TEC's subcouncil on finance, in resolution 33, has established guidelines for the harmonisation of the tax systems.

In the preamble, it gives an illustration of the sort of problem now facing tax authorities. A special concession was made by Ciskei, which extended the exemption from income tax for certain manufacturing companies for up to seven years. The decree was issued on January 27, with retroactive effect to May 1 1991.

FM 6/5/94

Other problem areas — which affect the self-governing territories and TBVC states — are incompatible computer systems and administrative procedures.

The harmonisation process, says the TEC, should be decided in consultation with interested parties. The Department of Finance has convened an advisory committee including representatives from the:

- ☐ Department of Finance;
- ☐ Department of Trade & Industry;
- ☐ National Economic Forum;
- ☐ IDC; and
- ☐ SBDC.

(320)

The SA Department of Finance is planning the process.

The former Commission for Administration, now reverting to its original name of Public Service Commission, has an important role in the merger of the 11 tax administrations through its ultimate control over civil service employment and salaries. All parties to tax administration ought to agree the commission should — in approving any harmonisation arrangements — give priority to this process over more general issues affecting the civil service generally. This comment should apply in particular to the authorisation of new posts and adequate salary scales.

Newly appointed Commissioner for Inland Revenue Trevor van Heerden explains the income tax systems are the essential problem, as the various Vat systems have effectively been operating on a closely aligned basis. Inland Revenue has also been assisting with the administration of Vat for the TBVC states. The self-governing states never had any rights or duties in relation to Vat.

He says the first stage of alignment could be to change the tax bases of all the states to a harmonised system. Simply put, the tax base is the foundation of an income tax system, describing the categories of income subject to tax.

Only when this is achieved will it be possible to align the various rates and special provisions within the Income Tax Acts of all the states. Ciskei, he says, presents a particularly difficult problem, as its tax system was not developed from SA tax principles.

He adds that the merging of administrations will receive some assistance from the fact that quite a few officials from the SA Inland Revenue department had been seconded to the other administrations. ■

Many goods could be target of 30% VAT rate

Star 9/5/94

Taxpayers apprehensive

(320)

BY CLAIRE GEBHARDT

The tax axe is likely to fall only in next year's budget, but an ANC reference to multiple VAT rates last week had taxpayers shivering well in advance.

The proposal for an extension of zero-rating on basic foodstuffs and a high VAT rate on luxury goods — possibly as high as 30 percent — was made in an ANC agricultural policy document.

And though Professor Denis Davis of the University of the Witwatersrand and Professor Lieb Loots of the University of the Western Cape, both tax advisers to the ANC, said that what the agricultural group had put forward was merely a proposal, tax experts felt otherwise.

Mooted

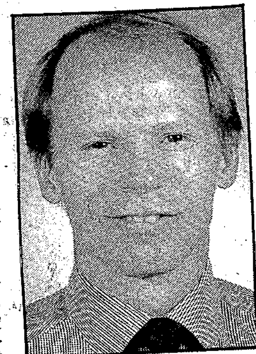
Most said a multi-tier VAT had been mooted in previous ANC policy papers and was almost inevitable, given the need to raise additional tax revenue and pressing political problems.

Some announcement of its impending imposition might be made in the June 22 Budget, they said.

Luxury goods, according to Ernst & Young, are usually defined as motor cars above a certain price, motor cycles above a certain cylinder capacity, precious stones, pearls, gold, furs, perfume, caviar, cameras, video machines, and artistic carpets.

But there is no precise definition and even white goods such as washing machines, stoves, fridges and tumble driers might well be included.

This would almost certainly be the case if "basics" in South Africa were taken to mean almost all foodstuffs.



Marius van Blerck . . . substantial lead time.

Ben van Rensburg . . . more targeted ways.

The more items are zero-rated, the more VAT will have to be increased on others to compensate.

In a pure sense, an indirect tax should not distinguish between rich and poor or differentiate on the basis of income.

However, despite the fact that a multiple rate VAT reduces the tax base and results in inefficiency, most countries have introduced it to enhance progressivity.

Unfortunately, however, rich people benefit as much as, or even more than, the poor from zero-rating.

Kingfisher Finance International chairman, Chris Frame, said administering a system which could well include a zero rate, a 5 percent rate on medicine and medical services, a 14 percent standard rate and 30 percent on luxury goods, would be extremely complex.

Enterprise

"The cost of implementing the system will obviously fall on private enterprise, but the Inland Revenue could face excessive leakage unless stringent and regular inspections take place."

Group tax consultant for Anglo American, Marius van Blerck, cautioned that if a multi-tier VAT was to be introduced, there should be a substantial lead time between announcing it and the effective date.

Systems

"Retailers, large and small, will have to adapt their systems and this will require a massive investment in time and money."

Sacob's (South African Chamber of Business) Dr Ben van Rensburg said a multi-tier system always created problems of definition and distorted consumer choice.

"If, as stated in the Reconstruction and Development Programme (RDP), we are embarking on a huge housing and electrification programme, we will be putting people in a position where they will want to buy electrically driven appliances and most of these things, such as hi-fi equipment, TV sets, washing machines and video machines, will be classified as luxury goods.

"Tax compliance will also become a problem because it becomes increasingly lucrative to be dishonest when faced with a high VAT rate.

Danger

"There's also the danger that South Africa's VAT, which has become a popular tax because it's not seen and has been rated by the International Monetary Fund as the third most efficient in the world, will become as unpopular as GST was.

"We also need to take cognisance of the fact that black people generally prefer quality clothing and quality shoes.

"Does government understand this, or will it rate these items as luxury goods?"

Van Rensburg said Sacob believed there were more targeted ways, such as food stamps, to address the problem of poverty.

Tax hike spectre looms for corporate sector

(320)

ARGT 10/5/94

DEREK TOMMEY

JOHANNESBURG. — The new government's first duty seems likely to be raising additional revenue to meet its promises to the electorate.

Adding urgency to this task is its apparent commitment to sacrificing several billion rands of revenues by exempting a number of basic foods from VAT.

But one of its announced targets for increased tax revenues — the corporate sector — seems umlikely to present it with the extra cash it wants, unless it either raises tax rates or greatly increases the surveillance of company acounting practices.

Trevor Manuel, head of the ANC's economics section, is on record as saying that the effective tax rate paid by companies in South Africa is not much more than 22 percent and that he will close the gap between this and the nominal tax rate of 40 percent.

But while Mr Manuel's figures might have been correct a few years ago, they are no longer so today.

Running down capital allowances has resulted in the rate of actual tax paid coming much closer to the nominal rate.

As a result, the real rate of tax paid by commercial companies is now around 40 percent, while that for manufacturing companies is around 32 percent and rising.

There seem to be few pickings for the taxman in these sectors and the same applies to the gold mining industry.

Its average tax rate last year was about 25 percent, but this gives a completely false picture of the amount of cash the industry has available for distribution to shareholders or for paying extra taxes.

This is because one of the industry's major costs, its capital expenditure, is deducted from taxed profits.

So instead of the industry last year having 75 percent of profits available for shareholders, as the 25 percent tax rate might imply, the actual figure after capital expenditure was only 35 percent.

Tax experts admit that if the new government were to employ additional resources on tax collecting, more revenue could be produced.

But this would be an extremely costly process, requiring the employment of highly skilled and highly paid experts such as chartered accountants who would know where to look for overstated costs and unreported and untaxed profits.

Such people proved their worth in the mid-1980s when chartered accountant army conscripts were given the alternative of working with Inland Revenue, and ultimately generated millions in extra revenue.

But conscription is no more, so if the tax authorities want these people, they will have to pay the going rate for them.

This is between R150 000 and R200 000 a year, a level that could have a major disruptive effect on other public service salary and wage scales.

It is also worth remembering that any extra cash squeezed from companies would mean less money for shareholders and therefore less investment and fewer job opportunities.

For a government which came to power on the promise of huge job creation, this is something it must think hard about.

ANC set to levy MPs' salaries

C1 16/5/94

Own Correspondent

JOHANNESBURG. — The ANC could levy its MPs to help finance party administration, ANC spokesman Mr Carl Niehaus said on Friday.

The party's national executive committee was considering the introduction of a levy on the grounds that "there is a need for MPs to contribute to the costs of running the organisation".

(320)

Members of the SACP in governmental and parliamentary positions are already required to donate 15% of their net income to their party.

ANC Midlands chairman Mr Harry Gwala said there was a moral obligation on parliamentarians earning high salaries to assist the organisation financially.

"We do not want to be seen as penalising people. MPs need allowances to cover their travel costs, but they should not earn more than the highest paid worker."

Multiple VAT 'not best way'

BiDay 17/8/94

CHARLOTTE MATHEWS

A SYSTEM of several different VAT rates was not the best way to help the needy because it offered greater opportunities for tax evasion and would be complex to administer, Coopers & Lybrand tax partner Gerhard Badenhorst said yesterday.

The ANC's recently released agricultural policy document committed the party to exempting all basic food items from VAT and favoured the introduction of multiple VAT rates. (820)

Badenhorst said zero-rating was more practical than VAT exemption because if an item was zero-rated the retailer could claim back VAT paid on the various inputs for the item but if it was exempt from VAT these costs could not be claimed.

Nineteen basic food items are presently zero-rated.

A multiple rating system for VAT would include a normal rate for all but basic food items and a higher rate for luxury goods. However, luxury goods generally formed a small proportion of total consumption and the additional revenue earned should be considered against the higher costs incurred in collecting it.

"The cost of administration of and compliance with multiple VAT rates rises dramatically with the number of rates, both for traders and the revenue authorities," Badenhorst said.

For example, tax forms had to be more complex, errors arose more frequently, and it was easier to evade taxes.

Badenhorst said direct income transfers or subsidies would be a cheaper alternative.

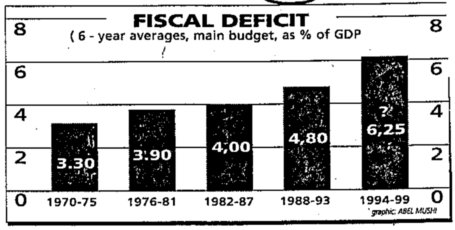
June Budget likely to bring increase

15 percent VAT around corner

Star 18/5/94

(320)

BY CLAIRE GEBHARDT



The June Budget could see import surcharges abolished and VAT hiked to 15 percent to make up for lost revenue, say brokers Ed Hern Rudolph.

Economist Nick Barnardt says some additional basic foodstuffs are likely to be zero-rated and GEIS benefits declared taxable as a first step towards phasing out this export incentive scheme.

The shifting forward to June of the 1994/95 Budget is a good sign for the fiscal deficit in the near term, he says.

"It would appear that the ANC has virtually written off this year's Budget as a vehicle for reconstruction and development and fiscal restructuring.

"In the 1994/95 fiscal year, revenue overruns will exceed spending overruns and the fiscal deficit could quite conceivably pan out below 6 percent of gross domestic product(GDP).

"A figure of 4,5 percent of GDP is quite possible by 1996/97, down markedly from the 6,8 percent deficit in 1993/94."

However, from 1997/98 onwards, government spending is forecast to accelerate as the development programme picks up momentum and the deficit could approach or exceed 8 percent of GDP by the turn of the century.

Barnardt says there is a possibility the finrand and the commerical rand will be re-integrated before mid-1995.

The extent to which the finrand abolition hurts domestic asset prices in rand terms will depend on the extent of the gap between the commercial rand and the finrand at the point of abolition and on the level at which the integrated currency begins trading the next day, he says.

Barnard says the property market is likely to be the prime mover in the next five years in terms of price increases and capital appreciation of SA investment assets.

"Cash will also yield an unusually good real rate of return in the next five years, given tight monetary policy with high and rising short-term interest rates.

"Equity prices will benefit from an influx of foreign funds and ongoing good growth in domestic corporate profits in the next five year."

Sectors which should benefit from structural changes in the macro-economy include:

- Retailers and wholesalers in high-growth consumer spending areas, especially where import protection is to be reduced (cars and components, clothing and electronic appliances).
- Fixed investment-related areas, particularly machinery, electronics, office and other business equipment where turnover should grow by close on 10 percent per annum in real terms.
- Exporters in the metals and minerals area who stand to benefit from higher world commodity prices and the moderate rand depreciation implicit in finrand abolition and others not affected by the phasing out of GEIS.
- Industrial sub-sectors which would gain from a housing and electrification drive.
- Exports, imports, general transport, but especially shipping and aviation, car rentals, hotels and tourism.

APPOINTMENTS

Sandra Lowitt, manager: corporate and economic strategy, Fedsure.

Richard Derman, general manager: strategic investment and banking, Fedsure.

Brian Bruce, chairman, Engineering Management Services Ltd.

Bob Allester, managing director, Engineering Management Services Ltd.

Budget: 'VAT to be hiked to 15 percent'

ARG 18|5|94

320

CLAIRE GEBHARDT

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■ Industrial sub-sectors which would gain from a housing and electrification drive.

■ Exports, imports, general transport, but especially shipping and aviation, car rentals, hotels and tourism.

Meanwhile consolidated expenditure from the State Revenue Account and the revenue accounts of the own affairs administrations and provincial administrations was 20,2 percent higher in the 1992-93 financial year than the corresponding period in the previous financial year, Central Statistical Services said yesterday.

"An analysis of the information shows that direct expenditure on goods and services for current and capital activities amounted to 43,8 percent of the total expenditure in the 1992-93 financial year compared with 45,1 percent in the previous financial year.

"Current transfer payments amounted to 19,3 percent of the total expenditure, capital transfers to 0,7 percent, purchase of shares, loans and advances to 0,1 percent and transfers and loans to other general government bodies and funds to 20,7 percent.

"Interest on loans amounted to 15,3 percent of the total expenditure compared with 15 percent in 1991-92," CSS said.

Current expenditure increased by 23,1 per cent in 1992-93.

Tax structures likely to stay same for now

MARC HASENFUSS, Business Staff

ARG 18/5/94 (320)

SOUTH Africans can expect little tampering with existing tax structures in the next two years, according to Professor Dennis Davis — head of Wits' applied legal studies centre and member of the Tax Advisory Committee.

"It will take some time before the new tax policies become clearer ... but there won't be any dramatic changes to tax structures announced in next month's Budget."

He noted that government's tax policy would be guided by the ANC's reconstruction development programme (RDP). "The government will be exceptionally aware of the changing demands of the emerging South Africa if they want to retain credibility."

The government would also come under pressure in dealing with the increasing tax burden on lower and middle income groups as more unionised workers moved into the R20 000-R80 000 wage bracket.

Referring to VAT, Professor Davis said the decision to exempt additional goods from the tax would cost R4 billion to R5 billion in tax revenue and exacerbate the deficit.

He suggested a multiple system of taxation could be used to offset these tax revenue losses. For example, government could charge 7-8 percent on basic goods, 12 percent for other products and 20 percent for luxury goods.

Professor Davis expected the appointment of a new commission of inquiry into taxation.

He urged that such a commission be open and have broad public exposure — allowing relevant institutes to contribute information and also to facilitate intelligent debate on the findings before any decisions on policies were made.

FRUIT OF THE VINE: Cricketing king Eddie Barlow has laid down his bat in exchange for a more laid-back ... Barlow has now permanently settled on his wine farm Bodega near Klapmuts, where he has established a cellar for fine reds.

Higher taxes could be the final straw

ARG 28/5/94 (320)

CLAIRE GEBHARDT
Weekend Argus Correspondent

JOHANNESBURG. — A 10 percent surcharge on top earners in the June 22 Budget — if implemented — could be the final straw that breaks taxpayers' backs.

The latest shock forecast by tax experts comes in the wake of President Mandela's state of the nation address last Tuesday when he hinted that government would have to hike taxes temporarily to pay for its ambitious reconstruction and development programme.

This appeared directly to contradict earlier statements that taxes would not rise to fund the programme.

However, tax experts and economists said the apparent contradiction could be attributed to the inexperience of a political party suddenly faced with the reality of governing.

Mr Mandela's statement implied that a once-off loan levy or surcharge on companies and individuals was almost a certainty for the 1994/95 Budget, they said.

Taxpayers now face huge hikes in the tax on cigarettes and alcohol, the threat of a 30 percent VAT rate on luxury goods and the hidden tax of higher "user charges".

Fiscal drag, which pushes individuals into ever-higher tax brackets because of inflation, was also seen as likely to push the average income earner into the top marginal tax bracket.

Angry company executives say the move would have the effect of reducing work effort and exacerbating the brain drain.

A loan levy on companies on the other hand, even if repaid with interest in the long term, would impact on cash flows and send many marginal companies to the wall.

Many said they would prefer the imposition of a multi-tier VAT rate which would offer the choice of cutting back on luxury goods.

Sentrachem tax consultant Ernie Lai King said surcharges on companies on taxable income had, in the past, varied from two percent to 4,2 percent and loan levies from four percent to five percent.

Loan levies on individuals had ranged from five percent to 10 percent.

Other tax experts said the definition of a "high income earner" would also be problematic but could tie in with top marginal rates.

These were R50 000 a year for married women, R56 000 for unmarried women and R80 000 for a married man.

A married man earning R80 000 and paying R24 700 in tax ahead of rebates would pay an extra R2 470 a year.

Government could equally, however, target anyone earning above R10 0000 a year.

Ernst Young's Ian McKenzie says government could backdate the increase to the beginning of the tax year and collect the backlog by proportionately increasing PAYE for the rest of the year.

"Unfortunately, if the revised tax tables only come through in October or November, taxpayers could end up paying 60 percent tax on their last three salaries to catch up with earlier months.

Mr Lai King warns that taxpayers face the danger of being "nickelled and dimed to death" by taxes.

"Over and above any additional taxes, we're going to have nine ostensibly fiscally independent provinces, which are likely to raise transfer duties, stamp duties, rates and taxes and RSC levies to fund their social expenditure.

Mr Lai King says government has very little room to manoeuvre given the pressure for social spending and the fact that negative spinoffs on business and investor confidence will limit the amount of revenue that can be raised.

"The danger is that where government does have a range of little taxes, they gradually amount to a much larger burden overall, which could lead to a point of diminishing returns since any additional tax introduced leads to lower tax collected because of a deterioration in tax morality.

"Reducing consumption expenditure instead of raising taxes is a better option given that higher overall taxes adversely affect productivity and productivity is what is needed for the economy to grow."

The individual's percentage of the total income tax take has risen massively over the past decade from R14,3 billion in 1989 to R32,1 billion in 1993.

Over the same period the contribution from companies has risen from R7,5 billion to R11,9 billion and VAT/GST collections, also borne by individuals, from R12,9 billion to R17,1 billion.

Economists attribute the huge increase in taxation to burgeoning government spending, much of it the result of the massive growth of the civil service in both central government and the homelands — the very numbers that Mr Mandela has pledged to preserve.

Experts predict 10% surcharge on top earners

Taxpayers facing heavy RDP burden

Star 28/5/94

PRESIDENT Mandela has hinted at higher taxes in the Budget to fund Reconstruction and Development Programme. CLAIRE GEBHARDT reports.

(320)

A 10 PERCENT surcharge on top earners in the June 22 Budget — if implemented — could be the final straw that breaks taxpayers' backs.

The latest shock forecast by tax experts comes in the wake of President Mandela's state-of-the-nation address on Tuesday, when he hinted that the Government would have to raise taxes temporarily to pay for its ambitious Reconstruction and Development Programme. This appeared to directly contradict earlier statements that taxes would not rise to fund the RDP.

However, tax experts and economists said the apparent contradiction could be attributed to the inexperience of a political party suddenly faced with the reality of governing.

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Angry company executives decried the move as discriminatory, saying it would have the effect of reducing work effort and exacerbating the brain drain. A loan levy on companies, on the other hand, even if repaid with interest in the long term, would affect cash flows and send many marginal companies to the wall.

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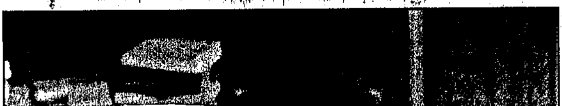

FROM PAGE 1

♦ Tax burden

Star 28/5/94

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"Reducing consumption expenditure instead of raising taxes is a better option, given that higher overall taxes adversely affect productivity, and productivity is what is needed for the economy to grow."

Economists said South African taxpayers already faced penal rates of tax. The individual's percentage of the total income tax take has risen massively over the past decade from R14,3 billion in 1989 to R32,1 billion in 1993.

Over the same period the contribution from companies has risen from R7,5 billion to R11,9 billion and VAT/GST collections, also borne by individuals, from R12,9 billion to R17,1 billion.

A recent Fiscal Review issued by the Department of Finance shows that individual taxation in relation to GDP has doubled in 20 years.

Economists attribute this to taxpayers having to pay for burgeoning government spending, much of it the result of the massive growth of the civil service in the central government and homelands.

Not only have higher taxes left people with less money to spend, but they have been a major disincentive to productivity and have been linked to falling economic growth.

BIDING HIS TIME: Felix Nocella (left) rereads the only letter he has received from his pregnant girlfriend, former Miss South Africa finalist Vanessa Goosen, since she was arrested in Thailand for drug-trafficking.

ALLEGED DRUG RUNNER: Vanessa Goosen (above) in happier times. She is now languishing in a Thai jail along with five other South African women.

PHOTOGRAPH: DEBBIE YAZBEK

on drug charges

...sa Goosen (21), a Miss South ...inalist in the contest last ...rote a letter to her lover, ...ocella (28) from Bangkok's ...o prison to tell him the news: ...n't believe how big I'm get ...d the baby is kicking al-

...ther women charged with ...rafficking in the past three ...are Dawn van Niekerk of the ...d Nila Duginov, Octavia Malevu (33), Katherine Mynengeza (25) and Gladys Naidoo (40) of Johannesburg.

The Department of Foreign Affairs in Pretoria has identified the two men as Alexander Krebs and Jordaan Ebrahim, but had few further details about them.

Goosen was arrested at Bangkok's

TO PAGE 2

Higher income tax 'likely in next month's budget'

320 ARG 26/5/94

Top earners seen as probably the short-term target

DAVID CANNING

HIGHER income tax is probable in next month's budget, with top earners the likely short-term target.

Those in the top marginal tax bracket should brace themselves for a possible 10 percent surcharge this year. And the rise could be backdated to March 1.

At the same time, VAT is likely to be increased — possibly to 15 percent — to compensate for the exemption of more basic foodstuffs.

Estate duties could be put on a sliding scale of up to 35 percent while excise duties on liquor and tobacco products are set for big jumps.

These are the main short-term practical options facing the government in a bid to balance its books for next month's budget, according to Rob Stretch, tax partner with Ernst and Young in Durban.

Economist Tony Twine says President Mandela yesterday left the door open for one-off special taxes or levies in the June 22 budget when he said the government wished to avoid a "permanently higher general level of taxation".

Finance Minister Derek Keys added fuel to the speculation by later adding that a cut in the budget deficit would have greater priority than avoiding short-term tax increases.

Mr Stretch said the timing of the budget in mid-year would limit the government's options — and higher tax earners were the most likely target.

In terms of international norms, top income earners in South Africa paid a smaller percentage of total tax, while middle-income earners (R40 000 to R70 000) paid a higher proportion. It would be seen as "politically correct" tc tap higher income earners for, perhaps, another 10 percent.

A married person earning R80 000 and paying R24 700 in tax (ahead of rebates) would pay an extra R2 470 a year.

Another view is that the government could implement a repayable loan levy — although this could be cumbersome.

Mr Stretch said a 10 percent tax surcharge would not necessitate production of new tax scales. The government also might backdate the increase to the beginning of the tax year, collecting the backlog by proportionately increasing PAYE for the rest of the year. This would be unfortunate.

While government members have stated in the past that higher tax on luxuries was an objective, there could be short-term practical problems in implementation.

Mr Stretch sids many companies were not yet geared up for a switch to multiple rates of VAT, in which luxuries would be taxed more heavily. This could well happen in the longer term.

Similarly, married women were likely to get some relief from a desire to put tax on a neutral basis — at present their tax scale tended to be higher than the general scale. But this would mean complicated changes to tables that the government might wish to avoid in mid-year.

Mr Stretch did not foresee changes to company tax rates in view of the government's desire to woo foreign investment. Company taxes already are fairly high by world standards.

Commenting on Mr Mandela's speech, Econometrix's Tony Twine said zero growth in government consumption spending would not be easy to achieve, given an election promise that every civil servant's job would be secure.

"However, on the RDP side, I believe the fiscus can easily absorb this year's contribution of R2,5 billion, which is unlikely to put any stress whatsoever on the deficit."

Mr Twine said the RDP could start the ball rolling in terms of the multiplier effect and could stimulate economic activity.

Analysts predict 10% surcharge

Top earners face added tax burden

Star 26/5/94

BY DAVID CANNING

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Econometrix's Tony Twine says President Nelson Mandela left the door open on Tuesday for one-off special taxes or levies in next month's Budget when he said the Government wished to avoid a "permanently higher general level of tax".

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Twine says the RDP could start the ball rolling in terms of the multiplier effect and could stimulate economic activity.

By AUDREY D'ANGELO
Business Editor

Tax changes unlikely 'in short term'

(320)

CT 18/5/94

FEW major changes to the tax structure are likely for the next two years, Dennis Davis, head of the centre for applied legal studies at Wits and a member of the Tax Advisory Committee, said yesterday.

He told the annual conference of the Institute of Retirement Funds at Somerset West that he suspected "very little dramatic is going to happen" in the Budget next month.

He thought the new government would probably set up a commission of inquiry into the tax structure "which will possibly be more attuned to the realities of SA than the Margo Commission was".

Meanwhile there were unlikely to be any ad hoc tax changes before the commission's report.

Davis said he hoped it would hold its hearings in public, with a great deal of input from professional bodies.

However, he expected a capital transfer tax to be imposed, and changes to estate duty which was at present levied only on estates exceeding R1m. But he believed no decision had been reached on generation-skipping devices.

He did not think a capital gains tax would necessarily be imposed, because the revenue gained from it would not be much in relation to the administrative costs.

Davis said that, in spite of the cost to the fiscus, he thought the clause in the new constitution outlawing discrimination on grounds of gender would force the Government to give equal tax treatment to married women — although "it is probably too late for this to happen this year."

The government had "rightly committed itself" to alleviating the effect of VAT on the poor.

But a multi-rated VAT would create administrative problems and it would be difficult to define luxury items. Exempting foods such as meat from VAT would benefit the wealthy as much, or more, than the poor.

The logical approach would be to carry out properly targeted, effective poverty relief programmes.

Looking ahead, Davis said a way would have to be found to stop "the enormous haemorrhaging from the tax system" as a result of business finding ways to reduce its tax liabilities.

Corporate rate

The nominal corporate tax rate was too high and the government aimed at reducing it, but the effective rate of tax for many companies was too low. Without stopping this loss to the fiscus it would be difficult to reduce the tax rate.

The government was also committed to reducing the effect of fiscal drag on people in the R20 000 to R80 000 a year income bracket.

The new constitution made provision for a financial and fiscal commission. This would be a most influential body. Its duties would include the vitally important one of recommending the allocations to the new regions.

100% cigarette, alcohol tax mooted

ANC plans R12bn health care shake-up

BIDay 19/5/94

(320) (88)

JACQUIE GOLDING

THE ANC plans to increase the health budget from 3,4% of GDP to 4%, raising government expenditure on health care to more than R12bn.

The hike, proposed in the ANC's national health plan presented in Johannesburg yesterday, represents a shift from 11,5% to at least 13% of last year's Budget.

ANC health department head Dr Ralph Mgijima said the plan set out a five-year programme to create a single, integrated national health system based on effective primary health care and funded through existing taxation.

"A single government structure will co-ordinate all aspects of both the public and private health care delivery and all existing departments will be integrated."

In addition to general taxation, ANC health advisers recommended increased excise on tobacco and alcohol of up to 100%. They added that reduced expenditure by other government departments such as defence could see extra funds being diverted to health.

"Additional expenditure can be immediately derived by increasing taxes on tobacco which will have an added effect of reducing consumption," Mgijima said.

The plan, which includes a strong emphasis on building up the public health service and discouraging expansion of the private sector, was presented to Health Minister Nkosazana Zuma yesterday and was likely to become official health policy.

The comprehensive plan, which also recommended the zero-rating of basic foodstuffs, would be "thoroughly discussed" with the Finance Department, said Mgijima, adding that the ANC strongly supported moves to extend VAT exemption to medicines and medical services.

As a means of achieving an equitable health care system, the report urges the Health Minister to recommend next month that, among other things, free medical services be provided to children under the age of six, the elderly, the disabled and pregnant and nursing mothers.

It also called on government to urgently appoint a commission of inquiry to examine the crisis in the medical aid sector and to consider alternatives such as a compulsory national health insurance system.

It proposed that, in addition to general taxation, health care be funded by an insurance system based on employer and employee contributions.

The proposed commission of inquiry is expected to investigate the economic feasibility of such an insurance scheme and undertake planning if there is sufficient consensus on the option.

The investigation into an insurance system would be based on whether current

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Health plan

BIDay 19/5/94

From Page 1

medical schemes could form its basis and whether existing schemes met specified statutory conditions governing the health insurance system. (88) (320)

The ANC's health plan suggests that membership be compulsory for all formal sector employees and their dependants and that the health coverage provided by the scheme be statutorily defined.

Existing health insurance companies and medical schemes would be free to offer "top-up" cover for services not covered in the insurance package, said Mgijima, adding that the long-term goal would be for all citizens, including the unemployed, to be covered under the system.

An Econometrix senior economist said the zero-rating of more basic foodstuffs was better than government food subsidies, and said government could make up for the lost revenue by increasing taxes on "luxuries" such as tobacco and alcohol.

Higher cigarette, liquor taxes 'will mean less revenue'

EDWARD WEST and
MARCIA KLEIN

PROPOSED increases in taxes on liquor and cigarettes would not neccesarily increase government revenue but could seriously harm employment, industry sources said yesterday. BDay 20/5/94

News of the ANC's health plans, released on Wednesday, saw Rembrandt Controlling Investments drop 26% or 600c a share to close at R17 on the JSE yesterday. Subsidiary Remgro lost 5,5% or 175c to close at R30 and KWV lost 2,6% or 25c to 950c. But tobacco group Utico's share held steady at R120, while those of SA Breweries (SAB) rose marginally to R99.

The plans included the possibility of lifting taxes on these products by as much as 100%. (320)

The Tobacco Institute said doubling taxes on cigarettes would lower consumption and trigger job losses at farming and manufacturing levels.

Sapa reports the Tobacco Action Group welcomed a higher tax on cigarettes. It said a R1 increase in the price of 20 cigarettes would raise about R1bn extra in tax annually, as well as reduce the number of smokers by 1-million. The hike would also contribute to improving the health of South Africans by discouraging smoking.

The Medical Research Council had estimated that a R1 increase would eventually result in 250 000 fewer premature deaths from smoking-related diseases.

SA's current cigarette taxes were among the lowest in the world. Taxes made up 38% of the retail price of cigarettes in SA, compared with 86% in Denmark, 76% in the UK and 73% in Germany.

The KWV said excise duties on wine products directly affected the income of rural communities in the Western Cape. A radical increase in duties would affect 300 000 people on farms, local small businesses and job opportunities in auxiliary industries and businesses. Increasing duties did not necessarily increase revenue as this could result in lower consumption by moderate consumers.

SAB public affairs manager Adrian Botha said SAB supported the need for reconstruction and development, and accepted that excise duty was a means of raising revenue. But a doubling of tax on alcohol would affect revenue and not necessarily reduce alcohol abuse.

A major excise hike had a severe effect on sales, and "leads to diminishing returns, with government ending up with less revenue than before the increase".

SAB's beer division already made "a considerable contribution to government revenue and provides nearly twice the revenue of the entire SA mining industry". It was important "to carefully consider any action which could lead to the killing of the golden goose".

There would also be the added danger of encouraging illegal trade in liquor, Botha said.

A Utico spokesman said it was difficult to comment as there was no definite proposal on the table, and no specific increases mentioned. Excessive taxes in Canada had led to a drop in the official consumption figure, but resulted in such large-scale smuggling that government consequently reduced taxes.

The hungry would be last to benefit from zero-rating

BDay 20/5/94

WILLEM CRONJE

320

WE HAVE made a widely popular and applauded transition to a democratic state. Now the challenge is to provide a better life for South Africans suffering from hunger and poverty.

"Attacking poverty and deprivation must therefore be the first priority of a democratic government," says the ANC's reconstruction and development programme (RDP).

Hunger and deprivation are shameful blots on our society. The question is how to plan the battle against poverty, using our limited resources to best effect. The RDP recommends, inter alia, the provision of employment opportunities through a public works programme and the provision of food subsidies.

It also recommends "zero-rating VAT on basic necessities".

However, zero-rating food and other necessities will not be successful: it is not the way to go in attacking poverty.

Why not?

In the first place, basic economics — the elasticity of the supply and demand curves — teaches that reducing a tax such as VAT would not result in the full benefit of the reduction being passed on to the consumer. The cost to the consumer will always fall by less than (in our case) the 14% VAT rate: the fall could, for example, be only 10%. This reflects not unkind behaviour by shopkeepers, but the basic laws of economics.

Second, all consumers will benefit — rich and poor alike. A great part of the benefit will go to those who do not need it. The wealthier sections of the population spend up to four times more on food per family unit than the poorer sections.

Third, the hungry will hardly benefit. The shortfall in their nutritional intake is so substantial that a price cut of (let us assume) 10% would not meaningfully assist them.

Fourth, zero-rating — balanced to an extent by higher rates on luxuries — would greatly complicate the VAT system, leading to wasteful compliance costs.

Fifth, it would be difficult to distinguish basic food from other food: the result will often be capricious.

Last, but not least, extensive zero-rating provides an ideal environment for cheating on VAT. Vendors would be tempted to distort the classifications between standard and zero-rated sales, and pocket the difference. It would also be much more time-consuming for Inland Revenue to audit VAT returns, requiring unnecessary staff expenditure.

The main argument against zero-rating of food and other necessities is, however, the huge cost in terms of the loss of revenue to the state.

About a third of total consumption is already zero-rated: brown bread, cereals, fruit, vegetables, eggs and milk. The annual revenue loss to the state is approximately R3bn. If fresh meat, chicken and fish were also zero-rated, the total loss in revenue would be about R6bn a year.

Let us examine this R6bn loss in perspective. This loss is equivalent to 50% of the total estimated corporate tax for the current year.

The plain fact is: we have hardly any fiscal room to manoeuvre. We have enormous expenditure needs; our tax rates are already very high by world standards; our Budget deficit of R25bn is far beyond the "danger zone" of 3% of GDP (it was 6,8% of GDP in the fiscal year just ended).

We just cannot afford substantial zero-rating of food. The R6bn should be applied towards reducing our dangerously high Budget deficit. In addition, there will be substantial further losses as a result of the complexity of multiple rates and the resulting higher compliance costs and increased evasion.

To extend zero-rating beyond food to all basic necessities would be even more damaging to the fiscus. In a relatively poor developing country like SA (our national per capita income is 10 times less than wealthy nations such as the US, France and Japan) most of our consumption consists of necessities.

If one considers that necessities include clothes, medical care, housing, education and transport there is little left. We would lose more than half our VAT base — more than the total of company income tax!

Nor could the tax losses from zero-rating food or other necessities be recovered through higher (say 30%) VAT on luxuries. Our expenditure on true luxuries is not nearly large enough.

Furthermore cars, cameras, television sets and so on already suffer high excise duties — as do cigarettes and alcohol.

Attempts at increasing tax on luxuries such as fashion clothing and jewellery would cut across another objective of the RDP: to increase our export of manufactured goods. Local excise taxes — or increased VAT — will reduce demand for the goods, rendering the manufacturers too small and weak to compete in world markets.

In any event, if there is scope for additional tax on luxuries, we should impose this for its own sake. We need all the tax revenue we can generate for our pressing expenditure needs. Luxury taxes should not be used to trade off lower VAT on food.

The idea of food stamps as a means of assisting the poor and malnourished has been mooted in the media recently and also in the ANC's agricultural policy document.

Food stamps generally raise concerns regarding welfarism and complex administration. I believe these fears can be addressed.

If we were a rich nation, dispensing food stamps to all and sundry, we could have a problem with the development of a welfare mentality. However, we simply cannot afford such largesse. Our food stamp programme should be specifically targeted, mainly at children who are clinically malnourished, ie below height and weight limits. The unemployed and their dependants would be the main beneficiaries.

To further reduce the risk of a welfare mentality developing, it would be sensible to introduce food stamps at the same time as the proposed national public works programme. This programme will provide employment and skills training, and a bridge from unemployment (with reliance on food stamps) to formal sector employment.

Food stamps should not require a large bureaucracy. Administration could be done by the existing staff of hospitals and clinics. It might be necessary to build more clinics in remote rural areas. This is already a policy of the new government.

There are some real advantages in a food stamp programme.

We would combat the shameful hunger and sometimes starvation facing millions of our people. There is a huge invisible cost in seeking to accommodate in society millions of people who as children were physically and mentally stunted by malnutrition.

Food stamps would inject economic activity directly into the most depressed areas in SA, rural and urban, boosting retail trade and the market for local farm produce. As food stamps would use existing retail outlets, they would enhance rather than (as in the case of food parcels) compete with such outlets.

Food stamps could be printed in the same way as postage stamps, and would be just as difficult to forge. They would be redeemable by participating retail outlets, at banks and post offices. The cost would be part of central government's social welfare costs.

Where necessary, the stamps could be issued in colour-coded form where specific nutritional needs existed, for instance energy, protein, minerals and vitamins.

No one is saying a food stamps programme would create no problems or costs, merely that such a programme would be the most effective way to attack and combat deprivation and hunger, often the result of unemployment.

Based on an estimated 5-million people who are malnourished, and assuming an average monthly allocation of R50 a person, the direct costs would be R3bn.

This is only one half of the cost of zero-rating all basic food. It would be far more effective, as the most deserving 5-million needy people would receive the relief.

Food stamps are morally, socially, economically and politically the way to go, and the best way to achieve the nutritional aims of the RDP.

□ **Cronje is a tax adviser in public practice.**

Liquor, tobacco tax threat outcry

CT 20/5/94 (320)

By IVOR CREWS

MEMBERS of the liquor and tobacco industry yesterday hit out at the ANC proposal that the government double the tax on cigarettes and alcohol to pay for its new national health plan.

Mr Andre Steyn, director for administration at Stellenbosch Farmers' Winery said increased taxes on alcohol would be counter-productive, causing sales to drop and causing the government to lose money.

He said increasing taxes on alcohol would drive the liquor industry underground. However, a decrease in drinking would contribute to health.

A spokesman for KWV said excise duties could lead to unemployment in the Western Cape.

He said higher taxes had not curtailed alcohol abuse anywhere in the world.

The Tobacco Institute of South Africa, representing the industry, said a large increase in price would lead to a decrease in tobacco consumption and a loss of jobs.

The Tobacco Action Group, representing the Heart Foundation, the Cancer Association and the National Council Against Smoking, said a R1 increase in the price of a packet of 20 cigarettes would raise about R1 billion annually.

Professor Solly Benatar, head of the department of medicine at UCT, said he supported an increased tax on alcohol and tobacco which would generate funds for primary health care as well as the public sector.

Prof Benatar said he supported many of the principles outlined in the ANC plan.

'Alcohol, tobacco tax will cost jobs in Western Cape'

(320) ARG 20/5/94

□ Kriel joins outcry, says thousands will be out of work

Staff Reporters and Sapa

WESTERN Cape premier Hernus Kriel says the African National Congress proposal to double the tax on alcohol and tobacco will cause the loss of thousands of jobs in the province.

He said the increase in taxes would slash profit margins and cause retrenchments among the almost 300 000 people directly dependent for their living on the wine industry.

In Oudtshoorn, tobacco was a vital part of "an otherwise precarious agricultural industry".

The Small Farmers Development Corporation had recently started encouraging black farmers to cultivate tobacco.

"I call on central government not to consider this recommendation. It is in any case not in line with election promises about more jobs for the people," Mr Kriel said.

The proposal has been slated by South African Breweries and the Tobacco Institute of South Africa, but welcomed by the anti-smoking lobby.

South African Breweries said the plan would "kill the golden goose" and have a negative impact on both revenue and alcohol abuse.

The Tobacco Institute of South Africa, representing the industry, said a big rise in price would lead to a fall in tobacco consumption and consequently a loss of jobs in the farming and manufacturing sectors.

But the Tobacco Action Group, an anti-smoking lobby, has welcomed the announcement and said the plan would improve the health of South Africans.

And Cape Town's medical officer of health Michael Popkiss has welcomed the government's proposed new tax on tobacco products.

Government revenue would be increased and tobacco consumption would drop, he said.

In an announcement yesterday the government said it intended increasing the tax on cigarettes and alcohol by as much as 100 percent to pay for an ambitious new health plan based on primary health care.

SAB spokesman Adrian Botha said the SAB had made submissions to the ANC on the issue some time ago.

History had shown that a major excise increase hit sales badly which resulted in the government receiving less revenue than before the increase.

Because the beer division of SAB provided "twice the amount of revenue" generated by the entire South African mining industry, it was imperative to "carefully consider any action which would lead to the killing of the golden goose".

The Tobacco Institute said higher prices did not necessarily mean lower consumption.

They referred to experience in Canada, when "excessive" tobacco taxes caused a drop in official cigarette sale statistics.

But large-scale smuggling at much cheaper prices followed, "creating social and financial problems for the Canadian government.

"In February this year drastic and immediate cuts in cigarette taxes were announced by the Canadian prime minister."

But the Tobacco Action Group disagreed.

Experience in many countries had demonstrated that the price of tobacco was perhaps the single largest factor in influencing short-term patterns of tobacco use.

"More importantly, high prices play a large role in deterring young people from starting to smoke. On average, a 10 percent price increase will result in a five percent fall in adult cigarette consumption but will cut teenage consumption by 12 to 15 percent."

COMPANIES

Small businesses in SA pay same tax as big league

S/Times 22/5/94

[Buss]

By CIARAN RYAN

SMALL businesses in South Africa pay higher tax and enjoy fewer incentives than their foreign counterparts, says a study sponsored by Sunnyside Group.

They are charged 40%, the same as large businesses. American small businesses pay a tiered tax rate, one applying to the first $100 000 profit.

The report by Washington consultants Matt Gamser and Tom Gray, says: "The lower tax rate on smaller businesses (in the US) enables the company to generate profits more quickly than they could under high rates."

Regional taxes should be used for economic development, such as the provision of market information, industrial parks and infrastructure.

The cost of luring businesses from one region to another through tax breaks may offset the social benefits of industrial growth. Regional development policies should focus on providing a pool of skilled labour through education and training, says the report.

Small businesses should be able to adjust wages to reflect productivity. Trade-union opinion that small businesses exploit labour is false. Small businesses use more labour and less capital than larger competitors, says the report.

"In an economy which has not reached a full-employment equilibrium, it would appear desirable to favour smaller businesses and more jobs, even if some of the jobs are less well paid than big-business jobs."

An international comparison of small business programmes casts SA's financial sector in a poor light. SA provides for large, formal businesses, leaving the others to informal savings institutions, such as stokvels, and money lenders.

The report says the law should allow the proliferation of mutual savings banks, general leasing companies, credit unions and specialised asset finance companies. Experience in the US suggests that banks formed to serve specific groups do not prosper unless they broaden their catchment market.

It is probably preferable to establish sector- or industry-specific policies than it is to have SME policies. Policies which favour business as a whole are best.

Subsidy programmes for SMEs, which generally benefit only a few small businesses, are probably less important than a government policy which leads to a competitive, safe and effective monetary market.

The new SA Government has a "real opportunity to provide incentives for SMEs if a large public works programme is initiated".

State procurement from SMEs is an important incentive for them, says the report.

Firms employing fewer than 20 workers are the most important source of new jobs. They provide about 40% of new jobs "over time, even though small employers account for only 20% of total employment."

This contradicts a study by the Federal Reserve Bank of Chicago challenging the notion that small businesses account for 80% of all new jobs. It found that although the rate of job creation in small businesses was more than three times that of large ones, employees of small firms were twice as likely to lose their jobs.

The study finds that the output of workers in small firms is lower than in bigger ones. But wages are correspondingly lower. The reason is that capital per worker is lower in small firms.

US firms with more than 500 employees provide less than 40% of new jobs. Large firms in Europe provided only 23% of new jobs between 1988 and 1992.

In the 1980-1982 recession, US businesses with fewer than 20 employees provided 87,3% of new jobs. After the recession, large firms increased their share of job creation to 54,8%.

In the US, about 60% of new jobs have come from business start-ups, almost all them of small. About 15% of new firms in the US close in the first year. Another 12% fail in the next two years and less than 50% survive into their fifth.

The study finds that although entrepreneurs believe they should have access to subsidised capital, the requirements of small businesses are low. They can generally be obtained from personal savings, family members or loans from friends.

Of the 7-million sole proprietorships launched in the US in the 1980s, 80% required capital of less than $5 000. (320)

Small firms contribute more than jobs and wealth to the economy. They account for more than half the innovation and contribute to lower prices through competition.

SMEs also contribute to the more efficient use of resources in an economy.

"Large firms are usually run at constant output levels to achieve minimum cost of production. Transient or random changes in demand are met by smaller firms which adjust output levels more easily than large firms."

The Gamser-Gray study suggests that the growth of informal firms in SA could lead to greater disrespect for the law and tax authorities.

"Some informal businesses will turn to illegal activity to maintain their informal status. Other informal businesses may become prey to criminal elements extorting funds for 'protection' or for other services not provided by an effective government.

"A major precondition for converting businesses from informal to formal is an effective local government which can provide normal government services, including necessary police protection and judicial enforcement of legal contracts."

COMPANIES

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S/Times 22/5/94

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It is probably preferable to establish sector- or industry-specific policies than it is to have SME policies. Policies which favour business as a whole are best.

Subsidy programmes for SMEs, which generally benefit only a few small businesses, are probably less important than a government policy which leads to a competitive, safe and effective monetary market.

The new SA Government has a "real opportunity to provide incentives for SMEs if a large public works programme is initiated".

State procurement from SMEs is an important incentive for them, says the report.

Firms employing fewer than 20 workers are the most important source of new jobs. They provide about 40% of new jobs "over time, even though small employers account for only 20% of total employment."

This contradicts a study by the Federal Reserve Bank of Chicago challenging the notion that small businesses account for 80% of all new jobs. It found that although the rate of job creation in small businesses was more than three times that of large ones, employees of small firms were twice as likely to lose their jobs.

The study finds that the output of workers in small firms is lower than in bigger ones. But wages are correspondingly lower. The reason is that capital per worker is lower in small firms.

US firms with more than 500 employees provide less than 40% of new jobs. Large firms in Europe provided only 23% of new jobs between 1988 and 1992.

In the 1980-1982 recession, US businesses with fewer than 20 employees provided 87,3% of new jobs. After the recession, large firms increased their share of job creation to 54,8%.

In the US, about 60% of new jobs have come from business start-ups, almost all them of small. About 15% of new firms in the US close in the first year. Another 12% fail in the next two years and less than 50% survive into their fifth.

The study finds that although entrepreneurs believe they should have access to subsidised capital, the requirements of small businesses are low. They can generally be obtained from personal savings, family members or loans from friends.

Of the 7-million sole proprietorships launched in the US in the 1980s, 80% required capital of less than $5 000. (320)

Small firms contribute more than jobs and wealth to the economy. They account for more than half the innovation and contribute to lower prices through competition.

SMEs also contribute to the more efficient use of resources in an economy.

"Large firms are usually run at constant output levels to achieve minimum cost of production. Transient or random changes in demand are met by smaller firms which adjust output levels more easily than large firms."

The Gamser-Gray study suggests that the growth of informal firms in SA could lead to greater disrespect for the law and tax authorities.

"Some informal businesses will turn to illegal activity to maintain their informal status. Other informal businesses may become prey to criminal elements extorting funds for 'protection' or for other services not provided by an effective government.

"A major precondition for converting businesses from informal to formal is an effective local government which can provide normal government services, including necessary police protection and judicial enforcement of legal contracts."

Arms embargo, sanctions to go

Political Staff (320) ARG 23/5/94

THE United Nations Security Council has chosen Wednesday, Africa Day, to lift the arms embargo and related sanctions, according to Deputy President Thabo Mbeki.

And in Addis Ababa, headquarters of the Organisation of African Unity, the new South African flag will be raised on that same symbolic day, which marks the founding of the OAU in 1962 in the presence of South African Foreign Minister Alfred Nzo.

While the OAU summit in Tunis next month and the fresh UN General Assembly season in September are expected to mark the official normalisation of South African relations with the continent and the international community respectively, Mr Mbeki viewed this Wednesday as the moment when the last real barriers dropped and readmission took place.

Mr Mbeki confirmed at the weekend that he would address the Security Council on Wednesday.

Mandela scotches speculation of tax increase

Political Staff 320

PRESIDENT Mandela has scotched speculation that an increase in taxes is inevitable.

ARG 25/5/94

The speculation of a rise in taxes followed remarks by Finance Minister Derek Keys last night that the government placed a higher priority on cutting the budget deficit than on reducing taxes.

"If, and I say if, the only way we can continue is that, for a time, there is a higher level of taxation, then that will have to follow," he said.

But, on television last night, Mr Mandela reiterated his declaration yesterday that his government would follow a policy of not increasing taxes.

"We will resist any temptation to fund the government by raising the rate of tax," he said, adding that a low tax policy would be followed because the government wished to attract investment.

If taxes needed to be temporarily increased, the rise would be preceded by wide-ranging consultations.

He added that the money needed this year for the government's reconstruction and development programme was available from savings made in government departments because of a change in spending patterns and their co-operation.

Mr Mandela said he was confident the government had the resources and the support of South Africa's people, state institutions and opinion makers to implement its programme.

"It's a programme that mirrors the views of all opinion makers of this country," he said. The programme had been drafted after extensive consultation."

While Mr Mandela mentioned during his opening-of-parliament speech that R2,5 billion would be allocated to the programme this year and that this figure would rise to R10 billion in five years' time, no exact figures would be available until the budget was announced on June 22.

Focus on Business

Bad news for smokers, drinkers in Budget

Sowetan 26/5/94

MAJOR VICTIMS Tax on tobacco and booze will supplement national income:

Derek Keys is likely to bring bad news to smokers next month.

By Mzimkulu Malunga

TOBACCO SMOKERS AND THE liquor drinkers are likely to be among the major victims of the forthcoming national Budget.

Sanlam's chief economist, Mr Johan Louw, believes the Government will announce higher duties on tobacco and liquor when Finance Minister Mr Derek Keys presents the Budget on June 22.

Louw says though South Africans can expect a "normal" Budget, the expenditure side is likely to be restructured to put more emphasis on social spending.

However, he says the Government would not go on a spending spree because there is very little room to manoeuvre as the Budget is already tight.

"We believe that the Budget proposals will have largely neutral or a slightly stimulating effect on the economy. The capital market should be able to accommodate the borrowing requirements of the government with ease," he says.

(320)

Tax relief for the lower and middle income groups is also a possibility, says Louw, adding that certain basic foodstuffs could also be exempted from VAT in order to lessen its effect on the poor.

The Government is also likely to issue reconstruction bonds as another avenue to finance the Reconstruction and Development Programme, he says.

Bonds are a means by which governments borrow money from the general public to raise extra cash. If a person buys a government bond he is given a guaranteed note promising to pay the money back after three months.

While the advent of the new Government coincides with an economic upswing, there is still concern about low levels of foreign reserves and money leaving the country, he says.

This situation could be reversed if the Government is perceived to be following correct economic policies by the outside world.

TBVC inclusion 'won't raise inland revenue'

Citizen 2/6/94

AMANDA VERMEULEN

THE inclusion of the former TBVC states will not boost inland revenue, the Finance director-general's office said last week.

The director-general said until funding arrangements for the new provinces were in place, revenue previously diverted to the TBVC states would be included in the central government's revenue collections. This implied revenues would be higher.

But the new administration planned to add the same amounts to the expenditure side, resulting in the net effect on the exchequer balance remaining the same.

Funds would be channelled through the Foreign Affairs Department to the old administrations until rationalisation was completed. (320)

Under the previous administration, revenue diversions to the TBVC states — including income tax, VAT, fuel levies, ordinary levies and Customs Union Agreement payments — were treated as direct liabilities against Inland Revenue and Customs and Excise collections.

Call to zero-rate VAT on offal

Star 8/6/94

BY SHIRLEY WOODGATE

Meat retailers have urged the Government to zero-rate VAT on offal as the cost of the staple food soars beyond the pockets of millions of poor and starving people countrywide.

The plea is backed by estimates that 800-900 tons of cattle, sheep and poultry offal is sold daily to the most destitute section of the population in rural and urban areas.

Retailers warned that offal was in many cases the sole source of essential protein in diets of more than half the population. One purveyor said: "Nobody is poorer than those who regularly rely on offal to feed their families."

As VAT and profit were added at every stage from farmer to end-consumer (mainly black housewives), a product that previously sold for R1 per kilogram had been increased in price to R1,50, plus VAT and profit, putting it beyond the means of vast numbers of underprivileged people. (320)

The cheapest alternative meat cuts include chuck and mince at R5/kg.

Also at risk was the livelihood of some 2 000-3 000 hawkers specialising in marketing offal, who could no longer make a living as cash-strapped buyers dropped out of the queue, said retailers.

The daily market comprises some 300 tons of chicken legs, heads and intestines, known as "mala"; 300-500 tons of cattle entrails, including small and large tripe and intestines; and 150 tons of sheep offal, including front leg trotters, tripe and heads.

Fewer sheep are sold at the abattoirs than cattle, the ratio of slaughtering being about 100 kg of beef to 5 kg of mutton.

Vital

It is claimed that the financial loss to the Government if it zero-rated offal would be R140 000 a month, which is a drop in the ocean compared with the R85 million derived from VAT on foodstuffs.

Meat Board information manager Jurie Erasmus said it was vital to zero-rate VAT on not only offal but on all red meat, which was a rich source of protein and iron.

It was an anomaly that rice and fish should escape VAT while meat was taxed, since red meat was as basic to healthy diets as fish, he said.

Hanekom favours land tax

320 WM 10-16/6/94

Estelle Randall

NEW Minister of Land Affairs Derek Hanekom has said he favours the implementation of a land tax and will be setting up a committee in the next two months to investigate its feasibility.

He said that although a land tax would not provide a source of central state revenue, it would encourage farmers to use land productively. "If they do well, the percentage of income which goes to tax would go down. This would encourage people to either produce more efficiently and increase their income ... or, if they can't do this, it will be an incentive for them to sell or lease. Such a tax would provide revenue for local government."

He conceded that although he personally favoured a land tax, its benefits had to be weighed against administration costs and resistance to it from farmers.

This weekend, the new minister and his department are to hold a workshop to identify key problems facing them and what restructuring will be necessary to meet the challenges ahead.

An obvious one is managing the land reform process so that, as Hanekom put it, "we succeed in meeting our objectives without threatening farmers". The objectives, according to the RDP, are to address land claims resulting from apartheid disposession and dating from 1913, and to redistribute 30 percent of South Africa's productive land within five years.

Hanekom has identified the land restitution leg of land reform as a priority. He said his department already had 90 rural restitution cases which are not being handled by the Commission on Land Allocation. They are dealing with these, and others which are with the Commission and which can be resolved through negotiation. Cases where there is no prospect of a local solution will have to wait for the Land Claims Court.

He also wanted his department to take responsibility for the rural development aspects of the RDP and to link this to restitution cases for the rest of 1994. "The RDP won't immediately be able to deliver mass basic services to rural areas. But rural people who get back their land need basic infrastructure such as water and roads."

Hanekom's department's current budget is R68-million, but he said he'll be asking for another R250-million to carry out land reform for the 1994/1995 financial year.

A White Paper on Land Reform would come out early next year, detailing the government's overall land reform programme.

Tobacco tax: The Canadian experience

(320) WM 10-16/6/94

IN the *WM&G* of May 27 to June 2 Stuart Sutherland, identified as managing director of United Tobacco, authored an opinion against increasing tobacco taxes. He concentrated on putting a tobacco lobby "spin" on the Canadian experience with tobacco taxation.

Perhaps he forgot that South Africa is no longer cut off from the outside world and that comments made in its newspapers can easily be verified. Since he referred to my country, and to me personally, I would like to be part of the verification.

In the early 1980s Canada had tobacco taxes well below the levels experienced in places like Western Europe. During the next 10 years Canada increased its tobacco taxes quite significantly for a combination of health and revenue reasons.

From 1982 to 1992 per capita cigarette consumption (including the highest credible estimate of smuggling) fell by about 40 percent, and consumption among young people, who are recognised as particularly price sensitive, fell even more dramatically. During the same time the taxes generated per pack increased dramatically and, despite the huge drop in sales, the total taxes generated by tobacco increased more than threefold.

Smuggling from the United States did become a problem and resulted, earlier this year, in tax reductions by our federal government and half our provinces while we await proposed large increases in tobacco taxes in the US. But any inference that Canada's rollback is a reason for South Africa to accede to the tobacco lobby is pure nonsense. In fact, Canada's "lowered" tobacco taxes are still much higher than South Africa's proposed "higher" ones.

Most importantly, Canada's smuggling problem was almost entirely fed by Canadian-based tobacco companies shipping their products to US border communities, from where the smugglers returned them to Canada. Maybe the folks at United Tobacco think that similar corporate misbehaviour would be allowed to undermine the health and fiscal policies of the new South Africa. If so, they will almost certainly find that Canada's strong measures to punish such behaviour, including a large surcharge on tobacco company profits, will seem mild by comparison.

If there are legitimate reasons why South Africa should not force tobacco companies to pay a fair share in the development of your country, I am unaware of what they are. Given the sort of reasoning Sutherland used, it appears that he also does not know of any. — **David T Sweanor, senior legal counsel, Non-Smokers' Rights Association, Toronto**

Apartheid's tools

THE South African Congress of Democrats recruited me in 1953. I spoke at the Congress of the People in 1955 and the regime arrested us for treason in 1957. The first timing device for Umkontho weSizwe was of my design. My family and I were forced into exile in 1960. I graduated on to the executive committee of the South African Congress of Trade Unions.

Since the Kabwe conference of the ANC I have been an active ANC member and rendered such technical advice and assistance as was possible. During the past seven years I have been working full time for the movement, including a period for the underground. I have been a loyal musket bearer who found himself uncritically defending many trenches and citadels. The principles I have fought for all my life have not changed.

I cannot agree with the decision, reported widely in the press, that the new South Africa will have a bigger army. I cannot agree that we will expand the making and selling of arms.

Apartheid was built on a culture of solving problems by force. We have never done that. We have founded the new South Africa on a culture of discussion and reconciliation. Let us not revert to the law of the apartheid jungle.

Yes, we must be able to defend ourselves, but let us clearly define the enemy and make our army as small as possible. The large standing armies of Ethiopia, Somalia, Yugoslavia and other countries were started to cut unemployment and ended up being used for killing children and raping women.

Armaments are a special sort of tool. They can only be used for killing and destroying, nothing else. There are enough such tools in the world already. The arguments now put forward to defend the expansion of the arms trade and militarism we rightly opposed in the past. — **RE Press BSc (Chem Eng Wits) PhD (Wits)**

Govt 'could avoid tax increase'

CT 10/6/94 (320)

Own Correspondent

JOHANNESBURG. — The government should be able to avoid an overall increase in taxes in the budget, provided spending in the new fiscal year was kept to R125 billion, the SA Chamber of Business (Sacob) said yesterday.

In a memorandum to Finance Minister Mr Derek Keys, Sacob said based on its forecasts for GDP growth and inflation, government revenue would rise by 11,5% to R99bn in the 1994/95 year "without increasing the tax burden".

Mr Keys had to use the budget to banish "scepticism" among investors about the government's commitment to moderate and sound economic policy and a market economy, Sacob said.

"The overriding aim of the budget should be to build on the confidence that has resulted from local political changes."

It said adopting a multiple-rate VAT system that would tax luxury goods at a higher level than essential items would fail to help those in real need and undermine the integrity of VAT.

The zero-rating of all meat and fish products alone would lead to a sacrifice of R3bn in revenue.

The government would be better off expanding its targeted assistance programmes to the poor, including its school feeding scheme, it said.

Econometrix economist Dr Azar Jammine said Sacob's call for "a silent tax free of controversy" was fair if government's RDP was financed out of existing government expenditure.

Tax collection to be 'more efficient'

(320)

CLIVE SAWYER
Political Correspondent

TAX collection is to become more efficient as part of a drive to fund the reconstruction and development programme, says President Mandela.

AGT 10/6/94

And the government has already raised R2,5 billion for the programme by eliminating waste elsewhere in the budget.

But people should not have expectations that were too high, he said.

Implementing items in the programme, including the building of schools and roads, could take at least five years.

It was reasonable for poor people to have high expectations, but the government would take steps to ensure these expectations were not unrealistic.

Mr Mandela was speaking during a question-and-answer session at the World Economic Forum Southern Africa summit in Cape Town.

In last year's budget, R10 billion had been allocated for military spending.

"We are under no threat and all our neighbours are committed to peace and regional stability.

"There was no reason to spend R10 billion on armaments while spending only R2 billion on housing."

Inefficiency in tax collection was another serious disadvantage which the government would take steps to correct.

● More reports, page 11.

Property tax hike 'will kill recovery'

CT 17/6/94 (320)

By MAGGIE ROWLEY
Property Editor

INCREASED property taxes, particularly VAT, would kill the emergent recovery in the market and further reduce affordability at the low end of the market, estate agents and developers have warned.

Calling on the government to desist from increasing VAT in the June 22 Budget, they said any further increase would put housing out of the hands of the vast majority of homeless South Africans, particularly when coupled to large increases in building costs predicted for the next year.

Building cost increases have been contained below inflation in recent years due to the recession, but as the market picks up and the reduced supply of resources in the industry is unable to meet the expected rise in demand, they are expected to escalate sharply.

Gavin Durr, MD of Realty 1 Durr called on the government to consider reducing VAT on certain buiding materials such as bricks and cement or even allow certain VAT exemptions.

Propcor chairman Benny Rabinowitz said the increase in VAT in April 1993, which came at the tail end of the recession, had hit the industry for a six.

"We are only now emerging from recession, margins are very low and if VAT is increased we will have to pass this on to the buyer otherwise we will just stop building."

Leon Cohen MD of Rabie Property Developers agreed but said if VAT was increased, time concessions would have to be given if the industry was not to be crippled.

Sales

"Although sales have picked up since the elections, prices are still under pressure. Developers are sitting with stock that they have not been able to move with VAT at 14%, let alone 17% or 18%.

Agents said other property tax increases, which have also been mooted, could further hit the property market.

Louis de Klerk, Cape regional director of national developers NBS Deveo, said any increase in taxation or levies on property transactions or home ownership would hit not only the housing development industry but also the very people, who had started to emerge as homebuyers.

"The revival of the market has meant an increase in jobs available in the building industry and the economy has benefited from greater activity in the building supplies industry."

He said, talk of a tax on second homes would particularly hit the Western Cape.

"Again it is not only the developers or owners of these properties who will suffer. Houses will return to the market in areas such as seaside settlements, resulting in oversupply and eventually a deterioration of the economy in the area. Retailers, the service industry and even domestic workers will be adversely affected."

De Klerk said the government's aim in any increase of revenues was clearly to fund the RDP.

However, he pointed out, it could be the very people the government aimed to assist who would be most adversely affected.

"People who now have jobs within or allied to the building industry could well lose them and instead of being able to house themselves through their own efforts, will be looking to the state to provide housing.

"This could only exacerbate rather than alleviate the situation the government is trying to address," he warned.

Camdon's franchise network chairman, Scott McRae, said the market's recovery with all its positive benefits for the economy was in danger of stalling if the new government continued and intensified the mistakes of the old in treating the property industry as a tax milch cow.

"There are reports that the government may tax second properties, introduce capital gains tax, increase estate duty and raise VAT. All of these steps would impact on the market and, moreover, make it increasingly difficult for the ANC's own constituents to create their own wealth.

"If any or all of these steps are indeed being contemplated, the question has to be asked why should property be singled out for additional taxation above other forms of investment and to what extent does the new government honestly believe such taxation is going to help solve the country's funding problems?

The Budget: A holding operation

Taxing task for new govt

WM 17–23/6/94 320

All eyes are on the ANC's first Budget next week. **Reg Rumney** looks at possible tax changes

CONSENSUS is that no sweeping changes in tax will be announced in next week's Budget — but some taxes are almost certain to rise.

"I believe they won't tinker too much this year," says KPMG Aiken & Peat tax partner Alister MacKenzie. "I think that with one or two exceptions the status quo will be left alone."

Coopers & Lybrand senior partner Danie Uys concurs that this Budget will be something of a holding operation, constrained by the March mini-Budget or *Fiscal Review* of the previous government. The Budget process normally starts in October of the previous year and the Government of National Unity is barely seven weeks in office, nowhere near enough time to introduce landslide changes in revenue collection and spending.

However, money may have to be found for higher-than-expected transition and election costs. This includes the R1-billion incurred by the Independent Electoral Commission, and a speculative R2-billion for other transition costs.

The *Fiscal Review* assumed no changes in taxes. It has been surmised South Africa may bend to pressure from trading partners to do away with import surcharges, brought in ostensibly to protect the balance of payments but also a handy source of revenue. If import surcharges are scrapped, comments Rand Merchant Bank chief economist Rudolf Gouws, another R2-billion or so will have to be found.

There are several sources. One is reallocation of money saved through cost-cutting between departments. Since R2,5-billion has already been directed towards the Reconstruction and Development Programme this way, there seems little further room for much higher savings to be achieved in this area.

Another is increasing the Budget deficit beyond the R26,1-billion or 6,4 percent of gross domestic product, projected in the March *Fiscal Review*.

Increasing this too much would send the wrong signals to foreign investors about the new government's fiscal prudence, however.

The last and most obvious is an increase in tax revenue.

Uys reckons that as in the past "fiscal drag" or "bracket creep" will come to the rescue. By foregoing an adjustment in the tax tables the government will rely on inflation to boost revenue as more people are pushed into higher

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Taxing task for new government

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tax brackets by salary increases. It is a stated commitment by the ANC to reduce fiscal drag, but Uys believes: "As the National Party stated so often, there should be chastity, but not this year."

The RDP and other documents such as the ANC's health policy plan indicate tax changes such as zero rating a broader basket of foodstufs, as well as higher tax on tobacco and alcohol. The ANC's recent agricultural document states the ANC is committed to exempting all basic foodstuffs and introducing multiple VAT rates with higher rates on luxury products.

High rates of VAT on so-called luxury items may make sense politically, says Uys, but not technically.

It would complicate tax collection, but there are hidden costs, not only in enforcing the tax, but also of compliance.

So the cost of adjusting tables and computer programmes generate tax deductions which may initially actually outweigh the revenue raised.

An actual increase in the VAT rate would be a simple, if not politically popular, way of getting more money for the fiscus.

About R2-billion is gained for every one percentage point increase in the VAT rate. Exempting more foodstuffs at the same time as raising VAT to 15 percent could bring that figure down to around R1,5-billion.

A capital transfer tax, to replace the donations tax and estate duty, is definitely on its way. The question is whether it will be in this Budget or later.

Estate duty is particularly widely seen to be low compared with other countries at 15 percent with a R1-million rebate.

Rumour has it that the capital transfer tax legislation is already in place, but Uys is sceptical a capital transfer tax, which involves highly technical legislation, can be brought into operation immediately after the Budget.

Gouws reckons such a tax could not produce more than R200-million even if brought in in the current year.

Even if the capital transfer tax is not introduced, the estate duty tax rate may be raised to 25 or 30 percent and the rebate lowered.

One change in tax, believes MacKenzie, could be doing away with the separate tax treatment of married women, as promised by the Reconstruction and Development Programme.

Again it is easier to raise "sin taxes" and this is a racing certainty, since South Africa still has a long way to go to catch up with overseas rates of tax on tobacco and alcohol, says MacKenzie.

Kessel Feinstein tax partner Beric Croome agrees, but reckons the swingeing increases mentioned in the ANC health plan will not be brought in for fear of job losses in the alcohol and tobacco industry and that they might even lead to a reduction in revenue.

Uys reckons an increase in excise and customs duties on alcohol and tobacco could bring in only an extra R500-million or so.

There have been hints of some kind of one-off loan levy or surcharge to finance reconstruction.

FOCUS

Two sides weigh up the Budget's balancing act

S I Times (Buss)

19/6/94

320

The new government's first Budget will give taxpayers an indication of how the balancing act between social spending and fiscal restraint will be maintained, if at all, writes SVEN LUNSCHE.

MOST commentators have already labelled this week's Budget a holding operation, while the government prepares its first full reconstruction and development Budget for 1995-96.

It will be more than that — the government has sent out clear signals that it will begin to deliver on its much proclaimed socio-economic agenda.

The inevitable conflict between social and fiscal priorities has so far been deftly handled by the Cabinet, under the unmistakable guidance of Finance Minister Derek Keys.

Aware of international investor focus on the Budget he has committed the ANC to "responsible" economic policies, but also convinced his National Party colleagues to back the RDP.

The proposal of an initial R2,5-billion injection into the RDP fund in 1994-95, rising to R10-billion over five years, looks responsible and manageable.

Yet there are doubts that the ambitious aims of the RDP can be met in the long run without resort to excessive borrowing or large-scale tax increases.

Already some rifts are evident. The government was this week involved in apparently difficult negotiations with Cosatu over varying and higher VAT rates.

The list of the government's social commitments is growing by the day, ranging from feeding schemes for primary schools and the electrification of 350 000 homes to integrating numerous armies and 1 000 affirmative public service appointments.

The financial markets, as usual, are taking the cynical view. Long-term gilt rates recently broke through 14% to their highest level in over a year in expectations of rising government borrowings.

Mr Keys, his deputy Alec Erwin and (RDP) Minister Without Portfolio Jay Naidoo, have stated frequently that they view strong economic growth as the panacea to the financing of the RDP.

This is supported by the Econometrix research institute, which recently calculated that a steady 5% growth rate would add a cumulative R67-billion to state coffers over five years, sufficient to make a significant dent in — if not cover completely — the estimated costs of the RDP.

In a recent meeting with Mr Keys the SA Chamber of Business stressed this point: "Economic growth is the key variable in determining the extent to which the new government will have scope to increase spending aimed at eliminating social backlogs and simultaneously reduce the fiscal deficit to proportions that are sustainable and consistent with sound economic management."

In the current fiscal year growth is estimated at only 3% and speculation is mounting that tax increases are on the cards to meet the initial costs of the programme.

In its fiscal review, which was published in March, the Department of Finance published provisional 1994/5 expenditure, revenue and deficit figures but these have undoubtedly been revised by the new cabinet to cater for higher social spending.

These then are the expected key features of the Budget:

EXPENDITURE: The fiscal review projected spending of R125,3-billion for 1994-95. Government officials have indicated that there will not be major changes to this figure.

This is despite the inclusion of the R2,5-billion RDP fund, which they state will be financed from savings in other departments. Some economists, however, expect that total spending could rise to about R127-billion to finance overspending by the Independent Electoral Commission.

It is speculated that a recent call on all state departments to cut budgeted

In April, the first month of the fiscal year, total revenue was 35,6% up on April last year. The Department of Finance explained that this reflected the incorporation of the TBVC states as well as a VAT rate of 10% rather than 14% in April 1993, but it does give some indication that revenue income should be higher than expected.

The government will be relying heavily on indirect taxes to boost its coffers. VAT is expected to bring in R28,7-billion, 13% more than last year, although this could be changed if the tax system is adjusted.

Income from the fuel levy could also rise from the budgeted R7,8-billion if, as the Automobile Association expects, the government adds a further 7c/l to this week's 8c/l petrol price hike.

Revenue from income tax on individuals is expected to rise 13,3% to R40,4-billion, making it unlikely that the ANC will live up to its promise to equalise tax rates downward for married men and women which could cost up to R1,5-billion in lost revenue.

Income tax on non-mining companies is also set to boost revenue substantially, by 7,8% to R12,25-billion.

DEFICIT: If, as projected by Finance, spending totals R125,3-billion and revenue R99-billion this year, the projected 1994/5 deficit before borrowing will equal 6,4% of GDP.

This is slightly below last year's 6,8% but no consolation to economists worried about runaway government debt.

WALKING A TIGHTROPE ... Finance Minister Derek Keys, who keeps a steady hand on the purse strings

not want to risk a confrontation with Cosatu it would have to raise VAT on "luxury goods" in order to recoup the R2-billion it could lose by extending zero-rating to basic items.

OTHER TAXES: Speculation is mounting that the government plans to introduce a capital transfer tax to replace the 15% rate on both donations tax and

World Bank figures out SA's backlog

S I Times (Buss)

19/6/94

By KEVIN DAVIE

A QUARTER of SA's total social backlog can be addressed during the first four years of the new government, says a World Bank study.

SA: Economic Performance and Policies says that over the years 1998 to 2001, the remainder of the backlog can be addressed under a best-case scenario.

"However, if the macro-economic situation is less favourable and closer to that of the lower-case scenario, then the room for manoeuvre is obviously more restricted and only about 13% of the backlog could be cleared.

"The lower scenario would imply that less than 40% of the estimated backlog (R46-billion) of capital expenditures would be addressed in the first eight years of the new administration."

With a private investment revival and the successful implementation of supply-enhancing policies, redistributive public investments could amount to about R14,9-billion a year at 1992 prices between 1994 and 2005.

"This is equivalent to an annual average of about 3,2% of GDP."

The bank's projections are based on a macro-economic model which it has developed for SA. The model uses 45 econometric equations.

If high levels of private investment re-emerge and supply-enhancing policies such as faster skills accumulation and export promotion are put in place, there are feasible growth paths for SA which are high by past standards (above 5% a year), sustainable (low inflation, stable fiscal account, low and stable debt-to-GDP ratios) and redistributive.

The alternative is that the economy continues down a recessionary path.

"In such a case, attempts to introduce redistributive public investments will quickly run into fiscal and/or balance of payments crises."

It warns that excessive wage increases will eventually be self-defeating, stimulating inflation and raising the fiscal deficit by increasing the cost of employing government workers.

The bank says SA's average import duty is not high by developing country standards. It says a lower average rate would make industry more internationally competitive, but the present high unemployment and stagnating economy make such a course undesirable.

SA's most urgent task is to address the anti-export bias inherent in its policies: "Two-thirds of the disadvantage that SA exporters suffer relative to foreign competition stem from the higher prices for manufactured inputs."

Direct foreign investment should be encouraged and the regulatory framework should present no obstacles to new ventures.

lion to finance overspending by the Independent Electoral Commission.

It is speculated that a recent call on all state departments to cut budgeted spending by 4% was linked to the total IEC bill of about R1,25-billion.

In 1993-94 state spending was R114,2-billion.

REVENUE: Initial government revenue estimates of R99-billion, 11% up on 1993-94, also appear below likely tax and duty collections this year.

Most economists expect growth to be slightly higher than the 3% the government uses for its calculations, thus boosting tax incomes.

6,4% of GDP.

This is slightly below last year's 6,8% but no consolation to economists worried about runaway government debt.

No less than Reserve Bank Governor Chris Stals warned this week that unless the deficit was brought under control "it will cause difficulties for state debt, which will become excessive very, very soon".

VAT: Prior to the election the ANC committed itself to extending zero-rating to a wider basket of basic goods and services, a call strongly backed by the trade union movement.

If the government does

OTHER TAXES: Speculation is mounting that the government plans to introduce a capital transfer tax to replace the 15% rate on both donations tax and estate duties.

The new tax is likely to be considerably higher, while current exemptions are also set be scrutinised.

Economists, however, have dismissed recent reports that the new government is considering introducing a one-off levy, as this has not been supported by official comments and would be extremely difficult to implement.

In line with GATT requirements the Budget could also see first moves to dismantle SA's extensive system of import surcharges and duties.

Tax rise on cards to finance RDP

Sowetan 21/6/94

By Mathatha Tsedu and Themba Molefe

TAXES ARE CERTAINLY GOING TO RISE.

This is the message from Government sources as South Africa anxiously awaits Finance Minister Derek Keys' Budget speech tomorrow.

There is concern over tax increases despite Keys' public assurances in the past few days that there should not be any panic about the Budget, saying some "good news" may be expected.

A Cabinet source told *Sowetan* in Cape Town that financing the Reconstruction and Development Programme was a priority.

"We have to find the money to do all the things in the RDP. That money cannot come from borrowing and loans as this does not really help.

"It therefore means that the people who are going to benefit from the RDP have to be asked to pay something themselves in order to get the benefits in return. It leaves only taxing as a source," he said.

Speculation has been high in media and financial circles about a possible upward adjustment of income tax for high bracket income earners, coupled with a slight increase of between one and three percentage points of Value Added Tax.

Automatically push people

The VAT increase would, however, be offset by the zero-rating of basic foodstuffs as promised in the Reconstruction and Development Programme.

The zero-rating would mean a loss of between R2 billion and R4 billion, experts say, an amount that would have to be recouped somewhere else.

An income tax increase of about five percent is seen as the other alternative but many observers say the Government would shy away from a direct increase at that level, opting instead to leaving income tax brackets unamended. (320)

This would effectively mean salary increases would automatically push people into higher tax brackets.

Other possibilities are an increase in tobacco and liquor excise duties but it is understood the two sectors have launched aggressive lobbying, pointing out that a decrease in the consumption of liquor and tobacco would translate into job losses, thus increasing unemployment in rural areas and an accelerated migration into the cities.

'Scrap food tax'

Supermarket giant calls on Keys to deliver on election promises

The Keys hole

BRUCE CAMERON, Business Editor

THE government has been urged to deliver on election promises, and Finance Minister Derek Keys has been asked to scrap VAT on basic foods, including meat.

Mr Keys was told on the eve of tomorrow's budget that if this could not be done, food stamps should be introduced.

A major election promise to the underprivileged was the scrapping of VAT on a wide range of essential goods.

The government is expected to use the budget to give more detail on its reconstruction and development plans and the financing of what is seen as an essential foundation block in creating a stable and prosperous economy.

But it is caught in a three-way vice between meeting commitments to improve the lot of the underprivileged, not mugging taxpayers and not driving away foreign investment by throwing out fiscal caution and borrowing extensively to to fund its promises.

Checkers/Shoprite entered the fray today in an advertisement campaign calling on Mr Keys to reduce starvation by scrapping VAT on basic foods, including meat.

If this could not be done food stamps should be introduced, the supermarket group said.

The key issues for the personal taxpayer in the budget tomorrow are:

- VAT: the African National Congress promise to increase the number of zero-rated goods could cost more the R2 billion, depending on the extent of the concession. The balancing act could involve either increasing VAT by one percentage point or introducing a higher rate on a limited range of luxury items, an administratively difficult measure.
- Sin taxes: tobacco and alcohol interest groups have been fighting hard to ward off firm government indications that "sin taxes" will be increased, warning that the move could be counter-productive, leading to massive job losses and less income for the government. But this appears to be the one area where taxpayers will definitely have to pay more after tomorrow.
- Fiscal drag: government spokesmen have indicated that some relief could be offered to ease the way inflation pushes taxpayers into higher brackets while their real income drops.
- New "supertax" brackets for the rich above the existing top marginal rate of 43 percent.
- Estate duty: taxpayers pay a comparatively low rate of estate duty and it has been widely predicted that this will be raised either in this budget or the next.

ANC spokesmen said during the election campaign that they considered the level of personal tax too high, but no assurances were given to reduce levels in the short-term.

Shoprite/Checkers managing director Whitey Basson said in an interview today that the government should opt for a food stamp system.

Although the system could be abused he felt it would be cheaper to apply than differential VAT rates.

Food stamps would also ensure that the people who needed the assistance received it. If more goods were zero-rated, even the well-off had the advantage.

"Poor people are not getting value for their money at the moment," said Mr Basson.

Food stamps would mean the government would not have exempted well-off people and business would find their administration costs were less.

Mr Basson said if the government decided to go ahead with a differentiated VAT rate with zero rating, a normal rate and a luxury goods rate, the tax should be add-on rather than inclusive.

If it remained inclusive it would be expensive and difficult to administer.

The budget

DETAILS of the budget will be reported in the late final of The Argus tomorrow.

ARGUS 21/6/94 (320)

Black Sash warning on unfair taxation

CT 21/6/94

By BARRY STREEK
Political Staff

(320)

WOMEN, particularly married women, would be forced to go to the Constitutional Court if sexual discrimination in taxes was not abolished in tomorrow's Budget, the Black Sash said yesterday.

It called on the government "to send a clear message that sexual discrimination is both illegal in terms of the constitution and should be opposed at every opportunity".

Minister of Finance Mr Derek Keys would be well advised to abolish all sexually discriminatory taxes in the Budget, the Black Sash said in a statement.

● Finrand's days numbered — Page 9

Higher tax on incomes over R50 000

Star 23/6/94

BY MICHAEL CHESTER

Higher income tax bills due to the special one-off 5 percent levy will be paid on earnings above R50 000 a year, or R4 166 a month.

For a married man with two children — the popular profile of the average taxpayer — the increase will begin to bite only on far fatter pay packets.

On R60 000 a year, or R5 000 a month, his tax bill will increase by an annual R333 to R14 206.

On R75 000 a year, the annual rate of personal income tax will rise from R20 175 to R21 008, which is equivalent to R104 a month.

HOW YOU'LL BE HIT

... if you're married with two children

TAXABLE INCOME	1994	1995	ANNUAL INCREASE	MONTHLY INCREASE
R50 000	R9 775	R9 775	**0**	**0**
R52 000	R10 595	R10 662	**R67**	**R8**
R70 000	R18 075	R18 741	**R666**	**R83**
R100 000	R30 875	R32 540	**R1 665**	**R208**
R300 000	R116 875	R125 200	**R8 325**	**R1 041**
R400 000	R159 875	R171 530	**R11 655**	**R1 457**

The annual tax rate comes to the brink of R1 000 — at R999 to be precise — on salaries of R80 000 a year.

Salaries of R100 000 a year will carry an additional annual tax load of R1 665.

This is equal to about R208 a month. (320)

It will take an annual salary of no less than R300 000, into the bracket of the mega-rich, to attract an additional tax penalty of more than R1 000 a month.

On that, the annual tax rate will jump from R116 875 to R125 200.

Consumer bodies happy VAT still 14%

Star 23/6/94

■ BY ZINGISA MKHUMA and DUNCAN GUY

Consumer organisations yesterday welcomed the fact that value added tax (VAT) is to remain at 14 percent pending the findings of a commission of inquiry.

A spokesman for the Consumer Council said the commission could help by spreading the tax burden evenly. (320)

Black Consumer Union president Nonia Ramphomane described the concession as "reasonable".

Housewives' League president Lyn Morris said it was disappointing that nothing had been done about zero-rating additional foodstuffs.

Pick 'n Pay joint MD Renee de Wet said the expected zero-rating of basic foodstuffs was favoured by his company.

But OK Bazaars spokesman Kobie van Oort expressed disappoint that a complete scrapping had not been announced immediately.

Econometrix senior economist and director Michiel Bester expected a move towards taxing luxuries at a higher VAT rate.

Star 23/6/94

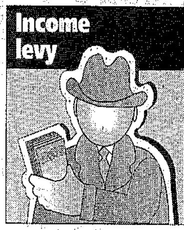
Pay-up dates are February and August

Cape Town — The transition levy to be imposed on taxpayers whose annual income exceeds R50 000 will become effective in years of assessment ending on February 28 and June 30 1995.

The levy will be 5 percent, of which 3,33 percent based on 1995 taxable income is to be collected by February 28 and the balance of 1,67 percent and based on 1996 taxable income by the end of August next year.

Married women will be levied at the rate of 3,33 percent of the amount of taxable income exceeding R175 000.

This levy will apply to taxable income determined in the years of assessment ending on February 28 and June 30 1995.



Finance Minister Derek Keys said it was expected the levy would yield R1,46 billion for the current financial year and R800 million up to August next year. Keys said the 5 percent rate would apply to taxable income of companies of more than R50 000 in the years of assessment ending in the 12 months up to March 31 next year.

(320)

Assessed losses brought forward from previous years would not be set off in determining that taxable income.

The levy on companies was expected to yield R1,116 billion in this financial year. — Sapa.

BUDGET '94

Recommendations open to general comment

Commission of inquiry for reform of tax system

Star 23/6/94

(320)

■ BY CHRIS WHITFIELD
and CLAIRE GEBHARDT

TAX issues are to be investigated by a panel of people chaired by Professor Michael Katz and everybody can have his say

Cape Town — A commission of inquiry to probe reforms of South Africa's tax system is to be set up, Finance Minister Derek Keys announced yesterday. The commission would expose its recommendations to general comment for a period of a few months to enable the country to "resolve inequities and start off with a clean slate as far as taxes are concerned.

"The commission will report by November 30 on matters to be addressed in next year's Budget". Aspects identified for its attention include:

■ Personal income tax with "special reference" to the gender issue, the tax base, tax thresholds, income brackets, tax rates, progressivity and fiscal drag — a process whereby inflation pushes taxpayers into ever higher tax brackets.

■ Corporate income tax with emphasis on tax structure, tax incentives and effective tax rates.

■ The impact of the tax system on small and medium enterprises.

■ VAT, concentrating on "the advisability and effectiveness of zero-rating or exemption of certain foodstuffs and other goods and services, and the possibility of multiple rates of VAT.

■ Excise Duties.

■ Institutions that are exempt from tax, specifically charities, educational and religious organisations.

■ The impact of the tax system on savings and investment.

■ The relevance of the tax system to foreign finance, investment and trade.

■ Tax collection and related matters.

The commission will also be mandated to "investigate any further tax issue it deems necessary."

Keys announced that the commission would be chaired by Professor Michael Katz, chairman of the Tax Advisory Committee.

He added that "fans of Future Imperfect will be pleased to learn that Professor Dennis Davis will be a member."

Other members will be Dr J de V Graaff, a director of companies, P du Toit, an accountant, Unisa economics professor P Mohr, D Mokatle of Eskom's legal department and J Njeke of the Kagiso Investment Trust.

Star 23/6/94

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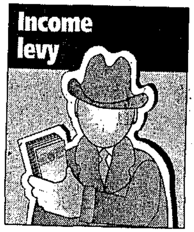

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Assessed losses brought forward from previous years would not be set off in determining that taxable income.

The levy on companies was expected to yield R1,116 billion in this financial year. — Sapa.

Former provinces still budgeted for

Star 23/6/94

Cape Town — This year's Budget still makes provision for the allocation of funds to the four former provinces, homelands and self-governing territories.

The budget for Transvaal totals R8 235 021 and represents an increase of R967 587 on last year's allocation. A Department of Finance spokesman said yesterday revenue accounts of the former provinces and homelands were being kept open until financial relations with the nine new provinces were established.

This means that as functions are devolved from central government to the provinces, the function as well as the relevant funds would be transferred to the provinces. It also means that parts of the Transvaal's budget could be given to the North West, Eastern Transvaal and Northern Transvaal.

It is expected that full fiscal year budgets will tabled before the new provincial legislatures for the first time in 1995/96. — Political Correspondent.

Star 23/6/94 (320)

Budget should have positive effect on economy

Powerful incentive given to companies

BY DEREK TOMMEY

The Budget will create a powerful incentive for companies to invest and should have a positive effect on the economy.

Of particular importance would be the ending of the 5 percent import surcharge on capital and intermediate goods, Marius van Bierck, tax consultant to Anglo American, said yesterday.

However, industry would be disappointed with the 5 percent levy on taxable income above R50 000, but had the consolation that it would be a one-off affair.

Tank Laubscher, a tax specialist with Price Waterhouse, said companies which paid out all their attributable earnings as dividend would pay an effective tax rate of 52 percent against a rate of 48 percent before the Budget.

He believed that Minister of Finance Derek Keys had shown he recognised the plight of the married women taxpayer by imposing the levy only on those with a taxable income of more than R175 000.

Anne Pappenheim, a tax specialist with Price Waterhouse, said the increase in the secondary tax on companies (STC) from 15 percent to 25 percent would make scrip dividends more attractive, but could be hard on shareholders of companies whose shares were not readily marketable.

Shareholders of small companies will be more likely to reinvest their profits now that they have to pay a 25 percent STC on dividends.

The higher STC will also further complicate drawing up of double tax agreements between SA and foreign countries as foreign shareholders in SA companies get no tax credit for STC.

Reducing company tax from 40 percent to 35 percent and then imposing the 5 percent levy looked like giving with one hand and taking with the other, she said.

Because the 5 percent levy on incomes above R50 000 had been split in two, those who paid tax on an annual basis would have to pay an extra 3,33 percent of taxable income by next February and a further 1,67 percent by next August.

But those taxpayers subject to PAYE and earning more than R50 000 a year would feel the full effect of the extra 5 percent as soon as the new tax rates were introduced. This is to make up for the tax which should have been paid in the first four months of the tax year.

The levy will increase the maximum marginal rate for PAYE taxpayers earning more than R80 000 to 48 percent.

Some accountants suggested that in view of the incentive given by the higher STC to paying scrip dividends, it must become easier and less costly for shareholders to convert their odd lots of less than 100 shares into cash.

At present, shareholders selling less than 100 shares usually receive a price below the current market quotation.

They also said that the expected increase in scrip dividends at the expense of cash dividends could markedly change the basis for share evaluation.

For example, one question analysts are expected to give more attention to is the appropriate dividend yield for a share when the dividend is paid in shares and the cash equivalent of the dividend is retained by the company.

JSE heaves a sigh of relief

BY STEPHEN CRANSTON

The reduction in the corporate tax rate from 40 to 35 percent would be very helpful in the longer term, said JSE operations director Neil Carter.

But he was concerned about the amount of money that would be taken out of the private sector — and the potential sharebuying market — because of the five percent temporary levy, and the additional tax generated by bracket creep as the tax bands have not been changed.

Nevertheless, he said business could live with the temporary levy, "and we must take Keys (Finance Minister Derek) at his word that it is only temporary".

Yesterday, the market recovered somewhat after a morning slump. The overall index was down a negligible 15 points to 5706, with industrials off 11 points to 6582 and gold down three to 2242.

David Shapiro, MD of brokers Frankel Pollak Vinderine, said the market was not knocked off its prevailing trend, and most brokers accepted that the Budget was designed for economic growth.

Guy Woolford, a senior portfolio manager at Syfrets, believed tax and excise increases were nothing like as severe as many people had feared.

Some had expected a 10 percent temporary levy and others increased tax on luxury goods.

"That would certainly have sent the wrong signals to foreign investors."

He said the increases in excise fell well short of expectations.

As they would lead to an increase of less than six percent in the price of cigarettes and less than four percent in beer, they should not have much effect on consumption of these products.

Rembrandt Group shares weakened in early trading, but at the close were up 75c to R28,25.

SA Breweries fell 150c to R91, but this can be attributed to profit-taking at the high price at which the share still trades, rather than to the specifics of excise tax.

SAB marketing director Barry Smith acknowledged that the increase in excise was lower than expected, though he felt it could affect sales growth and employment opportunities in liquor retailing.

Woolford said the changes to the general export incentive scheme (GEIS) would have a material effect on the profits of major exporters such as Iscor, Trencor, Highveld and Samancor, but this was fortunately more than offset by the improved commodity prices, and shouldn't lead to a down-rating of the shares.

Iscor actually gained 9c to 358c yesterday.

On a more parochial note, the JSE was disappointed that there were no changes in Marketable Securities Tax (MST), the one percent levy on share transactions.

JSE operations director Neil Carter said this would have helped liquidity and increased foreign interest in the market.

But he was pleased the five percent import surcharge on capital and intermediary equipment had been abolished, particularly as the cost of these goods had been increasing because of the weak rand.

Foreign investment now more likely

BY LEIGH ROBERTS

Two bits of bad news and one good news break, but companies could still face a lower net tax bill.

Chief executive of the Institute of Chartered Accountants (SAICA), Ken Mockler, welcomed the drop in the net tax rate as a move likely to encourage foreign investment.

"Companies were previously overtaxed, which was a disincentive to foreigners to invest.

"Lowering the net tax rate will bring us more into line with other countries competing for investment."

Mockler said it would also encourage entrepreneurship.

He said in view of the good news that the Reconstruction and Development Programme (RDP) was to be financed through cuts in the Government's own budget, and given that the cost of the political transition was much higher than expected (at R4 billion), the 5 percent transition levy "wasn't too bad".

Mockler was disappointed that Finance Minister Derek Keys had made no mention of allocating more resources to Inland Revenue "to beef it up".

He felt a lot more tax could be collected if the Commissioner were allocated "more tools for the job" — specifically, to offer higher salaries to attract the right people to improve the efficiency of collection.

He was also disappointed that there had not been a move to more indirect tax and less direct tax on income.

He would have liked to see a 1 percent increase in VAT compensated for by a reduction in personal income tax rates because VAT was a far more efficient collection vehicle.

Tax partner of Kessel Feinstein, Beric Croome, said with the increase in secondary tax on companies (STC) from 15 to 25 percent, the amount of tax payable would largely be determined by dividend policy.

He said a company with a full distribution policy could have an effective tax rate of at least 50 percent (including the transition levy), which was higher than the rate the same company would have paid last year (an effective 47,8 percent).

A company not distributing dividends would have an effective tax rate of 37,5 percent, including the transition levy.

The transition levy (at 5 percent) is to be paid by all companies on the portion of their taxable income that exceeds R50 000. (Because of the R50 000 abatement granted by Keys, companies earning less than this amount will not incur the levy).

Losses brought forward from previous years will not be allowed to be deducted in the calculation of the levy.

No relief for married women

BY LEIGH ROBERTS

The Government didn't live up to its pre-election promises to scrap discrimination against married women in the tax system.

Finance Minister Derek Keys made little mention of the married women tax issue in yesterday's Budget, which means that, generally speaking, married women will continue to hand over more of their income to the taxman than either their husbands or single friends.

Keys did, however, grant married women some relief from the 5 percent transitional levy.

It comes into effect for all other taxpayers at R50 000, but for married women only at R175 000.

Tax partner of Hofmeyr van der Merwe, Emile Brincker, said that it was possible that the continuance of tax discrimination against married women could be unconstitutional.

He said the reasons for the exclusion of changes to the taxation of married women could be twofold.

Firstly, it could be costly to the overall fiscus and, secondly, the matter was likely to be referred to the special commission to be chaired by Professor Michael Katz.

Budget gently frisks higher earners to pay for transition

Star 23/6/94

Keys invests in the future

(320)

ONE-OFF levy on individuals and companies will help finance SA's transition to democracy

■ **BY CLAIRE GEBHARDT, CHRIS WHITFIELD and MICHAEL CHESTER**

Local and foreign investors will hail the Budget as a signal of sound economic management by the new Mandela administration.

This is the positive view — holding out the promise of an upsurge in investment — generally expressed by economists.

They were reacting to Finance Minister Derek Keys's R135,1 billion Budget, which included a one-off levy on individuals and companies of 5 percent to pay for the country's "miracle" election.

In effect, the top 30 percent of taxpayers are to be levied. Those earning a taxable income of less than R50 000 are exempted.

Keys said the levy for a taxpayer with an income of R70 000, for example, would be R1 000.

▶ To Page 3

▶ **More reports – Pages 3, 5, 6, 7, and 20**

■ **The full text of the Budget speech plus detailed tax tables will be available in a special eight-page pull-out supplement inserted in Editions 3 and 4 today and Editions 1 and 2 tomorrow.**

GIVE TO *HAVE-NOTS*

VAT unchanged.

- ■ Five-year R32,5 billion reconstruction and development programme.
- ■ Major shifts towards social spending.
- ■ Civil pensions up 5%.
- ■ Social pensions up 3%.
- ■ A R292-million job-creation programme.
- ■ A tax commission to investigate tax structures including alteration to VAT.
- ■ New company tax structures.
- ■ Changes to export incentives.
- ■ The 5% import surcharge on capital and intermediate goods to go.

TAKE FROM *HAVES*

- ■ A 5% "transition" tax.
- ■ Tax on cigarettes and tobacco up by 33%.
- ■ Tax on alcohol up between 9 – 33%.

HOW YOU'LL BE HIT

. . . if you drink and smoke

Beer (Excluding sorghum)	**2c** per 340ml can approx	**Cigarettes** Cigarette tobacco	**7,1c** per 10 **8,88c** per 50g
Spirits (Whisky, brandy, gin)	**53c** per 750ml bottle	**Tobacco** for pipes	**65c** per kg
Wine Unfortified Fortified Sparkling	**5c** per 750ml bottle approx	**Cigars**	**65c** per kg
Other (fermented drinks eg cider)	**2c** per 340ml can approx	**Cold drinks** (mineral waters)	**1,24c** per litre
Sorghum (Sorghum beer Sorghum powder)	**1c** per litre **5c** per kg		

Smokers take brunt of hike

320

CT 23/6/94

By ANTHONY JOHNSON
Political Correspondent

THE cost of having a good time has just gone up.

The government yesterday slapped a series of "sin taxes" on alcohol and tobacco products that will swell the state's coffers by about R525 million over the next year.

Some of the key increases are:

● Beer by six cents a litre or two cents a dumpy (2%).

● Cigarettes by 14,22c for 20 and cigarette tobacco by 8,88c for 50 grams (4,5%). Duty on tobacco increased by 25%.

● Pipe tobacco and cigars by 65c a kilogram (various).

● Spirits 53c per 750ml bottle (2,5%).

Wine, beer all to cost more

● Sorghum beer by one cent a litre or five cents a kilogram (1%).

● Cold drinks and mineral waters by 1,24c a litre (0,5%).

● Unfortified wine by 4,5c a 750ml bottle, fortified wine by five cents a 750ml bottle and sparkling wine about six cents a 750ml bottle (0,5%).

● Other fermented drinks like cider by six cents a litre or two cents per 340ml can (2%).

In his Budget speech Mr Keys said the excise duty on tobacco products was a special case.

"Based on health considerations, arguments have been put forward for an increase in the excise duty to 50% of the retail price.

"After consultation with all the interested groups and taking into account industry-specific limitations and market conditions, the government has opted for a phased approach which is reflected in the announced increase."

However, Mr Keys warned that "future budgets will have to deal with the remainder of this issue".

Transition levy finds no support

(320)

CT 23/6/94

THE Budget would stimulate economic growth while making substantial provision for social services, the National Party said yesterday.

NP spokesman Mr Danie du Plessis said the Budget contained sufficient elements to promote growth.

However, he expressed reservations about the one-off levy to cover the costs of the transition.

"The functioning of the Independent Electoral Commission and its lack of financial discipline which the taxpayer now has to account for is an example of how state expenditure should not occur.

"Extravagant promises by some ANC ministers have already made the danger lights flicker. Ministers must realise they can only make promises within the framework of the Budget."

● In its reaction the CP strongly objected to the five percent levy.

"The CP strongly objects to the squandering of R4bn by the TEC and the IEC."

The insufficient increase in social, military and civil pensions would result in a further lowering of living standards in a sector of the community which, in some cases, was already below the breadline, it said.

● The Freedom Front said most of the transition expenditures had been been unnecessary. The failed National Peacekeeping Force had cost the taxpayer R395m and the Independent Electoral Commission had overshot its budget by R700m. — Sapa

Budget '94 / '95

SOUTHERN

Taxpayers to fund transition process

Sowetan 23/6/94

■ NO JOY Govt ups spending on education but is silent on RDP

320

By Mathatha Tsedu
Political Editor

IT IS a no-blues, no-joy budget that Finance Minister Derek Keys gave to South Africa yesterday.

The rich, the not-so-rich and the comfortable have been targeted to finance the cost of the transition in a one-off tax expected to bring in R3,4 billion during this tax year.

This tax of five percent for those who earn R50 000 a year and more is in line with what ANC leaders once termed wealth tax, a term that Keys rejected yesterday.

Thirty percent of taxpayers are expected to fall into this category, while 15 000 companies will also be affected.

About 3,3 percent of the five percent will be collected this year, while 1,7 percent will be collected next year.

This money will finance the transition to the new South Africa, which cost R3,8 billion, calculated as follows:

- Independent Electoral Commission: R948,3 million;
- Integration of armies: R1,5 billion;
- Assembly points for Umkhonto we Sizwe: R223,1 million;
- Provision of allowances during elections: R526 million;
- The disbanded NPKF: R384 million;
- Advances to new provinces: R236,2 million;
- Inauguration of the president: R18 million;
- The Transitional Executive Council: R15,9 million; and
- The Peace Secretariat and National Peace Accord: R84,1 million.

"The new Government has, however, lived up to its promise to cut down on Government expenditure as the entire R2,5 billion for the RDP comes from savings within State departments"

The poor — who may have expected a reduction in VAT on food and medicines — will still have to wait until a commission on tax tables its recommendations.

In essence, with the Reconstruction and Development Programme getting R2,5 billion, the poor may look in vain in that direction for any immediate relief, for the Budget is silent on the redirection of resources.

A White Paper setting out details of the RDP's implementation is expected soon.

The new Government has, however, lived up to its promise to cut down on Government expenditure as the entire R2,5 billion for the RDP comes from savings within State departments.

There is also an increase in education and health spending, which links up with the president's announcement earlier this year that schooling and health services at state institutions would be free for some categories of people.

In the end, however, the budget is a non-RDP budget, chiefly because it was effectively prepared by the old regime although announced by the new one.

And the ANC may well say to its critics today: we have tried, but judge us on our own budget next year.

Derek Keyes

Paying for the cost of change

Sowetan 23/6/94

■ DEPARTURE POINT Budget must be seen as a basis for debate in the future, says unionist:

Sowetan Reporters

TAX INCREASES on luxury goods, savings to make money available for the RDP and the cost of the transition to democracy were the major characteristics of this year's Budget.

The stage has been set for next year when many observers expect the real RDP budget to reflect the redirection of resources to disadvantaged communities.

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The smokers, the rich as well as the middle class are going to bear the brunt of the tax hikes that are aimed at financing the road to democracy.

Duties on tobacco and liquor are expected to contribute about R3,4 billion to the national coffers.

This will go a long way to addressing the R4 billion deficit incurred in the transitionary process.

Aspirations

The poor, who were expecting their aspirations to be addressed through the scrapping of food tax, got a slap in the face, but at the same time were spared the widely expected hike in VAT, another masterpiece of Finance Minister Derek Keys's juggling act.

The usually controversial VAT, which has in the past caused thousands of workers to take to the streets in protest, did not feature at all.

It only received a mention when Keys announced the formation of a commission to review the country's entire tax structure.

Those who want to invest in South Africa must be scrambling to exchange their dollars for financial rands because the Mandela government has demonstrated that the initial financing of the RDP can be done without having to go cap in hand to the international financial institutions.

Other benefactors in the Budget are the former guerillas of the liberation movements, who are set to get pensions for their efforts to bring democracy to the country.

Meanwhile, economists, academics and trade unionists were yesterday cautious in their reaction to funds allocated to the RDP.

The SA Consumer Co-ordinating Council said the Budget contained both good and bad news.

Moderate

Consumer Council official Mr Dan Kruger said on the positive side the Budget could be regarded as moderate.

"The man in the street will benefit since VAT was not raised. The higher excise duties will not affect essential goods," said Kruger.

Mr Steven Friedman, of the Centre for Policy Studies, said the amount allocated was not as huge as it appeared to be.

"Most of the money will come from existing aid. What the Government did was to merely shuffle around expenditure," he said.

Friedman said Keys' announcement of the RDP funding differed from what President Nelson Mandela said earlier in that the Government failed to identify priorities outlined in the programme.

Political analyst Mr Eugene Nyathi said for the GNU to successfully implement the RDP, the Government needed "drastic surgery" rather than the redirection of resources from Government departments.

African Clothing and Textile Workers' Union general secretary Mr Ebrahim Patel called on institutions of civil society to look upon the budget as a point of departure for a constructive debate.

R111,5-bn could be raised from taxes

Sowetan 23/6/94

THE Government expects to collect nearly R111,5 billion in revenue for the 1994-95 tax year, Minister of Finance Derek Keys announced in his Budget speech yesterday.

This represents 9,5 percent increase on the comparable figure for 1993-94 but also, for the first time, the total consolidated revenue to be raised from the former TBVC states and Provincial Administrations.

Keys's Budget, the first in the new democratic South Africa, produced few directly comparable figures due to constitutional restructuring in which the former State Revenue Fund has been recreated as the National Revenue Account.

On the basis of the existing tax rates and brackets, the 1994-95 Estimate of Revenue allowed for an increase of 11,2 percent (to R104,292 billion) on the comparable ordinary collections of the previous tax year (R93,756 billion).

Although overall economic conditions were better, the increase in Government revenue was expected to be smaller than in the past due to the lower inflationary environment.

Inland Revenue's ordinary collections were projected to increase by 12,3 percent to R88,469 billion, that included increases in personal tax resulting from fiscal drag — a factor that also declined because of lower inflation levels.

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Based on an expected average salary and wage increase of nine percent and a small improvement on employment as a whole, SITE and personal tax collections were expected to yield R40,7 billion.

Income tax from gold and diamond mining would remain more or less unchanged.

However improved economic conditions foreseen for the international commodity market coupled with better control over production costs put the estimated yield from other mines at R500 million.

Lags in payments of corporate income tax, and revenue foregone as a result of Section 37E allowances, would limit the tax income increase from the non-mining sector to five per cent, realising R10,780 billion. Revenue from Secondary Tax on Companies would yield R930 million.

'Based on an expected average salary and wage increase of nine percent and a small improvement on employment as a whole, SITE and personal tax collections were expected to yield R40,7 billion'

BUSINESS

Lower tax bill still possible

Business Staff ARG (320) 23/6/94

□ Drop in net rate welcomed

SOME bad news and good news in the Budget, but companies could still face a lower net tax bill, according to chief executive of the Institute of Chartered Accountants (SAICA) Ken Mockler, who welcomed the drop in the net tax rate as a move likely to encourage foreign investment.

"Companies were previously overtaxed, which was a disincentive to foreigners to invest.

"Lowering the net tax rate will bring us more into line with other countries competing for investment."

Mr Mockler said it would also encourage entrepreneurship.

He said in view of the good news that the Reconstruction and Development Programme (RDP) was to be financed through cuts in the government's own budget, and given that the cost of the political transition was much higher than expected (at R4billion), the 5 percent transition levy "wasn't too bad".

Mr Mockler was disappointed that Finance Minister Derek Keys had made no mention of allocating more resources to Inland Revenue "to beef it up".

He felt a lot more tax could be collected if the commissioner was allocated "more tools for the job" — specifically, to offer higher salaries to attract the right people to improve collection.

He was also disappointed that there had not been a move to more indirect tax and less direct tax on income.

He would have liked to have seen a 1 percent increase in VAT compensated for by a reduction in personal income tax rates, because VAT was a far more efficient collection vehicle.

Tax partner of Kessel Feinstein, Beric Croome, said that with the increase in secondary tax on companies (STC) from 15 percent to 25 percent, the amount of tax payable would largely be determined by dividend policy.

He said a company with a full distribution policy could have an effective tax rate of at least 50 percent (including the transition levy), which was higher than the rate the same company would have paid last year (an effective 47,8 percent).

A company not distributing dividends would have an effective tax rate of 37,5 percent, including the transition levy.

The transition levy (at 5 percent) was to be paid by all companies on the portion of their taxable income that exceeded R50 000. (Because of the R50 000 abatement granted by Mr Keys, companies earning less than this amount would not incur the levy).

Losses brought forward from previous years would not be allowed as a deduction in the calculation of the levy.

The reduction in the corporate tax rate from 40 percent to 35 percent would be very helpful in the longer term, said JSE operations director Neil Carter.

But he was concerned about the amount of money that would be taken out of the private sector — and the potential share-buying market — because of the five percent temporary levy, and the additional tax generated by bracket creep

BUDG

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Women angry at failure to end bias

CT 23/6/94

Staff Reporter

WOMEN'S groups have reacted angrily to the failure of the Budget to remove sexual discrimination in taxes which they believe flies in the face of the new constitution.

However, married women are favoured with a higher abatement on the new transition levy which will only be imposed on married women earning more than R175 000 a year.

All other taxpayers pay the 5% levy on incomes over R50 000.

The Black Sash hoped the preferential abatement was merely a "stop-gap" in the progression towards an equal tax structure. It was "disappointed" the government had not lived up to the promise of the constitution which makes gender discrimination unconstitutional.

Married women could be forced to take the issue before the Constitutional Court.

Companies will benefit

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Business Staff

IN a move likely to be applauded by business and foreign investors, company taxes have been dropped to 35% from the previous 40%, from April 1.

Finance Minister Mr Derek Keys said this was "the second initiative to complete the process of structural reform of corporate taxes".

However, the secondary tax on companies has been increased from 15% to 25% with immediate effect, which was seen to "partially offset" the lower company tax rate. CT 23/6/94

ET '94

CT 23/6/94 (320)

Penalties for marriage to remain

By BARRY STREEK

THE tax penalties on married women are to remain in force, even though they may well be illegal in terms of the interim constitution which prohibits discrimination on the grounds of sex.

The Minister of Finance, Mr Derek Keys, did announce some relief for married women in his proposed 5% transitional levy in his Budget speech yesterday, but he did not refer to the tax penalties on married women.

"Basically, nothing has happened on this matter," the director of legal drafting, Mr Ian Meiklejohn, said.

He said this was one of the matters the new tax commission, consisting of Professor Michael Katz and Professor Dennis Davis, would have to look at.

"The revenue loss (from taxing married and single people the same) will be more than R2 billion and the major part of this is from married women," he said.

In his speech, Mr Keys said the transitional levy would only apply to married women who earned over 175 000.

Earlier this week, the Black Sash challenged the government to remove all sexual discrimination in tax and threatened to take it to the Constitutional Court.

Members of tax body are named

Political Staff

THE seven members of the commission to review South Africa's tax system were named last night by Minister of Finance Mr Derek Keys.

Professor Michael Katz, chair of the Tax Advisory Committee, is the chairperson of the commission, which has to report by November 30 so that its proposals can be incorporated into next year's Budget.

The other members of the commission are the director of the Centre of Applied Legal Studies at the University of the Witwatersrand Professor Dennis Davis; Cape Town businessman Dr Jannie Graaff; accountant and tax commentator Mr Pierre du Toit; Unisa's professor of economics Prof P Mohr; a member of Eskom's legal department Ms D Mokatle; and the Kagiso Investment Trust's Mr J Njeke.

Mr Keys said the commission would give specific attention to:

- Personal income tax; CT 23/6/94
- Corporate income tax; (320)
- VAT;
- Excise duties;
- Tax exemptions for institutions, particularly charitable, religious and educational, and
- The impact of the tax system on savings and investment.

Top earners to pay for transition

(320) BEW

By PETER DENNEHY CT 23/6/94

THE new five percent levy which will affect thousands of taxpayers, will be taken off Pay As You Earn (PAYE) by employers from the end of next month — and it will continue for 14 months.

Everyone earning under R50 000 is exempt from the levy, as are married women earning under R175 000.

The effect of the new tax is that someone who earns R100 000 a year will, for the next eight months, have to pay an extra R208 a month in PAYE tax. For the remaining six months, the payments decline to R139 a month.

Five percent of the difference between R50 000 and your salary is to be taken off in two phases. In the eight months from this July to the end of February next year, a total of 3,33% of everything above R50 000 will be taken by the taxman.

These figures are given in the "annual increase" column on the adjoining table of numbers. The next column, "monthly PAYE increase", is simply that figure divided by eight.

After these eight months, instead of charging 3,33% on everything over R50 000, the taxman will take a total of 1,67% of next year's difference between R50 000 and your taxable income — this time over six months.

The 3,33 and the 1,67 add up to the "5% levy".

Taking just three examples of what will be payable next year: Someone earning R70 000 next year will pay R56 a month; at R100 000 it will be R139 a month; at R150 000 it will be R278 a month.

The levy will pay for the costs incurred by the transition, which amount to about R4 billion.

● Price tag for transition — Page 8

TAXABLE INCOME	NO CHILDREN 1994	NO CHILDREN 1995	ANNUAL INCREASE	MONTHLY PAYE INCREASE
R	R	R	R	R
50 000	9 975	9 975	0	0 *
52 000	10 795	10 862	67	8 *
54 000	11 615	11 748	133	17 *
56 000	12 435	12 635	200	25 *
58 000	13 255	13 521	266	33 *
60 000	14 075	14 408	333	42 *
62 000	14 915	15 315	400	50 *
64 000	15 755	16 221	466	58 *
66 000	16 595	17 128	533	67 *
68 000	17 435	18 034	599	75 *
70 000	18 275	18 941	666	83 *
75 000	20 375	21 208	833	104 *
80 000	22 475	23 474	999	125 *
85 000	24 625	25 791	1 166	146 *
90 000	26 775	28 107	1 332	167 *
95 000	28 925	30 424	1 499	187 *
100 000	31 075	32 740	1 665	208 *
110 000	35 375	37 373	1 998	250 *
120 000	39 675	42 006	2 331	291 *
130 000	43 975	46 639	2 664	333 *
140 000	48 275	51 272	2 997	375 *
150 000	52 575	55 905	3 330	416 *
160 000	56 875	60 538	3 663	458 *
170 000	61 175	65 171	3 996	500 *
180 000	65 475	69 804	4 329	541 *
190 000	69 775	74 437	4 662	583 *
200 000	74 075	79 070	4 995	624 *
225 000	84 825	90 653	5 828	728 *
250 000	95 575	102 235	6 660	833 *
275 000	106 325	113 818	7 493	937 *

HITTING THE POCKET . . . This is the effect the new one-off levy will have on what you pay in tax. Everyone with a taxable income of less than R50 000 a year is exempt from the 5% levy. Married women with taxable earnings below R175 000 a year are also exempt.

Retention of VAT on basic food slammed

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Political Staff

A WIDELY expected increase in VAT on luxury goods but zero-rating on basic foodstuffs failed to materialise in yesterday's Budget.

Finance Minister Mr Derek Keys said he had the power to increase VAT during the course of the year, but he didn't expect the 14% rate to go up. However, the matter would be looked at by the National Economic Forum.

The failure of the Budget to introduce a zero-rating on basic foodstuffs and medicine is understood to have angered rank and file ANC MPs, and it could lead to greater tensions between ANC cabinet ministers and the caucus.

CT 23/6/94

But the picture could change in November when a tax commission will be reporting back on VAT and other tax issues.

Disappointed

And SA Council for the Aged executive director Mr Syd Eckley said the lack of zero-rating was a failure by the government to recognise the "survival crisis" facing a large portion of society.

Shoprite Checkers managing director Mr Whitey Basson said he was "gravely disappointed ... It seems this government is no different to the past one."

Consumer Council spokesman Mr Daan Kruger said the status quo was "probably the best under the circumstances. Had they increased zero-rating, lost revenue could have been recouped by increasing personal taxes". — Political Staff, Staff Reporter

High earners reeling over tax

ARG 23/6/94 (320)

BRUCE CAMERON
Business Editor

TOP earning taxpayers were reeling today from the tough once-off "get-rid-of apartheid" tax but business, now on trial to produce the goods, was breathing easier.

The full impact of the levy to cover the steep R4 billion costs of the transition was taking effect today on the country's top 30 percent of taxpayers.

For many people earning more than R50 000, recent salary increases will be negated or significantly reduced by the five percent levy on taxable income.

But politicians and businessmen gave the tax, which also applies to companies, approval as "cheap at the price".

Because of its structure, the higher people's earnings, the more they will pay as a percentage of their total tax bill.

● More reports, pages 24 and 25

This will mean that highest earners will come close to an effective 50 percent marginal rate.

Economists said today that as the tax was a one-off and helped relieve pressure on the government's need to borrow more, there would be a neutralising effect on the impact.

Director-General of Finance Estian Calitz told a Sanlam conference last night that the budget had been designed to achieve growth in the economy and to come to the assistance of the poor while maintaining fiscal discipline.

Business generally welcomed the budget today, in particular the further changes in company tax structure and the removal of the five percent import surcharge on goods needed for manufacture.

The altered company tax structure is aimed at providing an incentive for companies to retain profits for investment.

Mr Calitz inferred that business was now on trial to produce the goods and get the economy going.

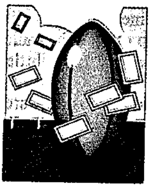
"This is one of the challenges of the budget."

Fm 24/6/94

A thin red line

Making the ends meet the middle

(320)



The bottom line of any national Budget is the deficit as a ratio of GDP. In the circumstances, Finance Minister Derek Keys, who presented the Government of National Unity's first Budget this week, has done the best possible job with a projected deficit of R29,3bn for fiscal 1994-1995: 6,6% of GDP.

Expenditure is budgeted at R135,1bn (10,2% up on the previous fiscal year), revenue at R105,8bn (up 11,2%).

The 6,6% deficit is way above accepted ratios worldwide. The average for the 19 OECD countries is 3,6%. It also exceeds the 6% which the World Bank condoned while the Reconstruction & Development Programme is being phased in.

But nobody expected Keys to deliver the 6% — for a number of reasons. These include additional transitional costs of R2,5bn and a projected interest bill of R24,6bn on State debt, most inherited.

There is also the R2,5bn for the first phase of the RDP, though this funding has been diverted from other sources with the largest amounts from:

- ☐ Defence R650m;
- ☐ Former self-governing territories and TBVC states R606,7m;
- ☐ Education R200,3m;
- ☐ Police R200m; and
- ☐ Regional & Land Affairs R158m.

If the savings had been used to extinguish government debt, interest costs and the deficit would have been reduced.

Interest payments in the Budget are again the second largest expense, at 17,5% of the total. They are surpassed only by education, which takes up almost half of the Budget expenditure (45%), where the average 15,5% rise since 1991 is topped only by export trade promotion (23,7%), social security and welfare (22,6%) and fuel & energy (20,6%).

Despite the burdens, the projected deficit, as a ratio to GDP, is down on the 6,9% in fiscal 1994 and the 8,3% in fiscal 1993. This is all the more encouraging because it has been presented with the blessing of President Nelson Mandela and an ANC-dominated Cabinet committed to reconstruction.

"A few years ago," asks Rand Merchant Bank economist Rudolf Gouws, "who would have thought that this would happen in the first Budget of the new government?"

Favourable picture

Perhaps the most important reservation about the ratio is that it depends on a 5,6% increase in official GDP estimates. By including what is thought to be the full contribution of the informal sector in GDP figures, for the first time this year, Central Statistical Service has produced a more favourable picture of economic activity in SA. GDP for calendar 1993 has been pushed up from R365bn in current rands to R385bn. For the fiscal year, it is R395bn. Given the R29,3bn projected deficit, fiscal 1995 GDP would amount to R444bn. This means nominal growth of 12,4%.

With inflation expected at around 9%, this means real growth of around 3% — an assumption in line with most recent economic forecasts. As to the revisions, there is no doubt that the role of the informal sector has been growing over the past decade and been largely ignored until now. The estimated contribution to GDP, the October Household Survey showed, amounted to 9,2% of GDP. So the new figures present a more accurate picture than the old and give validity to Keys's expected deficit.

Given the latest statistical revisions, the fiscal year which started in March almost lives up to IMF and World Bank expectations and could impress foreign investors.

Overall, the Budget has been well received. Standard Bank group economist Nico Czypionka describes it as "the best and crispest we have seen for a long time." He believes it points to "a commitment to finance the RDP without running an unacceptable deficit."

Transition costs

Rm	1993/94 Voted	1994/95 Allocated	1994/95 Additional	Total
Independent Electoral Commission	119,0	128,5	700,8	948,3
Independent Broadcasting Authority	—	—	24,0	24,0
Net cost of incorporating Umkhonto we Sizwe and the Defence Forces of the former TBVC states	—	688,2	798,0	1 486,2
Assembly points for Umkhonto we Sizwe members	—	—	223,1	223,1
Inauguration of the President	—	—	18,0	18,0
Provision of allowances for members of service departments during election	—	—	526,0	526,0
National Peace Keeping Force	129,3	—	255,2	384,5
Transitional Executive Council	7,5	8,4	—	15,9
Peace Secretariat	20,0	34,1	—	54,1
National Peace Accord	10,0	20,0	—	30,0
Parliament	—	66,0	—	66,0
Advances to provincial governments	—	139,0	97,2	236,2
	285,8	1 084,2	2 642,3	4 012,3
Less:				
Incidental savings	—	—	186,0	186,0
TOTAL	**285,8**	**1 084,2**	**2 456,3**	**3 826,3**

Days of property taxation 'numbered'

(320)

ARG 24/6/94

SHARON SOROUR
Municipal Reporter

PROPERTY should not be used as a tax base for local government, says Cape Town city councillor Frank van der Velde.

At a special city council meeting called to decide which ordinance to use to draw up a new valuation roll, Mr Van der Velde said the days of property taxation were "numbered".

"I believe tax should be extracted in the cheapest possible way: namely, that local government get a share of the receiver of revenue's takings."

Mr Van der Velde initially refused to vote on the motion of an amended executive committee recommendation to use the 1944 property valuation ordinance to draw up a new valuation roll.

He was "perturbed" that the council was not satisfied with the new 1993 ordinance because council officials had been involved in drafting it.

"Why didn't we put these matters right at that stage, particularly after the great deal of difficulty and trauma we have been through?" he asked, referring to the setting aside of the 1990 valuation roll by the Supreme Court.

Refusing to "apologise" for the previous valuation, he said: "I still don't believe that the valuation labelled a 'debacle' was in fact such a debacle. I firmly believe it was a correct valuation. If it had certain flaws, we have now an opportunity to put them right.

"But to go and redo the whole exercise and spend millions of taxpayers' money at a time when that money is needed for vital development — this is incorrect and I cannot put my name to what I believe is now a debacle," he said.

However, after councillor Norman Osburn appealed to Mr Van der Velde to accept that there had to be a new valuation — either in terms of the 1944 or 1993 ordinance or other legislation — Mr Van der Velde supported the recommendation.

Mr Osburn said the 1944 ordinance was the most advantageous for the people of Cape Town.

Exco chairman Clive Keegan said the council was entitled to use the 1944 ordinance. There were major shortcomings in the 1993 ordinance which would bedevil a valuation roll.

TAX CHANGES

Fm 24/6/94

What Keys left out

Notably absent from the Budget is any change to the Vat system (though this was widely predicted) or mention either of a capital transfer tax (CTT) or increases in estate duty or donations tax. (320)

Tax consultant Willem Cronje says government has opted for a holding operation by referring any changes in Vat to the proposed Katz Commission of Inquiry into the tax structure.

This is encouraging because there were strong pre-Budget indications that more foodstuffs would be exempted and the rate differentiated. Government's buying time

Fm 24/6/94

should enable it to reinvestigate the merits of targeted poverty relief such as food stamps instead of tampering with Vat.

KPMG Aitken & Peat tax partner Hennie Coetzee argues there are several reasons why the Vat rate was not increased:

☐ Trade unions could have objected to an increase in the standard rate which would be necessary if medicines and additional foodstuffs were zero-rated;

☐ Government could not afford to give way on more Vat items unless accompanied by an increase in the standard rate; and

☐ Investigations must have pointed to serious administrative difficulties in running a multi-tier Vat system.

Coetzee also notes that fiscal discrimination against married women has not essentially been addressed. The only concession is the threshold of R175 000 taxable income before liability to the 5% levy. He suggests the only reason for not doing more is that government cannot afford it. (320)

Cronje points out that CTT has not even been referred to the new commission, but this may be merely an oversight. Price Waterhouse Meyernel tax partner Tenk Laubser considers government's silence is only a deferment to let the commission study the issue. The Budget did not even mention any increases either to estate duty or donations tax (which presumably will both be replaced by CTT). (320)

More generally, Loubser says the fact that few amendments have been introduced shows that the new government has not had enough time to consider all possible tax changes. It should be complimented for not rushing its fences on matters which it has not had time to evaluate fully. Nevertheless, many changes not introduced this year should be expected next. Fm 24/6/94

Kessel Feinstein tax partner Ernest Mazansky asks why there is no mention of anti-avoidance measures to prevent retiring employees from engineering their taxable income to limit tax on lump sums from provident and pension funds to the current minimum rate of 17%. It is still open to parliament to address this issue when the Income Tax Amendment Bill is tabled.

Ernst & Young tax partner Sally de Boor adds that the new tax commission has a gargantuan task. It is being called upon to comment on many fundamental areas of tax and report by end-November. The Margo Commission took far longer. Moreover, government must acknowledge that Inland Revenue has neither the personnel nor other resources to do its job properly. Revenue officials need the support of government and the collection system must be upgraded urgently. Does government really need a commission of inquiry to learn this? (320)

Tax rates for individuals remain unchanged, subject to the 5% levy, and there is no compensation for fiscal drag. Cronje says the Budget statistics show that the individual tax take will increase 18,4% from R35,6bn in fiscal 1994 to R42,2bn in 1995.

Even allowing for the levy, this reveals much fiscal drag, mainly on the hard-pressed, middle-income group. ■

State Revenue Account

	Budget 1994/95 Rm	% change
Expenditure:		
Printed estimate (R P 2-'94: First Print)	132 346,5	
Plus: Supplementary expenditure proposals in respect of:		
Reconstruction and Development Programme	2 500,0	
Financial and Fiscal Commission	4,2	
	2 504,2	
Plus: Expenditure to be voted in the Adjustments Budget:		
Advances to new provincial governments	236,2	
Total expenditure	**135 086,8**	**10,2**
Revenue:		
Printed estimate (R P 3-'94: First Print)	*104 292,0*	
Ordinary revenue:		
Customs & Excise at existing rates	15 823,0	
Plus: Tax proposals in respect of Excise duties:		
Beer	96,0	
Spirits	34,5	
Cigarettes and tobacco	180,0	
Pipe tobacco and cigars	3,0	
Cool drinks and mineral water	13,0	
Wine	14,5	
Other fermented beverages	2,0	
Sorghum beer and powder	7,0	
	350,0	
Surcharge on imports:		
Capital and intermediate goods	−800,0	
Total for Customs & Excise	**15 373,0**	**2,6**
Inland Revenue at existing rates:	**88 469,0**	
Plus: Tax proposals in respect of:		
Transition levy on:		
Individuals	1 460,0	
Mining companies	66,0	
Non-mining companies	1 050,0	
Statutory corporate tax rate:		
Non-gold mining companies	−55,0	
Non-mining companies	−1 060,0	

	Budget 1992-1993 Rm	% change
Secondary tax on companies	510,0	
	1 971,0	
Inland Revenue after tax proposals	**90 440,0**	**14,8**
Total estimated ordinary revenue: National Revenue Account	**105 813,0**	**12,9**
Plus: Extraordinary capital receipts	—	
Total revenue	**105 813,0**	**11,2**
Borrowing requirement		
[1]**Budget deficit**	29 273,8	
(as % of GDP)	6,6	
Less: Opening balance:		
Former State Revenue Account	−380,8	
Total net borrowing	**29 654,6**	
Plus: Loan redemptions:	6 893,5	
Domestic loans	*6 035,3*	
Foreign loans	*148,6*	
Loan levy	*709,6*	
Gross borrowing requirement	36 548,1	
Financing requirement		
Treasury Bills (net)	500,0	
Domestic loans:	34 513,1	
[2]Government stock	*34 483,1*	
Bonds	*30,0*	
Foreign loans:	1 800,0	
Total financing	**36 813,1**	
Balance	**265,0**	
Less: Guarantee liability and currency subscription	265,0	
Closing balance: National Revenue Account	**0,0**	

Note: Displayed figures might not always add up, due to rounding.

[1] On the former State Revenue Account the budget deficit would have been equal to 6,1 per cent of GDP for 1994/95 compared to the latest figure of 6,5 per cent in 1993/94.

[2] Includes an estimated R200m in respect of premiums earned in a continuing process of consolidating Government Stock.

Middle class bear the brunt

(320)

WM 24-30/6/94

Mondli waka Makhanya

THERE was little to smile about for the middle class in Wednesday's Budget. Already carrying the bulk of South Africa's tax burden, middle income earners will now also have to bear the cost of transition.

In his quest to have as neutral as possible a Budget Finance Minister Derek Keys went for what the Democratic Party's Ken Andrew characterised as soft targets.

The middle class will suffer the most pain by the five percent levy. It is meant to cover the R4-billion bill run by up the Transitional Exective Council and Independent Electoral Commission. Keys said the levy would imposed at 3,3 percent for individuals earning above R50 000 and companies whose income exceeded R50 000. The remaining 1,7 percent would be levied in the following tax year.

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Although the tax should theoretically hit everyone proportionately, much of the pain will be felt by the middle class, who do not have as many tax loopholes as the higher-income group.

Companies will benefit from five percent reduction in corporate taxes and the elimination of the five percent import surchage.

No similar relief was there for the middle class which will once again be be hit by bracket creep. The subsequent loss of purchasing power will have repercussions on the general economy. It is set to dampen personal consumption, which had begun climbing with the economic up-tick.

Middle class bear the brunt

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WM 24-30/6/94

Mondli waka Makhanya

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Tax 'unconstitutional'

Political Staff

PARLIAMENT should refuse to pass the Budget because it violated the highest law of the land, the Black Sash said yesterday.

The decision to retain tax penalties for married women contravened the constitution which prohibited discrimination on grounds of sex, it said.

It was evident from the Budget speech these constitutional provisions had been ignored, the Black Sash said in a statement.

(320)

The Democratic Party's Ms Dene Smuts said in statement equality translated into hard cash and no section of the population should be penalised due to prejudices.

"The fact that revenues would drop by R2 billion if taxes were equalised between married and single people does not justify a serious violation of the section on equality," the Black Sash said.

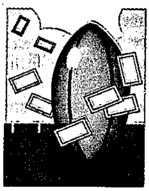
CT 24/6/94

FM 24/6/94

A thin red line

Making the ends meet the middle

(320)



The bottom line of any national Budget is the deficit as a ratio of GDP. In the circumstances, Finance Minister Derek Keys, who presented the Government of National Unity's first Budget this week, has done the best possible job with a projected deficit of R29,3bn for fiscal 1994-1995: 6,6% of GDP.

Expenditure is budgeted at R135,1bn (10,2% up on the previous fiscal year), revenue at R105,8bn (up 11,2%).

The 6,6% deficit is way above accepted ratios worldwide. The average for the 19 OECD countries is 3,6%. It also exceeds the 6% which the World Bank condoned while the Reconstruction & Development Programme is being phased in.

But nobody expected Keys to deliver the 6% — for a number of reasons. These include additional transitional costs of R2,5bn and a projected interest bill of R24,6bn on State debt, most inherited.

There is also the R2,5bn for the first phase of the RDP, though this funding has been diverted from other sources with the largest amounts from:

- ☐ Defence R650m;
- ☐ Former self-governing territories and TBVC states R606,7m;
- ☐ Education R200,3m;
- ☐ Police R200m; and
- ☐ Regional & Land Affairs R158m.

If the savings had been used to extinguish government debt, interest costs and the deficit would have been reduced.

Interest payments in the Budget are again the second largest expense, at 17,5% of the total. They are surpassed only by education, which takes up almost half of the Budget expenditure (45%), where the average 15,5% rise since 1991 is topped only by export trade promotion (23,7%), social security and welfare (22,6%) and fuel & energy (20,6%).

Despite the burdens, the projected deficit, as a ratio to GDP, is down on the 6,9% in fiscal 1994 and the 8,3% in fiscal 1993. This is all the more encouraging because it has been presented with the blessing of President Nelson Mandela and an ANC-dominated Cabinet committed to reconstruction.

"A few years ago," asks Rand Merchant Bank economist Rudolf Gouws, "who would have thought that this would happen in the first Budget of the new government?"

Favourable picture

Perhaps the most important reservation about the ratio is that it depends on a 5,6% increase in official GDP estimates. By including what is thought to be the full contribution of the informal sector in GDP figures, for the first time this year, Central Statistical Service has produced a more favourable picture of economic activity in SA. GDP for calendar 1993 has been pushed up from R365bn in current rands to R385bn. For the fiscal year, it is R395bn. Given the R29,3bn projected deficit, fiscal 1995 GDP would amount to R444bn. This means nominal growth of 12,4%.

With inflation expected at around 9%, this means real growth of around 3% — an assumption in line with most recent economic forecasts. As to the revisions, there is no doubt that the role of the informal sector has been growing over the past decade and been largely ignored until now. The estimated contribution to GDP, the October Household Survey showed, amounted to 9,2% of GDP. So the new figures present a more accurate picture than the old and give validity to Keys's expected deficit.

Given the latest statistical revisions, the fiscal year which started in March almost lives up to IMF and World Bank expectations and could impress foreign investors.

Overall, the Budget has been well received. Standard Bank group economist Nico Czypionka describes it as "the best and crispest we have seen for a long time." He believes it points to "a commitment to finance the RDP without running an unacceptable deficit."

Transition costs

Rm	1993/94 Voted	1994/95 Allocated	1994/95 Additional	Total
Independent Electoral Commission	119,0	128,5	700,8	948,3
Independent Broadcasting Authority	—	—	24,0	24,0
Net cost of incorporating Umkhonto we Sizwe and the Defence Forces of the former TBVC states	—	688,2	798,0	1 486,2
Assembly points for Umkhonto we Sizwe members	—	—	223,1	223,1
Inauguration of the President	—	—	18,0	18,0
Provision of allowances for members of service departments during election	—	—	526,0	526,0
National Peace Keeping Force	129,3	—	255,2	384,5
Transitional Executive Council	7,5	8,4	—	15,9
Peace Secretariat	20,0	34,1	—	54,1
National Peace Accord	10,0	20,0	—	30,0
Parliament	—	66,0	—	66,0
Advances to provincial governments	—	139,0	97,2	236,2
	285,8	1 084,2	2 642,3	4 012,3
Less:				
Incidental savings	—	—	186,0	186,0
TOTAL	**285,8**	**1 084,2**	**2 456,3**	**3 826,3**

Fm 24/6/94

This view was echoed by JCI's Ronnie Bethlehem. "It sends out the right kind of message to the international community." Yet he points out foreigners will not be confused enough to assume that the corporate tax rate, which is technically 35%, can be compared with the UK's rates.

The changes are ambiguous. The basic rate has been reduced from 40% to 35% but this has been offset by a 25% increase in the Secondary Tax on Companies. Some see this arrangement as an incentive for capital investment as it encourages companies to plough more into operations. But there is a negative aspect (see p26).

Though the net effect is estimated as a R600m sacrifice of revenue, Bethlehem feels this could be irrelevant to foreign investors who tend to be income-sensitive. He believes it would have been advisable to offset the increase in secondary tax by reducing non-residents' securities tax from 10%.

He fears that, together with the 5% levy on income to be imposed to cover the costs of transition — 3,3% this year and the rest the next — it could reduce growth prospects for the year. Regarding the levy, he says, "money that has already been spent will now be

(Rbn)

Fiscal year	Budgeted spending	Actual spending	†Percent increase
94-95	135,09	—	10,2
93-94*	—	122,56	—
93-94	114,15	115,15	10,5
92-93	100,68	104,23	21,4
91-92	84,98	85,86	16,1
90-91	72,93	73,95	13,0
89-90	65,02	65,46	17,0
88-89	53,87	55,93	17,9
87-88	46,87	47,45	17,9
86-87	37,57	40,25	22,3
85-86	31,29	32,91	21,3
84-85	24,95	27,13	21,6
83-84	21,18	22,32	16,4
82-83	18,24	19,13	16,7
81-82	15,87	16,43	20,8
80-81	13,08	13,60	18,9

† Percent increase in actual spending from previous year's actual spending
* Includes former regional authorities.

(320) taken out of the system." There is nothing to offset this such as a change in tax thresholds. "So it could retard consumption spending."

However, he does not quarrel with Keys's decision to deal with the shortfall right away rather than amortise it, for instance, over a period of years, pushing some of the burden on to future generations of taxpayers.

The only other option, he says, would be to restructure the tax system entirely to reduce the differential between nominal and effective tax rates. "But there was not enough time to restructure for this Budget."

Leaving the Vat rate unchanged is also favourable — though the matter has been referred to a commission, headed by Michael Katz and including ANC tax adviser Dennis Davis, which will look at the tax structure. It will report by November 30 on specific issues to be addressed in the 1995-1996 Budget. Meanwhile, the absence of zero rating on food will represent a substantial saving.

Keys points out that, apart from the adjustment to GDP figures, there is another major change in presentation, "the result of constitutional change (which) involves the incorporation into the Budget of the national government of erstwhile revenue

THE BUDGET IN A NUTSHELL

Fm 24/6/94

Revenue: Total ordinary inland revenue is expected to increase to R105,8bn in 1994-1995, or by 12,9%. Of this, R15,4bn is expected from Customs & Excise, an increase of 2,6%. Inland revenue is expected to bring in R90,4bn, up 14,8%. Income tax should raise R46,7bn and Vat R42,1bn.

Expenditure: This is expected to reach R135,1bn, or 10,2% more than in 1993-1994. It includes R2,5bn re-allocated to the Reconstruction & Development Programme and the Financial & Fiscal Commission.

Financing: The deficit is expected to be R29,3bn, or 6,6% of estimated GDP. After the closing balances on the old State Revenue Account and Own Affairs Revenue Accounts, as well as R6,9bn loan redemptions, this puts the gross borrowing requirement at R36,5bn. Of this, R8,2bn has already been raised.

Transition levy: 5% on income exceeding R175 000 a year for married women and for all other people and companies earning more than R50 000. The levy on individuals will be 3,33% this fiscal year and 1,67% next. This should bring in R2,6bn in 1994-1995 and R800m in 1995-1996.

Excise duties: Increases are beer 6c/*l*, spirits 71c/*l* (53c/750 m*l*), cigarettes 7c/10 cigarettes, cigarette tobacco 9c/50 g, pipe tobacco and cigars 65c/kg, cold drinks and mineral waters 1c/*l*, unfortified and fortified wines 6c/*l*, sparkling wine 8c/*l*, other fermented drinks 6c/*l*, sorghum beer 1c/*l* and sorghum powder 5c/*l*. These increases are expected to yield R350m extra over the rest of the fiscal year. (49)

Import surcharge: The 5% on capital and intermediate goods is abolished immediately. Expected loss to fiscus over the rest of the fiscal year is R800m.

Company tax: On nongold mining companies, this is to be cut from 40% to 35%. Expected loss to Exchequer: R1,1bn. The rate of the secondary tax on companies is to go up from 15% to 25%. This is expected to bring in R510m.

Vat: No changes to rates or ratings.

Export incentives: From March 1 next year, companies will no longer be exempt from tax for incentives received under the General Export Incentive Scheme.

TBVC states: Transfers corresponding to tax payments, Customs Union payments and levy payments formerly made to the TBVC states are now treated as expenditure items. Loans and overdrafts taken out by these states to finance their budget deficits of about R2,1bn get similar treatment. The total amount re-allocated this way is R7,8bn.

RDP: R2,5bn of savings in the estimates of spending of the various votes has been allocated to the Reconstruction & Development Programme.

Transition costs: Overrun of R2,5bn on original estimate of election-related costs, bringing total costs for the year to R3,5bn.

Education: R29,2bn (including R4bn to the ex-TBVC states), an 11,5% increase.

Health: R14bn, an increase of 7%.

Pensions: R417,6m is allocated to social pensions, to be provided by the Welfare & Population Development Minister. Civil pensioners who retired before July 1993 will receive a 5% increase. Those who retired between July 1993 and April 1994 will receive 0,56% for each month since retirement. All whose pensions have risen by less than 70% of the consumer price index since retirement will have their pensions increased to bring them into line.

Housing: R2,2bn, an increase of 15,6%.

Job creation: Additional R45m, to be added to the rollover of R247m by Manpower. This excludes allocations to come from the RDP fund. In addition, R72,8m will go to training schemes for the unemployed, R80,4m to small business development, R601,4m to regional industrial development and R2,1bn towards promotion of exports.

Water affairs: R468m allocated, an increase of 13,9%.

Defence: R11,2bn allocated, including provisions for the defence forces of the former TBVC states, and R255m for the National Peace Keeping Force.

Civil service: R2,8bn allocated for improved conditions of service, of which R2,3bn goes to general improvements and the balance to the protection services for work done during the election.

FM 24/6/94

Allocations for State departments

(Including statutory amounts)

Department	1993-94 Rm	Budget 1994-95 Rm	Budget % change Rm
State President	23,1	15,6	32,4
Parliament	113,7	187,7	65,0
Foreign Affairs	7 060,0	13 591,0	92,5
National Education	432,8	391,2	−10,6
Education and Culture ex Administration:			
House of Assembly	7 436,4	7 695,6	3,4
House of Representatives	3 229,2	3 561,0	10,2
House of Delegates	1 363,4	1 488,2	9,1
Education and Training	5 722,5	6 307,1	9,2
Defence	9 337,8	10 609,5	13,6
Manpower	372,4	389,6	4,6
Public Works	2 214,8	2 292,3	3,5
Commission for Administration	56,6	88,1	55,6
Improvement of conditions of service	1 470,4	2 806,6	90,8
Justice	968,5	1 007,9	4,0
Correctional Services	1 744,4	1 950,9	11,8
Agriculture	1 336,2	1 306,6	−2,2
Trade and Industry	3 078,9	2 674,9	13,1
Mineral and Energy Affairs	708,6	723,7	2,1
Finance	22 688,8	24 861,2	9,5
Home Affairs	281,3	1 214,3	328,4
Transport	3 216,4	3 206,8	−0,3
National Health and Population Development	2 254,5	1 661,8	−26,2
Police	6 451,5	7 203,6	11,6
Environment Affairs	221,5	213,0	−3,8
Water Affairs and Forestry	410,3	467,4	13,9
SA Communications Service	54,2	51,9	−4,2
Constitutional Development Service	66,3	213,9	222,0
Local Government and National Housing	2 128,2	2 381,9	12,0
Regional and Land Affairs	28 202,5	33 089,7	17,3
State Expenditure	685,7	603,8	−12,0
Central Economic Advisory Service	4,9	5,4	8,1
Public Enterprises and Privatisation	8,1	7,9	−2,4
Education Co-ordination Service	1,5	4,9	226,6
Central Statistical Service	39,3	60,6	54,0
Phasing out of own affairs administrations	4,6	0,8	−462,0
First deputy President	(new post)	10,0	
Second deputy President	(new post)	8,4	

(Although the names of some departments have changed, those used in last year's Budget have been retained for ease of comparison. However, in some cases direct comparisons with last year's allocations are not possible due to the transfer of services between departments and the absorbtion of functions previously performed by the TBVC states and the own affairs administrations.)

diversions to, and budgetary shortfalls of, former regional authorities" — homelands in other words.

Where will the money go this fiscal year?

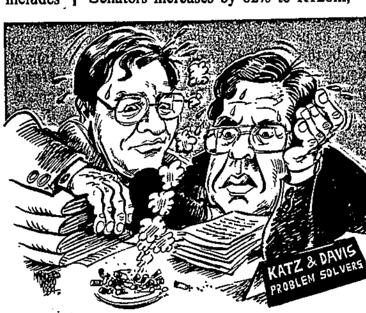
Health and education have been allocated R43bn of the R135bn government plans to spend.

The R29bn education budget includes R4bn from the former TBVC states and is an increase of 11,5%. The R14bn allocated to health includes the health budgets of ex-TBVC states and is up 7%. Primary health care will take up 25% of the health budget.

Main Budget increases and decreases are:

☐ State President: down 32% from R23m to R15,6m as a result of scrapping the President's Council, for which R10,7m was allocated last year. If this amount is excluded, the President's budget increases by 23% due mainly to a 61% rise in staff costs;

☐ Parliament: up 65% from R113m to R187m. The increase in the number of MPs and the creation of the Senate mean more staff is needed, which pushes administrative and miscellaneous services costs up by 87% to R60,5m. The salary bill for MPs and Senators increases by 62% to R126m;



(320)

☐ Foreign Affairs: up 92% from R7bn to R13,6bn, due to the cost of "development co-operation" in the former TBVC states. The R13,5bn allocated to this function will be used primarily for budgetary aid until the new provincial structures are in place;

☐ Defence: up 13% from R9,3bn to R10,6bn. The bulk of the increase results from the R1,7bn spent on assembly points for Umkhonto we Sizwe members and the integration of MK and the former TBVC forces into the SANDF. If integration costs are excluded, defence spending is substantially lower in real terms. And the defence budget was cut by R650m as a contribution to the R2,5bn allocation for the RDP;

☐ Commission for Administration: up 55% from R56m to R88m, due mainly to the creation of a R16m fund for "special programmes" — effectively affirmative action in the civil service;

☐ Improvement of conditions of service: up 91% from R1,4bn to R2,8bn. The allocation is used to pay civil servants' salaries, allowances and benefits;

☐ Home Affairs: up 328% from R281m to R1,2bn as a result of the department taking over funding responsibility for the Electoral Commission (R840m), the Independent Broadcasting Authority (R24m) and the National Peace Committee with its related organisations (R65m). Financial assistance to the local film industry has been slashed from R24m to R3,4m; and

☐ Constitutional Development Service: up 222% from R66m to R214m, mostly because of the R168m cost of the TEC.

Will departments stick to their voted allocations? The real test of the Budget, of course, is the actual outcome. In fiscal 1994, expenditure overshot by a modest R670m while revenue was R500m higher than projected. Though these figures don't take into account the adjustment described above, they are an indication that Keys succeeded in pushing through his planned expenditure targets in fiscal 1994.

We hope he will do as well in 1995. ■

HOUSING

FM 24/6/94

Top of the pile

Government has given housing priority in the Budget, granting it the largest spending increase — 15,6% up on last year — to put R2,2bn at the disposal of national housing authorities.

The total available, including R780m carried over from last year, is R2,98bn. This is R220m less than the Ministry expected. There is no official comment on the shortfall but the department could be expecting a slice of the R2,5bn set aside for the Reconstruction & Development Programme.

An RDP White Paper is to be drawn up and circulated for comment.

National Housing Board chairman Joop de Loor says there is no point in increasing the housing allocation beyond what can be rette tax too moderate — claim

Names of Keys' tax committee

Sowetan 24/6/94

■ STATE REVENUE Commission to protect Government's share of taxes:

FINANCE MINISTER Derek Keys has named the members of the commission that will review South Africa's tax structure.

The commission will be headed by Professor Michael Katz who heads the Tax Advisory Committee. Other members are Professor Denis Davis, director of the Centre for Applied Legal Studies at the University of the Witwatersrand; Dr J de V Graaff, a company director; P du Toit, an accountant, Professor P Mohr, an economist; Ms D Mokatle of Eskom's legal department; and Mr J Njeke of Kagiso Trust Investment.

Its first report is to be published by November 30 1994.

Finance minister Derek Keys

Efficiency 320

The commission has been briefed to inquire into the appropriateness and efficiency of the tax system and to make recommendations on its improvement.

It will examine personal income tax, corporate tax, the impact of the tax system on small business, value added tax, excise duties, tax exemptions, the impact of the tax system on savings and investment, the relevance of the tax system to foreign finance and tax collection.

"The commission's recommendations should take into account the protection of the State's current revenue and the overall requirements of macro-economic stability and reconstruction and development," Keys said in a statement.

Keys announced the formation of the commission in his Budget speech on Wednesday. — *Sapa*.

5 000 women eligible for 'wealth' levy

Political Staff

ABOUT 5 000 married women will qualify for the special "wealth" levy on those who earn above R175 000 a year, according to figures provided by the Central Statistical Service.

This is in a pool of four million taxpayers and 1,2million liable to pay the levy which will go towards the R4 billion bill run up by the Independent Electoral Commission and the Transitional Executive Council.

Among those who will be paying the levy will be the two women in cabinet — ANC Health Minister Dr Nkosazana Dlamini-Zuma and Public Enterprises Minister Chieftainess Stella Sigcau.

Three women deputy ministers will also face the extra tax which will go towards paying for the cost of South Africa's transition.

In terms of this week's Budget, all men and single women will pay 5% of the difference between R50 000 a year and the taxpayer's actual salary if it is higher.

But owing to discriminatory policies against married women in the past, they will only pay the difference between their salary and a cut-off of R175 000 a year.

Those liable for the tax will pay R67 a month if they earn R52 000 a year and R937 a month earning R275 000 a year. CT 24/6/94

The CSS's Mrs Liz Coetzer said yesterday that according to the 1991 population census 9 787 women earned between R100 000 and R299 999 a year. A further 1 668 earn more than R300 000 a year. 320

No figures of those earning above R175 000 a year are available but it is estimated that there are about 5 000.

ANC women slam the tax system

(320)

ARG 25/6/94

VUYO BAVUMA, Political Staff

THE tax system violates the principle of equality of men and women, says the African National Congress Women's Caucus.

It was discriminatory because it placed a heavier burden on married women, the caucus said.

In a statement caucus spokeswoman Phumzile Ngcuka said the body urged women's organisations to take up the matter with the constitutional court.

The budget missed an important chance of laying the foundation for developing a non-discriminating society.

The assumption that married women were supported by a male breadwinner was a myth.

Overwhelming evidence collected by human rights and development agencies like the United Nations showed that the "feminisation of poverty" and the burden of supporting a family was carried mostly by women — whether married or single, she said.

The days of families led by males had ended, particularly in South Africa where many women took the lead in their households because of the effects of the migrant labour system and other social roles imposed by a patriarchial system.

Ms Ngcuka said: "The budget does not even commit the government unequivocally to gender justice within the new tax system.

"We welcome the relief that married women who earn less than R175 000 a year will gain from higher abatement on the transition levy.

"However, we still reject penalising women who earn above R175 000 and who will continue to carry a high tax burden — this is indeed the violation of their constitutional rights.

"We are also disappointed that there will be no zero rating of basic foods which would have benefited poor women and children."

The caucus was also saddened by the composition of the tax commission, which favoured those who had always been "privileged in both race and gender". She said the caucus hoped the government would look into support system to address survival issues affecting women and children.

Women should fax their concerns to 461 5372, No 454 New Building, Parliament.

Government gets tough

ARG 25/6/94 (B20)

Fiscal discipline in force

BRUCE CAMERON and ALIDE DASNOIS
Business Staff

GOVERNMENT is using tough fiscal discipline to get order in its own ranks and to force business to become more competitive and efficient.

Deputy Minister of Finance Alec Erwin said at the Old Mutual/Nedcor post-Budget debate that fiscal discipline would also be used to force the civil service of the old regime to reassess priorities, "instead of just spending our way to new priorities".

The notice to the civil service and to business followed a warning made at a Sanlam post-Budget symposium where Finance Director General Estian Calitz said that business had been given the breaks for the year and should now begin investing.

The government deficit and the need for fiscal discipline were highlighted at both conferences and followed confirmation in the Budget that state debt had now reached almost R200 billion, with R24,5 billion, or 17,5 percent of Budget allocated for interest payments this year.

Mr Erwin said supply-side corrections to the economy were necessary.

He agreed the transition levy would reduce consumer demand, but argued that this was not necessarily a bad thing because of the restructuring required in industry to make it more competitive and efficient.

"Spurring demand will not lead to growth unless there is industrial restructuring."

This was particularly the case in the motor, clothing, textile and electrical appliance sectors.

"Investment-led growth is safer at this stage. Micro-economic issues will be very important now."

Blacks at the conference were critical of the Budget, saying, among other things, that it was essentially a continuation of the old regime and did not make a significant break with the past. The Budget also did not do enough to support small business, which would be the backbone of job creation.

Mr Erwin rejected the argument that the latest Budget was a continuation of Budget-line of the previous government.

He said it was difficult to change immediately. Policy was in the process of change, but capacity to deliver still had to be put in place. In the meantime the Budget was a "excellent holding position."

Mr Erwin said he believed enough was being done to reduce anger in the townships. Without fiscal discipline, ordinary people's living standards would be eroded through inflation.

"Poorer people are least able to defend themselves against inflation," he said.

Mr Calitz said that the government was investigating various ways to stimulate small business, including the creation of special tax structures, the stimulation of housing construction and tender procedures that would favour small business contractors and sub-contractors.

Tax backlogs in former homelands

ARG 25/6/94

THERE were major backlogs in tax assessments and collections in the former self-governing territories and TBVC states, said Commissioner for Inland Revenue Trevor van Heerden. (320)

Speaking before the Finance Committee, he said there also had been "pressure from certain quarters" for taxes not to be paid in these areas.

Non-payment of taxes had involved officials, politicians and ordinary individuals.

However, the situation had improved significantly since South Africa seconded officials to stabilise revenue collection systems in those areas.

NEWS

Only 20% will shoulder R4-bn bill

Tax for transition hits wage earners

Star 27/6/94

■ BY CLAIRE GEBHARDT

Less than 5 percent of companies and only about 20 percent of taxpayers will end up shouldering South Africa's R4 billion transition cost.

Blue-chip

Commissioner of Inland Revenue Trevor van Heerden confirmed at a Nedbank/Old Mutual Budget Forum in Cape Town that only about 15 000 of the 330 000 companies registered have taxable income which exceeds R50 000.

These are mostly blue-chip companies.

Experts said this was indicative of the financial difficulties companies faced as a result of the recession and the fact that many companies were dormant.

However, it could also be attributed to the practice by which many companies reduce their taxable income by inflating certain expenses such as directors' fees.

Other ploys include buying groceries through a company credit card, overseas entertainment and sundry other expenses.

They said many companies would now be looking to defer income and advance expenditure to avoid the levy.

Negligible

(320)

On the personal tax side, fewer than 1 million taxpayers out of a total of about 4,5 million will have to dig into their pockets to fork out the 5 percent levy.

Van Heerden also confirmed that a negligible number of married women earn taxable income above R175 000 a year, making this concession almost meaningless.

'Commercialise revenue office'

CT 27/6/94 (320)

Own Correspondent

THE Commissioner of Inland Revenue, Mr Trevor van Heerden, has called for the "commercialisation" of his department to allow the payment of competitive salaries which he said would net millions of rands.

His suggestion drew immediate support from Democratic Party finance spokesman Mr Ken Andrew, who said South Africa was losing what could amount to billions of rands every year because of staff shortages in the Inland Revenue department.

To commercialise the office would be in keeping with the international trend in both developed and developing countries, Mr Van Heerden said.

He said it would be of great assistance if Inland Revenue were allowed to function on the same basis as the Auditor-General's office, which was independent of the civil service.

Mr Van Heerden said that although there was an oversupply of chartered accountants the department could not attract them at present salaries and conditions of service. It was losing staff to the private sector, which could offer better salaries.

Speaking during the second day of hearing by the joint standing committee ~~on finance~~, Mr Van Heerden said that for every tax inspector who was appointed, an additional tax revenue of R1,5 million was collected.

Mr Andrew called for both the Departments of Inland Revenue and Customs and Excise to be removed from the public service and placed under the control of statutory boards.

It made no sense to allow staff shortages to persist because competitive salaries were not paid.

"Few people enjoy paying tax, but it is untenable that honest citizens are being forced to subsidise the dishonest. SA cannot afford to lose tax owed because tax-evaders go undetected."

COMPANIES

Revenue to 'clarify' 5% levy

B/Day

Business Day Reporters

INLAND Revenue would take steps in the next few days to clear up confusion about the payment by business of the 5% transitional levy, the department said yesterday.

A spokesman said the department was drafting a letter to help clarify the position on companies' provisional payments.

Sources are divided on when and for what periods the levy has to be paid.

Accountants said the reduction in the corporate tax rate to 35% and the introduction of the 5% transition levy affected companies with year-ends in the 12-month period to March 1995.

The new STC tax had been declared "effective immediately". 28/6/94

But a tax expert said one of the problems was that the levy was not a normal company tax. She said it should probably be shown as an extraordinary item.

Electronics firm Anbeeco — which published results last Friday for the year to April — did not take the new tax into account.

Anbeeco finance director Barry Phillips said yesterday Anbeeco's year end was April, whereas the new levy affected only companies with a March year-end.

He said the results had been drafted and approved by the board before the Budget.

Industrial products group Hudaco — which yesterday posted results for the six months to May — had taken the levy into account. (320)

CE Stephen Connelly said the levy had taken 4c a share off bottom-line earnings to 51c.

A spokesman said yesterday the company had been ready to publish its results on June 21 but had thought it "irresponsible" to publish the day before the Budget.

PAYE delay will double levy tax

CHARLOTTE MATHEWS BDay

DELAYS in getting new PAYE tables to employers will mean that employees will be taxed 6,66% of their monthly salaries from September to February to pay for the 5% transition levy, double the figure mentioned in last week's Budget. 30/6/94

Inland Revenue said although it was working "flat out", new tables were likely to reach employers only by mid-August.

Spokesman Sydney Pope said they would come into effect from September, which meant the 3,33%, or two-thirds of the levy intended to be collected during the year to February, would have to be taken over six months instead of a full year.

Those retiring this year would also be affected. The levy imposed on earnings over R50 000 in the current financial year would also apply to lump sum benefits received from pensions or provident funds.

The levy would increase the rate of tax applicable to lump sum benefits. For example, an individual who had earned R100 000 during the tax year and received a pension lump sum benefit of R150 000, the first R120 000 of which qualified for exemption from tax, would be taxed as follows: Normal tax would be levied on R130 000, which was the sum of R100 000 salary and the taxable portion of lump sum (R150 000 less R120 000). (320)

The transitional levy of 3,33% would be levied on R80 000, namely, the sum of R100 000 salary, plus taxable lump sum of R30 000, less R50 000 abatement.

Late start for transition tax

CT 1/7/94 (320)

By MAGGIE ROWLEY
Deputy Business Editor

Higher deductions for second half of year

THIS year's 3,33% transition levy will only be collected in the last six months of the tax year, resulting in employees having to pay 6,6% of their monthly salaries from September to February next year.

Inland Revenue spokesman Mr Sydney Pope said delays in getting the new PAYE tables to employers meant that they would only come into effect in September.

Double payment

As the tables had been adjusted so as to raise the full 3,3% on employees' income above R50 000, this would in effect result in double payment in the last six months of the tax year.

"Employees would be advised to maybe make provision in the next two months, when in fact they receive what amounts to a reprieve, so as to ease the burden over the period when the levy will be payable.

"The government has said we must collect 5% of employees salaries within the 12-month period, which means because of the delays in getting the PAYE tables to employers it will amount to an end-loading this year.

"The opposite situation exists next year as although 1,67% must be collected in the 1996 tax year, we only have until August to do so, which means that in effect employees will be paying 3,4% of their monthly salaries (once the R50 000 abatement, spread over the 12-month period, ~~is~~ taken into consideration) from March until August 1995.

He said it was possible that employees would pay 6,66% on their annual bonuses, which are usually payable in December.

Over-recovery

"This will result in an over-recovery which employees will only get back when the tax assessment for the year is done," he warned.

According to Mr Pope those people retiring this year will also be affected as the levy will also be payable on the taxable portion of lump sum benefits on pension and provident funds.

What goes around . . .

FM 1/7/94

The tax commission — yet another — announced last week by government has terms of reference broad enough to cover all fiscal matters. But it is supposed to report by November on points to be implemented in the March 1995 Budget. This doesn't give the commission headed by Michael Katz, already chairman of the Tax Advisory Committee, much time for deliberations.

Finance Minister Derek Keys says it will provide a forum for the concerns of the public and allow proposals to be tested "against reality and professional expertise." This is Keys-speak for applying hard-nosed public finance requirements to populist demands such as Vat rate differentiation.

The commission, as proposed by the Minister in his Budget speech, includes tax authorities Dennis Davis of Wits University's Centre for Applied Legal Studies, Arthur Andersen tax partner Pierre du Toit, and recycled Margo member and economist/businessman Jan Graaff.

It also includes Unisa professor of economics and government adviser Philip Mohr, and a tax specialist and head of Eskom's legal department, Dolly Mokgatle. The remaining member is Johnson Njeke, MD of Kagiso Investment Trust and former Price Waterhouse Meyernel partner. He is also vice-president of the Association of Black Accountants of SA. Total membership, wisely, is small enough to create an effective working group. Katz says the Department of Finance and Inland Revenue have guaranteed strong infrastructural support.

Katz argues the exercise is necessary because the Margo Commission sat years ago in a different political, economic and social context. Its conclusions are no longer necessarily appropriate. Furthermore, there have been technical developments in commercial procedures. These require technical changes to the tax system. (320)

That said, one may ask whether the composition of the Katz Commission is broad enough to confer full legitimacy even now. Affirmative action fundis will note that it will be dominated by five white males. This suggests recommendations are likely to be cautious if not outright conservative. Davis, who started as a radical, is now best described as centrist in his approach to achieving social betterment.

The new government hardly needed a tax commission to confer legitimacy on radical fiscal measures. The 5% levy was, after all, summarily imposed in the Budget. What is more likely is that the commission, among its technical purposes, is intended to put a brake on radical proposals. We are also asked to suspend disbelief in the nature of committees in expecting the commission to come up with a great range of recommendations in six months.

A priority is to tackle the problem of administrative inadequacies at Inland Revenue. So cautious a public official as Commissioner of Inland Revenue Trevor van Heerden has called for a new charter for Revenue, to allow for recruitment of more and better qualified staff.

SA spends, by international standards, a pathetically low proportion of revenues on the collection process itself. The local experience of the "army worms" (young accountants doing military service in Revenue offices) confirmed that additional skilled personnel can bring in much extra revenue.

Whatever else is done, it should certainly be feasible to formulate a detailed, unanimous proposal on these lines well before November, and to pass the enabling legislation this year. Plausibly, beefing up Revenue could bring in an additional R2bn or even more in a full fiscal year. The extra revenue should help relieve fiscal drag on the middle class, now bearing a heavier burden than ever before. If urgent action is not taken, there will surely be adverse economic consequences, such as mass emigration of vital skilled blue-collar and white-collar workers. This is a crisis which must be dealt with immediately.

The second priority should be focused on poverty relief as the alternative to getting Vat through exemptions and differentiation. And continued uncertainty about the proposed capital transfer tax (to replace estate duty and donations tax) should be addressed.

Another sore point in the tax structure much aggravated by the Budget is the secondary tax on companies, now at a swingeing 25% on dividends declared. This is not conducive to the most efficient flow of investment capital.

The establishment of the Fiscal & Financial Commission, under the new Constitution, might create complications for Katz, though its specific purpose is to regulate financial relationships between government and the provinces. This interface needs to be watched carefully, especially if Katz is to be made a permanent feature of policy-making, which might prove to be the case.

So too the commission's interface with the Tax Advisory Committee, also chaired by Katz.

The purpose of addressing public concerns will be well served by Katz's assurance that the commission intends to operate on the basis of total transparency and in close co-operation with the media. *Robin Friedland*

DIY plan to help collection of taxes

(320)

CLIVE SAWYER
Political Correspondent

DO-it-yourself tax assessments could be on the way.

And the tax collection department is set for far-reaching restructuring following top level complaints of difficulty in attracting skilled staff.

These are among disclosures by Michael Katz, head of the new probe into tax collection, to the parliamentary standing committee on finance. ARG 1/7/94

Professor Katz said tax collection needed to be more effective, user-friendly and service oriented. An unspecified amount of money was lost to state coffers every year because of inefficient collection.

"One of our most important priorities is to make tax collection more efficient because even if there is no change to tax rates, a streamlined tax collection ... can narrow the tax gap."

The tax gap is the discrepancy between the amount of tax which should theoretically be collected and the amount which actually comes in.

He said the commissioner of inland revenue, Trevor van Heerden, had told him one of the department's most serious problems was attracting skilled staff.

Replying to a question by Democratic Party finance spokesman Ken Andrew, Professor Katz said a good tax system should be simple, cheap to comply with and cheap to administer.

A possible method to achieve this was "self-assessment". In Amercia taxpayers calculated for themselves what taxes they owe.

Professor Katz said more sensible tax bands were needed to eliminate fiscal drag, the problem when a salary increase shifts a taxpayer into a higher bracket and erodes the benefit of the increase.

'Wealth tax' will hit everyone

320

WM 1-7/7/94

Far from hitting only the rich, the transition levy will affect us all, argues
Jacques Magliolo

FAR from being a "Robin Hood" tax, taking from the rich and giving to the poor, Finance Minister Derek Keys' five percent levy could ultimately hurt us all by reversing the present economic upswing.

Fears have being voiced of rocketing unemployment levels, violent confrontation and strikes once again becoming the norm, reducing living standards and increasing insolvencies.

The levy is imposed on the income of individuals and companies with incomes of more than R50 000 — and in that sense it is a wealth tax as well as having the effect of raising tax on income above present levels.

The levy is also supposed to be a one-off tax to help pay for the transition, and at the same time, have a marginal effect on the public.

But some experts say they are "beginning to have buyers' remorse".

They believe that government will, in the next Budget, establish a proper and permanent mechanism to redistribute wealth and that this will filter through to the man-in-the-street.

Says Rob Gillan, head of research at stockbrokers Mathison & Hollidge: "This Budget had to be quick, but the next will incorporate another form of wealth tax." He adds that a variable-rate VAT and a capital gains tax will be introduced and that this will affect everybody.

"If government's intention is to rebuild the country, then everybody should pay for it. This would have being more effectively achieved by increasing VAT or through some form of loan levy," he says.

Sanlam economist Pieter Calitz adds: "The levy will merely pay for the elections and not for any, or part, of a reconstruction programme." He also fears that the levy will be repeated in the next and subsequent Budgets.

"While this levy should not — on its own — have a material direct effect

To PAGE B2

'Wealth tax' will not hit the fat cats

320 WM 1-7/7/94

only

From PAGE B1

on the economy, the possible later repercussions could be far more serious," says Calitz. He believes that the "rich will simply save less to supplement the loss of purchasing power".

Economists agree that less savings means a shortage for national investment. This works through to gross domestic product (GDP) and ultimately ends up in a reduced growth rate. Many economists, Calitz included, have revised their GDP projections to 2,5 percent for this year from 1993's 3,0 percent. The outcome of a lower GDP is usually fewer employment opportunities and even a growth in unemployment rates.

On levels of savings, the South African Chamber of Business says: "It is regretted that the overall effect of the tax changes has been to increase the burden on individuals at a time when personal savings are still at a low level."

Given already low levels of savings, it is a realistic expectation that, in a free-market society, individuals will continue to strive for higher net incomes. When incomes are affected by additional taxes — in whatever form — these individuals usually find ways to supplement the loss of purchasing power imposed on them.

If this takes place, then the whole purpose of the levy — to redistribute wealth — may be nullified. The economic upswing seen in the past few months could even be reversed.

The ultra-pessimistic outline possible consequences of the levy:

- Businessmen will find alternative sources of income. They usually achieve this by "blackmailing" companies into increasing their salaries. Higher wage bills reduce a company's attributable profits.
- In addition to this companies have to pay the whole levy this year. And those which pay dividends face a substantially higher Secondary Tax on Companies (STC). At the same time as having base company tax cut to 35 percent from 40 percent, STC went up to 25 percent from last year's 15 percent. In theory, the two balance each other out, but some companies will pay more tax. To offset these burdens, they increase the price of their goods.
- Higher prices reduce individuals' disposable incomes and living standards. This is ultimately accompanied by a demand for higher wages and, if not obtained, strikes and labour unrest. Once wages are increased, demand for goods rise, which cause shortages and further price increases.

Whether this scenario is realistic or not remains to be seen. But the government has taken contradictory stances on a number of other issues.

The government has repeatedly stated its wish to reduce government spending and inflation rates, reduce VAT on basic foodstuffs, increase GDP growth and employment levels and redistribute wealth and land.

But to achieve all the above — in addition to funding the Reconstruction and Development Programme — government must raise the money and there are not too many avenues in which this can be achieved. It can either increase the money supply, issue a Reconstruction Bond, reintroduce prescribed assets, increase VAT to 16 percent or raise personal and company taxes.

As the latest Kessel Feinstein newsletter, *The Tax Line*, points out: "The new system of government is going to cost money. The bulk of the funding is to be sourced from improved organisation, more efficient use of resources and collection of taxes."

Printing additional money to fund projects is highly inflationary and reduces a likelihood of further interest rate cuts. The present Reserve Bank governor Chris Stals would fiercely oppose this move.

The latest M3 figures — total notes and coins in circulation — increased 15,2 percent in May compared to last year's 12,6 percent. Economists agree that it would not be prudent for government to further increase M3 if the economic upswing is to be sustained.

Neither is issuing another bond on the market a viable alternative at present.

Capital market rates are now softer than at any time during the past year. The existing government benchmark stock, the R150, ended Wednesday at 14,55 percent, in line with an absence of any major local and international interest.

To reintroduce prescribed assets may be possible. To increase VAT would be an unpopular move and "not politically correct", says one expert.

There is one answer, which is both easy to introduce and easy to monitor. That is to raise tax revenue in some form other than the direct taxes of which VAT is the major component.

Tax no way to help poor

B20

ALIDE DASNOIS
Business Staff ARG 2/7/94

VAT zero rating is not an efficient way to fight poverty, tax expert Pierre du Toit has warned.

Mr du Toit, tax partner at Arthur Andersen and Associates and a member of the newly appointed Tax Commission, said previous governments had not managed to relieve poverty.

But the new government was more in touch with the people and would have a better chance of delivering the goods.

The money that would have been lost to the state through zero-rating should be applied to a poverty relief programme.

"Even if we lose half of it along the way — which we won't — it will still work better than zero-rating", Mr du Toit said.

He outlined the main tasks of the new Commission as he saw them:

- adjusting the tax system to stimulate economic growth;
- encouraging foreign investment;
- making the system more transparent, especially those aspects that had been "geared to hiding things away" during the sanctions period; and,
- improving tax collection.

"We have 20 departments to spend money and only one to bring it in", said Mr du Toit. This meant that the Directorate of Inland Revenue had to be as efficient as possible.

"Weak administration only favours the dishonest at the expense of the honest."

Fears of a tax hike had not materialised in the budget and were not likely in the future.

There was no reason to think the African National Congress had a hidden agenda.

"What we see in the budget is not just Derek Keys' good sense: It comes from common ground in the government of national unity."

Mr du Toit said the ANC had recognised "some time ago" that tax was at a ceiling and that it should be reduced as soon as possible.

"We need not worry that there is a different message behind the scenes."

The confirmation of Trevor van Heerden as Receiver of Revenue was important, and: "It's significant that this was not a political appointment."

The ANC had expressed its commitment to the rule of law in tax as in other matters. This meant recognising not only the taxpayers' obligation to pay, but also that of the state not to take more than was necessary from its citizens.

The Reconstruction and Development Programme should not be seen as a "black hole".

By taking people "out of the gutter into the street, from the street into the factory and from the factory into the boardroom" the RDP would contribute to economic growth.

"The RDP is an investment, not a drain," Mr du Toit said.

The people would judge the government not on the income side, but on the expenditure side of the budget.

Tax commission plans 'user-friendly system'

CAPE TOWN — The new Tax Advisory Commission aimed to restore tax morality by instituting a user-friendly tax system, chairman Michael Katz said.

Addressing the parliamentary joint standing committee on finance on Friday, Katz said: "We want to make the new tax system more relevant to the changing needs of SA and also to examine ways in which we can streamline tax collection. B/Day

"The more burdensome the rules are, the more they affect tax morality and a user-friendly tax administration will help reduce tax avoidance."

The commission's priorities would be to examine personal income tax, gender issues, tax thresholds, fiscal drag, company taxes and allowances, the secondary tax on companies, VAT and excise duties.

Katz said he would like as many people as possible to be involved in the review process, with a wide range of organisations and university departments having already been asked to prepare papers on selected tax issues. 4/7/94

The commission would also consider whether charities and non-governmental organisations (NGOs) should be encouraged to undertake more of the social welfare work usually done by the state by broadening the range of NGOs that were exempt from tax.

Katz said the commission would make use of the research done by the previous tax commission headed by Judge Cecil Margo. (320)

"But on recommendations, we will start afresh. We have to re-evaluate the tax system in the light of the present society and its changed needs."

Katz said a report on the findings would be submitted to government on November 30. — Reuter.

Cosatu to advise on tax changes and VAT

320

ARG 4/7/94

CLIVE SAWYER
Political Correspondent

LABOUR federation Cosatu is to make submissions on the future of VAT to the Katz Commission on income tax.

The commission, headed by Michael Katz, is to report to the government by November on restructuring South Africa's tax system.

Cosatu has been at the forefront of the campaign to reform the VAT system.

Professor Katz told the parliamentary standing committee on finance a variety of interest groups would be called on to give evidence about their recommendations for changes to the income tax system, including the fiscal implications of their demands.

Among those to give evidence would be the SA Chamber of Business, the Small Business Development Corporation and professional associations of accountants and lawyers.

Professor Katz said his commission would use the research and documentation of its predecessor, the 1984 Margo Commission.

But the Katz Commission would not necessarily stick to the Margo recommendations because of the sweeping political and socio-economic changes of the past decade.

Professor Katz said his commission would strive to stay in the public eye and would keep the Press informed of its work.

A key issue was to see how the tax system could serve the aims of the reconstruction and development programme.

Aspects of personal tax which would be examined were gender equality, tax thresholds and fiscal drag.

The probe into corporate tax would include how many allowances could be permitted.

Other aspects of the tax system which would be examined were VAT, and the impact of the system as a whole on small and medium business.

Professor Katz said the tax status of non-governmental organisations would also be reviewed.

Tax exemption given to churches and charities could be extended to non-governmental organisations.

Man bound and murdered

JOHANNESBURG. — An elderly man has been found dead, with his hands and legs tied up, at his Malanshof home.

Police said Jacobus Luyten, 62, a Netherlands citizen, lived with Rodney Mogorosi at Malanshof, in Linden, west of Johannesburg.

Mr Mogorosi returned home at about 7.15pm last night to find Mr Luyten dead in his bedroom. His hands and legs were bound.

Police said the Mr Luyten had no visible wounds. It is suspected he was strangled.

The telephone lines to the house had been cut and the safe opened.

Police added that Mr Luyten's 9mm pistol and jewellery estimated at about R7 000 were missing. — Sapa.

Tax levy will hit new pensioners hard

320

ARG 6/7/94.

□ Makes nonsense of principle, says expert

ALIDE DASNOIS
Business Staff

PEOPLE who retire or are retrenched this year are likely to be hard hit by the 5 percent transitional levy.

Old Mutual tax expert Abri Meiring says people who take large lump sums in the course of the current tax year might have to pay 3,3 percent more tax on the taxable part of their payment.

The 5 percent levy is payable on income over R50 000 — or R175 000 in the case of married women.

It is to be paid in two parts — 3,3 percent in the current financial year and 1,67 percent next year.

The first R120 000 of a retrenchment package or pension payout is exempt from tax, with the excess taxed at the taxpayer's average rate of tax in the year of retirement or retrenchment.

Mr Meiring says it is a tax principle that abnormal accruals be taxed at the average rate. This applies to retrenchment payments as well as to lump-sum pension payouts.

The Department of Inland Revenue's intention to impose the levy on lump sums "makes nonsense of this principle," he says.

The life assurance industry is making representations to the minister of finance on the matter.

The system could be particularly damaging to people who retired or were retrenched this year, who have invested their lump sum, and who are left without ready cash to pay this unexpected tax.

More KwaZulu-Natal killings bring toll to 21 in five days

DURBAN. — At least six more people were murdered in KwaZulu/Natal this week, including two people who were shot dead in a taxi ambush on the South Coast yesterday, police reported today.

The latest killings bring to 21 the number of people murdered in the province since last Friday.

At least two others were wounded in the taxi ambush, near Margate, apparently by AK 47 fire. ARG 6/7/94

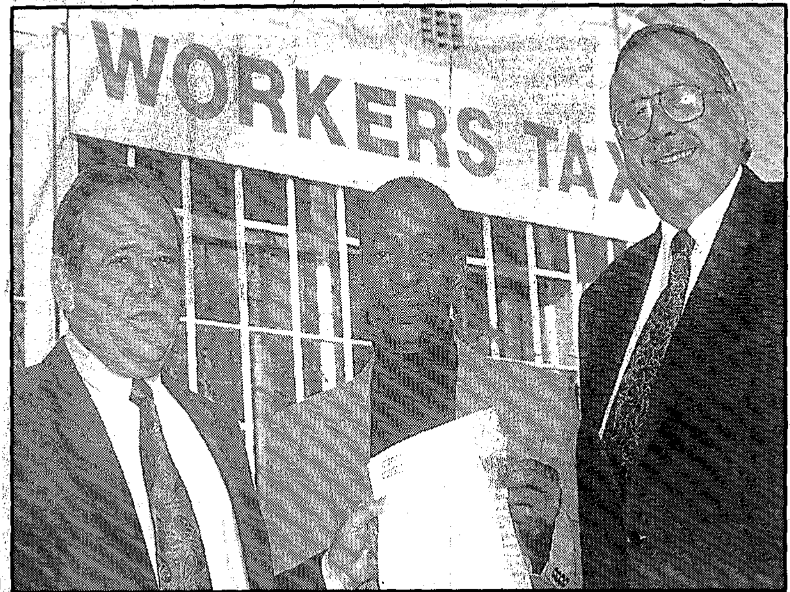
A spokesman at the Port Shepstone Peace Committee said one of the men killed in the ambush was an Inkatha Freedom Party-aligned induna, or traditional headman.

He said that since the ambush yesterday there had been more fighting in the area, and "several deaths and injuries".

He said problems in the area had become more acute since the local chief fled late last year after an attempt was made on his life.

Meanwhile, in Durban's Cato Manor area, Bertina Msomi was shot dead in the early hours of Tuesday.

The suspected killer, later arrested, also smashed the windows of her house. — Sapa.



PAYBACK TIME ... David Heyman, managing director of Workers' Tax Consultants, Potwa official Joe Molokeng and Ron Warren of Q Data Picture: COBUS BODENSTEIN

Site refunds are in the post

S1 Times (Buss) 10/7/94

By DON ROBERTSON

THE taxman has started refunding the R1-billion overpaid by taxpayers on the Standard Income Tax on Employees, better known as Site.

This week Workers' Tax Consultants handed over cheques worth R280 000 to Joe Molokeng, representative for the postal workers' union Potwa, for disbursement among its membership. Further payment to other unions will follow in the next few weeks.

Workers' Tax Consultants, assisted by Q Data's managing director Ron Warren, estimate that up to half of the 3,5-million people who paid Site over the past four years paid too much.

Ian Meiklejohn, a spokesman for the Commissioner for Inland Revenue, says he is unable to estimate the extent of claims but concedes it will make a big dent in tax recoveries.

Azar Jammine, chief economist at Econometrix, says that if the R1-billion figure is correct, an additional 2,5% of tax income *will have to be found elsewhere.*

Site was introduced in 1989 and allowed employers to deduct monthly amounts from salaries or wages of employees earning less than R12 000 a year. As a result, employees were not liable to fill in tax return forms.

The minimum salary cut-off point was raised to R20 000 in 1990, R40 000 in 1991 and R50 000 in 1992, at which figure it still applies.

Peter Cassisa of Workers' Tax Consultants says that during these years, many employees were "tax illiterate" and filed incorrect tax forms, unaware that they were entitled to rebates for being married or having children.

Workers Tax Consultants group has processed 100 000 claims and submitted about 20 000. (320)

The plight of the over-paying taxpayer was uncovered two years ago when Workers Tax Consultants investigated queries made by Transnet employees. The Receiver then made a special dispensation which allowed Transnet workers to recover excess payments.

However, the dispensation did not cover other workers and the problem has now been taken up by tax consultants and is being "pursued actively".

EXCHEQUER ACCOUNT FM 15/7/94

Good start

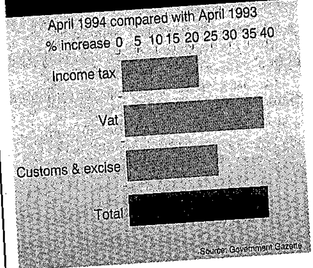
(320)

April, with its election fever and public holidays, is expected to have put a dent in the year's economic activity. But one organisation did well. Inland Revenue collected over R7bn, which is more than 38% up on collections in the previous April.

A breakdown of the figures, published last week in the *Government Gazette,* shows:

- Income tax, at R3,9bn, was up 21%;
- Vat collections, at R2,2bn, up 38%; and FM 15/7/94
- Customs & Excise duties, at R445m, up nearly 25%.

Inland Revenue: April leap



This is a sharp acceleration in revenue growth. Figures gazetted in May, for the fiscal year ending March 31 1994, show a 16% increase (to R89,6bn) in the grand total and a 6,3% rise (to R48,2bn) in income tax. Only growth in Vat collections has decelerated. In fiscal 1994 it rose 45% to R24,8bn.

An increase in the Vat rate — from 10% to 14% — in April 1993 boosted revenue in the 1994 fiscal year. The effect has started falling out of the figures but will not be eliminated till June.

The most encouraging feature of the latest figures is the rise in the income tax take. Inflation running at 7%-9% means this is partly fiscal drag — following inflation-linked increases in remuneration and profits. But it also shows real growth of more than 10%. (320)

There is a caveat. It is dangerous to draw conclusions from one month's figures. And, in this case, growth was off a low base because collections in April 1993 were so poor. Income tax payments, for instance, at R3,2bn, were down even in nominal terms (ie with the inflation effect still in the figures) on collections in April 1992.

More encouraging is the fact that revenue collections have been improving steadily for about six months. And, whatever the distortions in the April figures, they confirm this trend is still in place. ■

SELLING TAX . . . Dolly Mokgatle, head of the Tax Advisory Commission's investigation into VAT Picture: JAMES SOULLIER

Eskom's legal adviser puts her energy into tax reform

S Times (Buss)

17/7/94

(320)

By SVEN LUNSCHE

AS yet, Dolly Mokgatle is not a well-known name in tax circles, but that's about to change.

Mrs Mokgatle, Eskom's chief legal adviser, has been appointed head of the Tax Advisory Commission's investigation into VAT.

The commission, established by Finance Minister Derek Keys last month, has until December if its recommendations are to be included in next year's Budget proposals.

This is a daunting task for Mrs Mokgatle, especially since she has committed herself not only to consult the usual tax experts but also non-governmental organisations, trade unions and the general public.

"It is essential that we show our community the benefits of the tax system. There has to be a complete re-education," she says.

For this purpose she is recruiting leading black tax consultants to her task force, including Matsheru Matsheru and Zee Cele. Unisa's Philip Mohr, Circle Risk Management's Tinie Lategan and her Eskom colleague Willie du Plessis will also advise her.

Mrs Mokgatle's immediate task is to examine whether the VAT zero rating on basic food items should be extended to other foods and basic services, such as health and education.

She is aware of the political pressures to extend zero ratings, a policy proposed by the ANC's reconstruction and development programme.

"The RDP is one of the guiding principles behind our work, but zero rating must be examined on its effectiveness in bringing relief to the poor," Mrs Mokgatle says.

"If VAT exemptions do not achieve this then it makes sense to look at other forms of direct relief programmes. It is no use extending zero ratings in the form of an umbrella tax, which costs billions of rands in lost tax revenues and benefits the rich."

In the longer term Mrs Mokgatle favours a VAT system that includes as few exemptions as possible.

"But we have to address immediate problems and if extending VAT exemptions is effective then we should consider this as a serious option.

"I do not see anything wrong with a large number of VAT exemptions, which could be gradually withdrawn over time as socio-economic circumstances improve," she says.

She also expresses pessimism about raising VAT ~~on luxury~~ items to make up for a potential shortfall resulting from a wider zero-rating. "We should consider other options to bringing in revenue from luxury goods."

A clear indication that this is being considered is the commission's appointment of Mr Mohr "to investigate certain aspects of excise duties insofar as they relate to VAT".

Prior to her appointment at Eskom in 1991, Mrs Mokgatle, 38, worked at the Black Lawyers' Association, focusing on human rights, consumer and labour cases. "But I was always fascinated with the financial world, which for us black lawyers seemed 'up there'."

She completed her higher diploma in tax law at Wits, where she also took an LLB in 1982. She is currently in the final year of a two-year company law course and last year studied international financial law at Oxford.

Since joining Eskom one of her main functions has been to hold VAT workshops.

"I view my active interest in tax law as my main contribution to the upliftment of the black community," she says.

Mrs Mokgatle is married to a physician and has two children, aged seven and 11.

Proposal to raise estate duty to 45%

BDay 18/7/94

TIM COHEN

A MEMBER of the commission of inquiry into SA's tax system has proposed a significant increase in estate duty, saying a maximum rate of 45% "would not be inappropriate".

The suggestion was made by Wits University's Centre for Applied Legal Studies' Dennis Davis in the latest Natal University journal Indicator.

SA's tax system was characterised by an absence of a meaningful capital tax, he writes.

To introduce a capital gains tax would be problematic because it would not be a major money raiser and was extremely complex, particularly if there was a system for inflation indexation.

But SA already had the basis for capital transfer tax in the estate duty imposed under the Estate Duty Act.

"By increasing the rate significantly and introducing stiff anti-avoidance measures to curb the use of discretionary trusts and disguised donations, the present system could become a meaningful capital tax.

"A maximum rate of 45% would not be inappropriate, which would be capable of raising between R750m to R1bn, Davis writes.

Davis said at present total tax revenue amounted to 24,1% of GDP. Studies had indicated that industrial countries levied central government taxes averaging 27,4% of GDP while the equivalent for developing countries was 22,2% of GDP.

"It appears as if SA would be ill-advised to increase existing tax revenues by more than 1%-1,5%, which would raise up to R6bn."

(320)

During the election campaign, the ANC promised it would zero-rate a greater range of foodstuffs.

Zero-rating grain products and fresh meat would result in a loss to the fiscus of more than R3bn.

Because the constitution bars discrimination and because married women are taxed more heavily than men, the fiscus could lose an additional R1,6bn.

The tax system would need to recoup these losses before any increase could be contemplated.

He suggested that one method would be to cap the tax benefits obtainable from pension payouts, pointing out that a person could retire and receive a R5m lump sum payout and pay tax of 17% compared with a 43% maximum marginal rate of tax.

Another likely source of revenue was through improved tax collection.

SA spent about 0,25% of revenue collected on administration, which was far less than other countries.

The loss of revenue in SA could be as high as R5bn a year, he writes.

A number of changes to the Income Tax Act needed to be introduced.

GOVERNMENT FINANCE

FM 29/6/94

Slow start

Government revenue figures for the first three months of fiscal 1994-1995, up 18,2% on the same period in 1993-1994, are not as healthy as the increase suggests.

Extrapolated over a full year, Inland Revenue collections at the current rate will bring in only R75,6bn — R15bn short of the budgeted R90,4bn. Assuming Customs & Excise brings in its budgeted R15,4bn, that puts total revenue at R91bn, well short of the expected R105,8bn. (320)

So far, R22,8bn has been collected, with R18,9bn from Inland Revenue and R3,9bn from Customs & Excise.

Requisitions for expenditure are within Budget — R33,1bn, which translates into a pro forma figure over one year of R132,5bn against a budgeted R135,1bn. Nevertheless, the projected deficit before borrowing comes to R41,5bn, or 9,3% of GDP, against an original Budget deficit of R29,3bn, or 6,6% of GDP.

There are indications revenue will improve strongly later in the year. The Finance Department says figures to end June do not reflect measures introduced in the Budget which will have an effect only in the last nine months of the year. This includes the first payments of the transitional levy, of 3,3% on individuals for the tax year 1995, which should start coming in after August. The fiscus is expected to get R2,6bn from the levy this year. It also includes higher excise duties and the fuel levy — though the removal of the import surcharge could negate these.

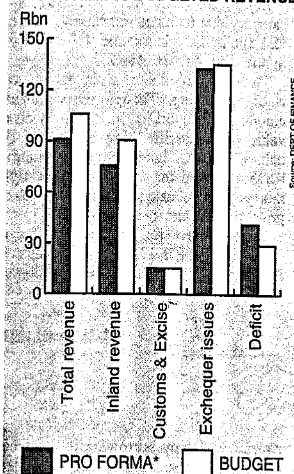
Moreover, provisional tax payments by companies are lumped in March and August each year. Strong flows are expected from this source, given the improvement in company profits.

Vat collections have been weak, according to revenue breakdowns for April and May (the June breakdown will be available next month), bringing in R4,2bn. That amount looks good against the R2,8bn collected in April-May 1993 but it's short of the average of R2,4bn a month needed to meet the budgeted R28,6bn. The 1993 figure is based on 10% Vat that applied in April and most of May last year.

The poor performance of Vat this year

LAGGING BEHIND: EXCHEQUER FIGURES

PRO FORMA vs BUDGETED REVENUE



*1-year projection based on revenue over first 3 months of 1994/5

FM 29/7/94

was probably due to the loss of so many working days in April and May because of the Easter holidays, the general election and presidential inauguration. Again though, Finance points out that Vat takings are susceptible to seasonal fluctuations and believes an improvement will be seen later in the year. All forms of revenue will need to improve strongly, with spending being checked, in view of concerns about how government has calculated the increment on its interest bill (see page 32). ■

(320)

Taxpayers facing added levy blow

Star 30/8/94

LEIGH ROBERTS

SALARY earners should brace themselves for budgetary complications as the transition levy cuts further into their take-home pay towards the end of the year.

Although the total amount levied will not be increased, people's monthly payments will be higher because of a delay in the issuing of new tax tables. This means that they will have to pay the set amount in a shorter period, meaning higher monthly deductions than they planned for.

The one-off non-refundable levy has been imposed on wealthier individuals and company taxpayers by the Minister of Finance to cover the R4 billion cost of the nation's transition. (320)

The sting of the levy lies not so much in its prescribed amount (an overall 5 percent) but rather in its quick collection period.

When introducing the levy in his June Budget, the Minister allocated 3,33 percent (of the portion of taxable income that exceeds R50 000) to be paid in the remaining eight months of the current tax year. But because the new employees' tax tables have taken two months longer to issue, the collection

TO PAGE 2

♦ Transition levy

Star 30/8/94

period has been shortened to six months. (320)

This means that while you still pay the same total amount, your monthly instalments will be higher. For example, a married taxpayer with two children who has a taxable income of R100 000 will pay an extra R1 665 in this tax year.

Spread over the eight-month period, the monthly deduction is R208. This increases to R278 over the six-month period.

The new employees' tax tables are due to be issued by the Commissioner of Inland Revenue's office in the next two weeks; the tables come into effect from September 1.

The monthly levy deduction is calculated on the same salary income as the PAYE tax deduction. Therefore, such taxable fringe benefits as company cars and 35 percent of travel allowances will be included in the calculation, but pension contributions (provided they are within the tax deduction limits) will be excluded.

For the employee who is liable for the levy, two more shocks are in store.

Christmas might be a bit more frugal this year as the annual bonus or 13th cheque will also be subject to the levy.

The second shock is that after bearing the monthly levy deductions made by your employer, it does n… cessarily mean the end of the story. Your other income — for example rentals received, interest greater than the R2 000 allowance and any business profits — will incur the levy when you are assessed on your annual tax return.

Transition levy blamed for impasse over wage demands

Star 1/8/94

(320)

BY DEREK TOMMEY

Pick 'n Pay workers are blaming their bosses for resistance to their wage demands.

But the person they should really blame, say economists, is the Minister of Finance, Derek Keys, and his transitional levy.

This applies to other workers who are finding their employers reluctant to meet their demands.

Keys has made life so difficult for Pick 'n Pay with the levy that it has no choice but to fight wage demands, economists say.

The fact is that the levy will make huge inroads into SA spending this year.

The retail trade has been investigating the implications of the levy and does not like what it sees.

The levy applies to anyone with a taxable income of more than R50 000 a year. Though it includes corporates, the reduction in their normal tax rate from 40 percent to 35 percent will help cushion most of the pain.

The upshot is that the bulk of the R4 billion the Government is hoping to raise with the levy — and which must make a major impact on consumer spending — will come from the pockets of private individuals.

The effect on the taxpayer will be reinforced by the Government's failure to adjust the tax brackets for fiscal drag.

Last year, a married man who had a taxable income of R55 000, would have had to pay R14 250 before taking into account rebates.

This year, assuming he has received a 10 percent inflation-related pay rise of R5 500 to lift his taxable income to R60 500, his gross tax bill will be R18 525 — an increase of R4 275, or 30 percent, in his tax bill.

He clearly will have little of his pay rise left.

And if his taxed income is adjusted for inflation, his disposable income is substantially less in real terms than it was last year.

People in higher-income groups are not quite so badly affected.

The gross tax on R88 000 last year was R28 140. This year, assuming again income is increased by 10 percent to R96 800, the gross tax bill will be R5 974, or 21 percent, higher at R34 114.

Analysts see Pick 'n Pay, the most upmarket supermarket chain, as being the hardest hit.

But retailers lower down the pecking order could also be affected.

Reflecting expectations of poor sales this year, food shares started to ease on the Johannesburg Stock Exchange last week and are expected to drop further.

The good news from all this is that inflationary pressures should remain low this year and that exports should continue to boom.

Manuel moots once-off tax indemnity for firms

B/Day 2/8/94

TIM COHEN

CAPE TOWN — Trade and Industry Minister Trevor Manuel yesterday proposed that government should consider granting, as part of an effort to extend the tax net, a once-off indemnity to companies which had previously evaded tax.

Speaking in the Budget debate in Parliament, Manuel said it would cost SA about R800m in the current fiscal year.

"This measure must be made to yield results in increasing productivity output and growth."

The reduction in corporate tax levels might result in an increased yield but would do so only if revenue collection was improved.

It had to be "professionalised" and a special team of investigative auditors should be established, if need be, outside the dictates of the Public Service Commission, he said.

The performance of customs officals had to be rapidly improved as "leakages" were severe, he said.

There were many companies who were still outside the tax net, he said. "We should seriously consider granting a once-off indemnity to past violators and ensure that beyond such an initiative, tax evaders will be dealt with with a firm hand." (320)

It was important that the potential tax saving to companies be utilised to ensure better training and retraining and better rewards for SA's workforce to maximise stability and competitiveness, he said.

Sapa reports the NP launched a vigorous attack on the ANC when the debate got under way.

Marthinus van Schalkwyk said the ANC's actions and statements in the past three months had caused the organisation to become the greatest threat to realising the reconstruction and development programme (RDP).

The ANC was trying to spend "extravagant amounts which are truly unnecessary" by creating thousands of new civil service posts, he said.

Its ministers had "spendthrift ways"; its ideological prejudice against privatisation would cost the economy dearly; and the strikes led by the ANC's partner, Cosatu, were doing inestimable damage to economic growth.

Piet Coetzer (NP) said the legacy of apartheid was only one side of the coin. This could be addressed through the development side of the RDP.

But the reconstruction side also had to address the destructive side effects of the freedom struggle. The ANC had "plenty to say sorry for".

Hennie Bekker (IFP) had also warned that with strikes, demonstration and toyi-toying becoming SA's "national sport' the future was grim.

Through reservations it was voicing on aspects of the RDP, the NP was giving a forewarning of what its approach would be in the Constitutional Assembly, Mr Pravin Gordhan (ANC) said.

Gordhan said the current Budget was still essentially an apartheid one in its detail.

Manuel moots one-off tax 'indemnity'

Political Correspondent

TRADE and Industry Minister Trevor Manuel, yesterday mooted the possibility of a "one-off indemnity" for large, medium and small companies who were "past tax violators" and were "still outside the tax net".

Beyond this initiative, he added: "Tax evaders will be dealt with, with a firm hand".

Speaking during the second reading debate on the Budget, Manuel said South Africa would have to spend more on revenue collection which needed to draw on the "best pool of skilled professionals".

He said a special task force of investigative auditors would have to be established, if necessary "outside of dictates of the Commission for the Public Service".

Manuel said the performace of customs officials would also have to be improved — "leakages are severe".

The Minister said that if the government was to be true to the mandate by which it was elected, "we must ensure that this country and government does not live beyond its means".

He said recurrent expenditure was already extremely high.

"It is fairly easy to borrow. It will be increasingly difficult to pay back — every cent borrowed today, taxes the generation of tomorrow".

● Speaking during the same debate, ANC secretary-general Cyril Ramaphosa said South Africa did not want investors who were looking for a "strike-free" environment which would lead to the exploitation of workers.

Ramaphosa said the investors South Africa wanted were those who supported the broad economic polices of the government and wished to invest because they know they are coming to a country with modern labour laws.

The ANC secretary-general said that his organisation was committed to maintaining fiscal discipline "as we are concerned with sustainable development.

"We do not want short-term considerations to undermine the credibility of our long-term RDP." (58) (320)

Ramaphosa said the ANC was concerned about South Africa falling into a debt trap and recognised the need to lower the deficit in the next few years in order to reduce the interest burden.

He said the ANC was committeed to creating "an investment-friendly climate and for the economic policy to be credible, consistent and geared to promote stability. CT 2/8/94

"Private investment is the critical factor for equitable growth, and unless and until we convince both domestic and foreign investors that this is a land where their investments are safe from political risk and interference, we will not succeed in getting them to invest in this country."

BU

Income tax amnesty mooted

ARG 3/8/94 (320)

□ Katz Commission member estimates it may net R5 billion

CLAIRE GEBHARDT

JOHANNESBURG. — A one-off amnesty for companies evading tax could raise as much as R5 billion, says Professor Dennis Davis, a member of the Katz Special Commission on Taxation and director of the Centre for Applied Legal Studies at Wits University.

Professor Davis said yesterday such an amnesty would have to use a "carrot and stick" approach.

Reacting to comments by Trade and Industry Minister Trevor Manuel, Profesor Davis said the amnesty would probably extend for six months, after which evaders would be severely dealt with.

"Unless people feel they will be caught, there won't be much incentive to come clean.

"The Commissioner for Inland Revenue has said that for every extra inspector he puts in, he recovers R1,5 million."

Professor Davis said the hoped-for R5 billion would represent about six percent of the total tax take and would go some way to giving women equality in taxation.

"It could also give us the money to smooth out other imbalances."

The figure represented evasion in the formal sector.

More money might be gleaned from the informal sector, he said.

"Administration is a major issue and the Katz Commission will be looking into the whole question of declaring an amnesty."

Commissioner for Inland Revenue, Trevor van Heerden, said the question of an amnesty would have to apply to people still owing money.

"If everybody who has not been sending in returns gets away with it, we will have to decide what to do with people who have been caught cheating us out of tax over the years.

"This debt is still on our books and amounts to something like R6 billion."

Mr Van Heerden said stepping up tax collections would cost about R200 million.

Amnesties had worked very successfully in some American states by reducing penalties for particular tax years, he said.

The slogan used was "get to us before we get to you", he said.

VAT, fuel price may increase to meet RDP costs

ARG 3/8/14

320

Zero-rated food will protect poor

BRUCE CAMERON, Business Editor

THE government will have to reconsider income sources to fund the Reconstruction and Development Programme, including VAT and the fuel levy, or economic growth will be undermined.

This is the conclusion of the Bureau of Economic Research at the University of Stellenbosch in an inconclusive study of the RDP.

The bureau has recommended the RDP be financed by:

- An increase in VAT and fuel levies. The advantages were that it would not affect the poor because of the zero rating of basic foodstuffs; unlike an increase in direct tax it would not have a negative effect on the incentive to work; and it could encourage savings. A growth in savings would increase investment and growth.
- "Prioritising" the goals of the RDP.
- Reducing public sector employment, which absorbed more than 60 percent of government spending.

The analysis was undertaken by the bureau's George Kershoff.

He said the key to success was to ensure growth in the economy through the promotion of exports.

Mr Kershoff said there were still many unclear factors about the RDP from the sources of finance to the allocation of funds. Further studies were required to establish the full effect of the RDP on the economy.

He found a number of sectors of the economy would benefit from the plan, including construction, but he warned that job creation through public works programmes were "only a temporary solution".

Mr Kershoff warned that a major problem facing the programme was the source of funding.

The possibility of raising extra money from the sources labelled by the ANC before the elections was slim.

Savings from the scrapping of apartheid structures were unlikely with the creation of the new provinces; military spending would remain high with the integration of the Defence Force and the need to replace capital equipment; the civil service was more likely to increase in size and cost than decrease, particularly because of affirmation action; and "less waste corruption" was unlikely to be a source of savings because no government was immune to this.

The result will be the government will have to pay for the programme through loans which would threaten the upswing in the economy because of the competition for capital from the private sector to finance growth.

New Constitution may bring equality

(320) ARC 4/8/94

ALIDE DASNOIS
Business Staff

SOUTH Africa's new Constitution could free married women from tax inequality which goes back to the first Income Tax Act of 1904.

And this could cost the State billions of rands.

This is the conclusion of research by Dr Hennie Coetzee, tax partner at chartered accountants KPMG Aiken & Peat, and part-time professor in taxation at Rand Afrikaans University.

Married women are still victims of unequal taxation in spite of steps by government to implement the 1987 Margo Commission's recommendation that the "married couple" unit for purposes of tax be changed to the "individual".

Dr Coetzee cites the example of taxation paid by a "married man" and a 'married woman' who in the 1994-95 tax year would each earn R80 000 (ignoring the Transition Levy).

The married man, after a rebate of R2 225, would pay tax of R22 475.

The married woman, after a rebate of only R900, would pay R25 350, a difference of R2 875 or 12,79 percent more than the married man.

At an income level of R60 000, married women pay 23,27 percent more.

The 1993 Constitution is designated "the supreme law of the Republic and any law or act inconsistent with its provisions shall, unless otherwise provided expressly or by necessary implication in this Constitution, be of no force and effect to the extent of the inconsistency" (Chapter 1 (4))".

This is binding on all legislative, executive and judicial organs of state at all levels of government.

The Constitution also holds that every person is entitled to equality before the law and equal protection of the law: and that nobody can be unfairly discriminated against on grounds, among others, of gender (Chapter 3: (8) 1 and (8) 2).

"When it comes to other laws overruling the Income Tax Act, the only circumstances where this occurs is where double taxation treaties exist between South African and other tax jurisdictions", says Dr Coetzee.

"For instance, where a British resident works in South Africa for a period not exceeding six months, he will normally be taxed only in the United Kingdom in terms of the double tax treaty between the Republic and Britain."

But what of the provisions of the Income Tax Act relating to "married women" when considered against the fundamental individual rights and non-discrimination provisions of the Constitution?

"Prima facie, it would appear that the tax law is inconsistent with the constitutional provisions of Chapter 3 (8), albeit 'to the extent of the inconsistency' mentioned in Chapter 1 (4).

"The objective conclusion is that discriminatory provisions in the Income Tax Act are based not on gender but rather on economics — it simply would cost too much to suddenly tax 'married women' on the basis of other 'married persons'.

"To put it differently, in 1987 (when the Margo Commission made its recommendations), the fiscus would have lost too much revenue had 'married women' suddenly been taxed on the same basis as married men.

"The question is: if this overt discrimination is challenged constitutionally, would the Commissioner for Inland Revenue be able to enforce payment?"

The 1904 Act made a "married couple" a "tax unit" in South Africa's tax system, in line with the system in the United Kingdom where, from 1799 until 1900, a married woman's income was taxed as part of her husband's income.

For the first half of the century, says Dr Coetzee, this mattered little since relatively few married women entered the formal job market.

But as more and more wives started working to supplement the family income, the effect of the married couple being a "unit" for tax purposes meant that the wife's income was taxed at the marginal rate applicable to her husband's income.

DISCRIMINATION

(320)

'Women unfairly taxed'

AUG 4/8/94

CLIVE SAWYER
Political Correspondent

THE Black Sash has added its voice to warnings of constitutional court action to end discriminatory taxation of women.

Deputy finance minister Alec Erwin told the national assembly yesterday it was possible there was an "inconsistency" between constitutional provisions forbidding gender discrimination and policy on taxing married women.

The Katz commission on taxation would give the question urgent attention.

The government intended removing tax discrimination against married women, he said.

The implications of ending this discrimination would have to be considered, because revenue might have to be raised from other sources.

Sheila Camerer (NP) said the argument that the country could not afford to do without the extra income from married women was invalid.

It was clear the taxation system discriminated against married women and as such was unconstitutional.

Dene Smuts (DP) said organisations like the Black Sash seemed "poised to pounce" on the issue.

Black Sash spokeswoman Martha Bridgman said it was clear from the parliamentary debate that legislators were unaware of the discriminatory and unconstitutional nature of current tax policy.

"Neither the legislators nor the public need a commission of inquiry to tell them, as past commissions have, the tax burden is unfairly spread.

"Women are unfairly taxed.

"If forced by parliament's inaction now, they may well go to the constitutional court to rectify the situation at the government's expense."

The Black Sash urged the government not to wait for the tax commission's report to rectify the situation.

Women in tax threat

(320) CT 4/8/94

By BARRY STREEK, Political Staff

THE government was last night threatened with Constitutional Court action over "discriminatory" taxes levied against women.

Both the National Party and the Democratic Party labelled the tax on married woman as "unconstitutional".

Deputy Minister of Finance Mr Alec Erwin said in Parliament yesterday the government intended removing tax discrimination against married women but would wait until the Katz Commission reported on the issue in November.

Last night the Black Sash said it was contemplating going to the Constitutional Court on the issue, forced by the "government's inaction".

The National Party's Mrs Sheila Camerer and the Democratic Party's Ms Dene Smuts warned that the tax — which brings in R1,6 billion a year — was illegal in terms of the constitution and the government could face legal action.

The Black Sash said last night it was clear the legislators were aware of the discriminatory and unconstitutional nature of current tax policy.

"Neither the legislature nor the public need a commission of inquiry to tell them, as past commissions have, that the tax burden is unfairly spread," it said in a statement, issued by Mrs Martha Bridgman of its Legislation Watch group.

The Black Sash urged the government to act now, and not in November, to bring the tax laws into line with the equality clause in the new constitution.

"If forced by Parliament's inaction now, they may well go to the Constitutional Court to rectify the situation at the government's expense."

In Parliament, Mrs Camerer said discrimination in terms of the income tax law hit the women who could least afford to pay it, particularly women who were breadwinners and single parent families at a lower income level.

Under the present system a married woman earning R80 000 a year, would pay 12,79% more tax than a married man.

"And it gets worse. If income levels drop to R60 000, a married woman will pay 23,72% more than a married man.

"At R40 000, where really every cent is needed, a married women will pay in excess of R2 000 more tax than a married man.

"This is not true at our income level. Female MPs actually pay less than male MPs because men are taxed at a higher rate after R80 000 a year."

She added that she had been in Parliament for seven years and had heard the same arguments against scrapping the tax every year.

The Margo Commission had seven years ago, in 1987, proposed the abolition of the discrimination and she wondered how much more it had to be investigated.

Ms Smuts said the tax was discriminatory but although she felt legal action would be overreaction, "the government should note that organisations like the Black Sash appear poised to pounce".

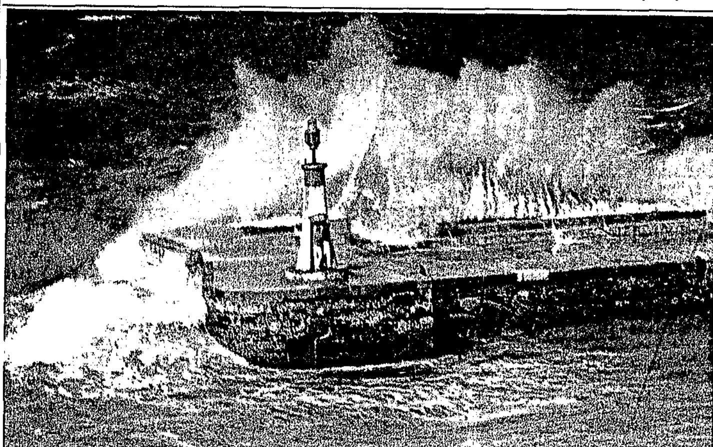
Mr Erwin said in yesterday's debate, in an Interpellation in Parliament that the issue was being addressed, and although progress was being made, the late presentation of the budget had presented some anomolies.

It was the government's intention that this matter receive urgent attention in the tax commission, chaired by Professor Michael Katz.

He said the abolition of the discrimination "does have implications which need to be considered as to the effect of raising the revenue from other sources in the whole spectrum of taxation".

It was "the policy of the government in the RDP to remove gender discrimination", he said. Mr Erwin said the Katz Commission would receive representatives from experts and women's organisations.

"We believe those representations will be cheaper and in the long-term more effective than taking court action against the ministry of finance. But, of course, your constitutional right remains."



SURF'S UP . . . Two young daredevils, Mr Chris Fallows, 21, and Mr Robert Lawrence, 21, yesterday risked their lives and a R100 fine when they walked along the slippery breakwater wall at Kalk Bay Harbour in the gale-force winds that buffeted the city yesterday. **Story — Page 3.**

Picture: CLIVE SMITH

Strike ends

INSI

CT, 5/8/94 (320)

Women and tax

MORE power to the National Party, the Democratic Party and the Black Sash for taking the government to task over continued discrimination in the taxation of married women.

The Sash is considering going to the Constitutional Court on the issue, which might not be a bad idea given government's procrastination over the years. Compounding the iniquity is the fact that lower paid married women are penalised the most. Certainly the loss of revenue to the fiscus is a consideration, but the cost can and should be made up by increases in taxes, tariffs, and/or duties that are gender blind. There can be no good reason why female tax payers should contribute a greater — or for that matter, lesser — proportion of their earnings to income tax than males.

The tax commission chaired by Professor Michael Katz and due to report in a few months should concentrate on means of making up the loss caused by eliminating gender discrimination, rather than on whether it should be removed. It has become the norm for married women to work, although probably at salaries which have yet to attain parity for similar jobs with those of their males colleagues. That anomaly, too, deserves to be relegated to the past, but subjective factors will probably make the issue more complex and slower to resolve in detail.

World attention is focusing on SA regarding the dismantling of race discrimination, providing a good opportunity for recognition of more progress on the gender front as well.

COUNCIL

Canvassing plan to help sniff out dog tax evaders

(320) ARG 9/8/94

SHARON SOROUR
Municipal Reporter

EVERY dog has its day — and unlicensed dogs and their owners are in for a hard time following a decision to sniff out dog tax evaders, especially in Mitchell's Plain.

But at this stage the council plans merely to assess how many peple are not paying dog tax before it formulates a plan of action.

The city council's utilities and works committee yesterday agreed to employ six students until the end of the year to canvass Beacon Valley and Eastridge to determine how many dog owners have unlicensed animals.

In a report to the committee, the acting city treasurer said the number of licence issues had dropped sharply in those areas.

"The number of licensed dogs has dropped from 80 000 eight years ago to 53 000 this year — and the decline from last year was particularly marked with a reduction in 5 600 licences being sold.

"Clearly there is a need for a field canvass as it is evident that postal appeals are mostly ignored."

He said arrangements were made for cleansing branch law enforcement officers to do the canvassing, but they objected to canvassing only on a Saturday and not on a Sunday.

The treasurer's department was not keen to canvass on a Sunday "as it might be regarded as insensitive and inappropriate in view of religious considerations".

A Sunday canvass would also cost more.

But workers refused to do the canvass if they could not work on both days, and the canvass did not take place.

In view of the staff's attitude, he said he would prefer the canvassing to be done by other people.

"What is envisaged is spot canvasses in selected areas in the hope that when canvassing is seen to take place, defaulting dog owners will be prompted to purchase licences."

He said Bellville municipality also did dog-licence canvassing, using students. They used their own transport and were paid on a commission basis of R5 for every unlicensed dog they discovered.

More calls to lift book tax

DEBORAH FINE

BOOKSELLERS and publishers will continue to lobby for the removal of VAT on books despite last week's comment by Finance Minister Derek Keys that he was not in favour of any movement towards zero-rating.

Asked specifically about the zero-rating of books, Keys told Parliament on Thursday government could "start on a slippery path that had no end" if some products were exempted.

Southern Book Publishers MD and chairman of the academic interest group within the Publishers' Association, Basil van Rooyen, said on Friday his association would discuss the possibility of approaching government on the issue at the association's AGM in Durban this week. 15/8/94

He said SA was one of few countries in the world with VAT and tax on books. "By taxing books the new government, which stresses education, will be shooting itself in the foot," Van Rooyen said. B/Day

Van Rooyen said book prices were already under pressure because of the weak rand and paper prices.

Exclusive Books GM Anthony Wood said he would fight to for zero rating. The issue would be debated at forthcoming book trade meetings.

Deputy director of VAT policy within the Finance Department Peter Frank said VAT needed as broad a base as possible to keep the tarriff as low as possible. Lifting taxes on books could also lead to demands to zero-rate other items. (320)

Frank said, however, the question of zero-rating was being examined by the Tax Commission which would release a report on November 30.

Social security tax?

Political Staff

THE government is investigating the possibility of imposing a compulsory social security levy to pay for the social welfare system.

This emerged in the parliamentary select committee on welfare's first open session yesterday. (320)

The levy, which may take the form of an extra tax, immediately drew criticism from the Democratic Party's Mr Ken Andrew, who warned that a further tax would just add a load to the already overburdened taxpayer.

President Mandela, in his "first 100 days" speech on Thursday, is widely expected to make an announcement on the tax structure — but no new taxes are thought likely.

But acting welfare director-general Mr Boet Schoeman said a task group would be established to consider the welfare levy, which may take the form of compulsory provision for retirement.

CT 16/8/94

Taxpayers owe govt R7 billion

TAXPAYERS owed the Receiver of Revenue about R7 billion, Finance Minister Mr Derek Keys told Parliament yesterday. (320)

During a mini-debate on the advisability of a moratorium for tax-defaulters, Mr Keys said his department was not investigating such a plan. CT 18/8/94

Of the R7bn, individuals owed about R2,6bn, companies owed about R1,8bn, about R1,5bn in VAT was outstanding and R1,2bn in sales tax.

He said a past attempt to impose a moratorium on tax defaulters had not been a success.

But the possibility of an amnesty would be examined by the Katz Commission on South Africa's tax dispensation.

Mr Keys suggested a moratorium in the context of an attempt to draw small companies into the formal economy.

Transitional levy to dent growth rate

CT 20/8/94
320

By AUDREY D'ANGELO
Business Editor

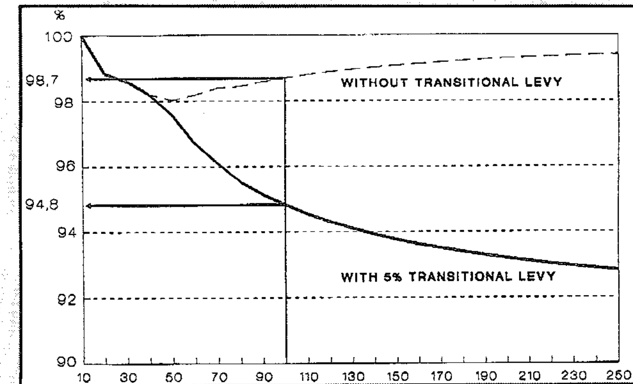
THE 5% transitional levy on taxable income over R50 000 a year will cause a drop of just under 0,5% in the real growth rate unless people borrow to maintain their spending, Sanlam chief economist Johan Louw says.

And although "the negative effect should not be too great" if the levy is a one-off measure, as promised in the Budget, repeating it "could affect our already weak personal savings performance, investment and even production.

"All in all we estimate an average economic growth rate of between 2% and 2,5% for 1994 but foresee that it could accelerate considerably in 1995 and thereafter if the problems inhibiting growth can be resolved successfully."

However, Louw expresses concern in his Economic Survey about a continuing net outflow of foreign capital.

But in spite of the pressure on the balance of payments (BoP) and the weak rand he thinks a rise in bank rate unlikely before the second half of 1995, because



CHARTING THE EFFECT . . . This graph shows the effect of the transitional levy on income allowing for a salary increase of 8%, an inflation rate of 8% and the new tax scales. For example, a married man with a taxable income of R100 000 will, in real terms, have 94,8% of the income he had the previous year. Without the levy he would have had 98,7%.

"real interest rates are high for this stage of the business cycle and a recovery in general economic activity is not firmly established."

Discussing the effect of the transitional levy, he estimates that the effect on individuals "will represent about 1% of their personal disposable income.

"Analyses show that on average individuals spend about 95% of their disposable income on goods and services with less than 5% being saved.

"Persons affected by the transitional levy have three options when deciding how to finance it.

"The present level of spending can be maintained and the amount of the levy financed from existing savings, the additional money can be borrowed from an institution or spending can be reduced.

"In the first two cases the ultimate effect on the economy will be indirect, by way of adjustments in investment and interest rates.

"In the third case we estimate that real private consumer spending will decline by about 0,7% which will in turn lead to a decrease of just under half a percent in the real growth rate. Private consumer spending represents approximately 60% of gross domestic product (GDP)."

Discussing the BoP, Louw estimates that allowing for an over-estimation of exports in March the current account produced a small deficit of about R500m in the first half of the year compared with a surplus of R3 273m in the first half of 1993.

"It is clear even now that it will be difficult to achieve a surplus of more than R2 000m to R3 000m this year in spite of continuing favourable export opportunities. In our view current estimates of R5 000m or more are far too optimistic.

"A final troubling development is related to the sustained poor performance of the capital account of the BoP.

"Together with the unfavourable trend on the current account we are still experiencing a net outflow of foreign capital.

"This is exerting strong pressure on our foreign reserves and the external value of the rand — a situation that makes the abolition of exchange control difficult."

Sash may take legal action

THE Black Sash was prepared to take legal action if the government did not introduce equal taxation for men and married women, the Black Sash said today. (320) ARG 25/8/94

It said in a statement that the Katz commission on taxation was due to report by November 30.

"Failing an announcement at that point of immediate steps to remedy the existing inequitable situation, the Black Sash is prepared to take further action, including legal action."

The organisation said it had made representations to the commission. — Sapa.

Jeffrey Liebesman ... committees will ... World Trade Centre negotiations.

Volkstaat Council to seek statutory powers

CAPE TOWN — Legislation to give statutory effect to the Volkstaat Council would be presented to Parliament before the end of September, council chairman Johann Wingard said at a news conference yesterday.

The 20 council members expected to receive salaries equivalent to provincial parliamentarians' once the council's budget had been approved, he said.

At present, full-time members worked without remuneration but received legal and administrative support from the Constitutional Development Department.

The Volkstaat Council was evaluating constitutional options for Afrikaner self-determination, ranging from a separate, sovereign state with fixed boundaries to the status quo, he said. B/Day 26/8/94

Fifty organisations and role players had been invited to make submissions to the council on a proposed Afrikaner volkstaat.

No definite location for a volkstaat had yet been determined, although potential areas in the nine provinces had been identified.

Discussions were being held with regional premiers and political parties to explain the council's operations and proposals.

Negotiations are still under way with CP leader Ferdi Hartzenberg after recent indications that the CP might be prepared to join the Volkstaat Council. — Sapa.

Water plan in the pipeline

CAPE TOWN — Water Affairs and Forestry Minister Kader Asmal yesterday announced two new projects to supply water to rural areas in the Eastern and Northern Transvaal and KwaZulu/Natal.

The projects, which would cost R535m, would include the R275m Injaka Dam and a Bosbokrand transfer pipeline to improve water supplies to domestic users in the Sabie and Sand River basins.

A pumping station, water works and a tunnel would be built on the Tugela River at Middeldrift at a cost of about R260m.

Asmal said more than 12-million people had no access to clean drinking water and 21-million people did not have adequate sanitation and refuse removal services. — Reuter.

'Only 1,5-million paid tax'

TIM COHEN

CAPE TOWN — Only about 1,5-million of SA's population of roughly 38-million paid tax during the 1992/93 financial year, with the top 29% of taxpayers footing 67% of the bill.

Replying to a parliamentary question by DP MP Ken Andrew, the Finance Department said for the 1992/93 tax year, the bottom 37% of taxpayers contributed 5% of total revenue. (320)

The middle 34% of taxpayers contributed 27% of the total tax pool derived from individual taxpayers.

The figures indicate that taxpayers earning above R5 833 a month — the top 29% — contributed 67% of the total pool or a total of about R11,8bn. B/Day

Of the particular income categories, the one that produced the largest income for the fiscus consisted of those who earned between R100 000 and R200 000 a year. They contributed R3,2bn or 18% of the total pool. 26/8/94

The next lucrative category for the fiscus was the R60 000-R70 000 category which contributed R2,1bn or 12% of the total pool.

The top category, earning more than R500 000 a year, contributed 3,86% of the total revenue. There were only 2 157 of them.

Appointments as deadline expires

Morobe to head fiscal commission

B/Day 26/8/94

TIM COHEN

CAPE TOWN — After struggling to find a suitable chairman, government yesterday appointed the members of the Financial and Fiscal Commission, headed by former United Democratic Front activist Murphy Morobe.

The commission's formation, a product of the World Trade Centre negotiations, will be pivotal in deciding the fiscal allocations of provinces and local governments.

The announcement was made on the last day of the 120-day extended deadline set in the constitution and extended by 60 days by the new government. The delay was said to have been caused by successive nominees turning down the post, for financial reasons and because it would require a full-time, five-year commitment.

Observers welcomed the commission's composition, noting that it was evenly balanced and included members with a high degree of expertise.

Morobe has worked as social investment manager for PG Bison and was Codesa's administration head.

Apart from Morobe, the only other permanent member will be Unisa vice-rector Prof Anthony Melck, a former Unisa economics professor, who was appointed deputy chairman.

Nine national and nine regional members have been appointed for two years. The national members are: local government specialist Andrew Boraine, Finance Department unit for fiscal analysis head Frans le Roux, UWC economics professor Lieb Loots, Independent Development Trust and Urban Foundation board member Eric Molobi, Development Bank of Southern Africa member Renosi Mokati, SA Clothing and Textile Workers' Union assistant general secretary Ebrahim Patel, and Anglo American group tax consultant Marius van Blerck.

Provincially nominated members will be SA Mpambani (Eastern Cape), T von R Benecke-Jordaan (Eastern Transvaal), PA Hourquebie (KwaZulu/Natal), BG Mokgoro (Northern Cape), JK Sithole (Northern Transvaal), TM Mokhobo (Northwest), Prof Elwil Beukes (Free State), Jaya Josie (PWV) and AR Martin (Western Cape).

The commission is to convene for the first time within 30 days and will "appraise itself of all financial and fiscal information to the national, provincial and local government", a statement released by the Office of the President said. (320)

"It is anticipated that the commission is going to be an important institution within the context of all three tiers of government's financial and fiscal matters.

"Although it is only an advisory body it is going to operate in a transparent manner which will ensure that its recommendations are not taken lightly."

Loots said the body was likely to focus immediately on allocations to provinces for the 1995/96 financial year, which were likely to be only "interim allocations".

Because of the widespread restructuring required, it was unlikely that an absolutely fair and unbiased allocation would be possible in the first year. Even if the commission had been established during the first 60-day period, it would not have been possible for it to have had a significant effect on the financial allocations to the provinces during the current year.

Fiscal task force named

CT 26/8/94

UDF's Morobe to be chairman

Political Staff

AFTER struggling to find a suitable chairman, the government yesterday announced the members of the Financial and Fiscal Commission, which will be headed by former United Democratic Front activist Mr Murphy Morobe.

The formation of the commission, a product of the World Trade Centre negotiation, will be pivotal in deciding the fiscal allocations of provinces and local governments.

The announcement was made on the last day of the 120-day extended deadline set out first in the constitution and then extended by 60 days by legislation passed by the new government.

It has been widely speculated that the delay was caused by successive nominees turning the post down, both for financial reasons and because it would require a full-time commitment.

The composition of the commission was welcomed yesterday by observers, who noted that it was evenly balanced and included members with a high degree of expertise.

Apart from Mr Morobe, the other permanent member of the commission will be highly respected Unisa academic Professor Anthony Melck.

The other members of the commission, which is divided into nine regional and nine national members, will be head of the Finance Department Unit for Fiscal Analysis Mr Frans le Roux, UWC economics Professor Lieb Loots, IDT and Urban Foundation board member Mr Eric Molobi, DBSA member Mr Renosi Mokati, assistant general secretary of the SA Clothing and Textile Workers' Union Mr Ebrahim Patel, and group tax consultant for the Anglo American Corporation, Mr Marius van Blerck.

The provincially nominated members will be Mr S A Mpambani (Eastern Cape), Mr T von R Benecke-Jordaan (Eastern Transvaal), Mr P A Hourquebie (kwaZulu-Natal), Mr B G Mokgoro (Northern Cape), Mr J K Sithole (Northern Transvaal), Mr T M Mokhobo (North West), Professor Elwil Beukes (OFS), Mr Jaya Josie (PWV) and Mr A R Martin (Western Cape).

The FFC is to convene for the first time within 30 days and will "apprise itself of all financial and fiscal information to the national, provincial and local government", a statement said.

"It is anticipated that the commission is going to be an important institution within the context of all three tiers of government, financial and fiscal matters."

Commissioner Lieb Loots said the body was likely to focus immediately on allocations to provinces for the 1995/96 financial year.

Rural land tax possible

By BARRY STREEK (320)

THE possibility of introducing a rural land tax was being considered, the Minister of Land Affairs, Mr Derek Hanekom, said yesterday.

However, the effect of this proposed tax would have to be studied before a final decision was taken, he said in reply to a question tabled in Parliament by Senator E K Moorcroft (DP).

Urban property owners in South Africa paid rates on the market value of their stands, businesses and other property, but there was not a comparable tax on rural land and improvements, Mr Hanekom said.

"A rural land tax should be a revenue source for local governments. It should probably be set between one and two percent of actual market value of the land (and possibly some improvements)."

CT 27/8/94

A committee will be appointed before the end of this year to make recommendations on a land tax.

MONEY

MICHAEL KATZ ... head of the Tax Commission

Taxes we can do without

Proposals for a simple and effective tax system have been put before the Tax Commission, but it is a body whose members make a good living from taxation's complexity, writes **CIARAN RYAN** 320

THREE proposals for radical tax reform in front of the Tax Commission could put thousands of accountants out of business and slash the amount of tax paid by individuals.

All three offer simple, tantalising alternatives to the complex laws which keep nearly 4 000 tax accountants in the luxury car bracket and cost taxpayers up to R20-billion a year in tax planning costs.

There is already concern that the tax commission is loaded with tax "conservatives" and only one economist.

"Many businessmen perceive Michael Katz (the head of the Tax Commission) as a lobbyist for big business," says tax economist Nic Nel. "I have great respect for him but fail to understand why he has achieved so little for meaningful reform thus far."

Mr Nel proposes a radical restructuring of the tax system, comprising a flat rate tax of 9% on business profits, with no distinction between capital and revenue, a withholding tax of 18% on all remuneration paid by businesses to individuals, a transaction tax of 0,5% and a land tax of 5% of land value.

Foreign currency purchases would be non-deductible and foreign currency earnings from beneficiated exports non-taxable.

The flat rate tax would encourage investment and close loopholes for evasion.

Mike Copeland, chairman of the People's Endeavour to Reform Taxes (Pert), says entrepreneurial endeavour is being stifled by the current tax system.

"Nothing less than a radical restructuring of the tax system will enable the government to fulfil the expectations of the millions who voted it into power," he says.

"Tinkering with the existing tax system will only prolong the agony. We are horribly over-taxed in this country, evasion is rampant and thousands of people make their living by helping people to wade through the complex tax laws."

Pert proposes replacing VAT, corporate and personal income tax with a sales tax of around 25%, which would net the R85-billion the government will take in taxes this year. This is less than the average SA tax rate of 27,3%. But as the tax base broadens with more people being employed, the tax rate should fall.

"The main advantage of this system is that you can choose not to pay tax by not spending," says Mr Copeland. "Companies will pay no tax whatsoever, allowing prices to drop by up to 40%. The principle of this tax is that you reward production and penalise non-production. Profits can then be ploughed into expansion and job creation.

"A sales tax also encourages savings. Savings rates in South Africa are very low because of the high income tax regime."

The Alternative Taxation Association, headed by Bob Shambrook, proposes a simple 1% tax on every transaction. The total economic activity in the country is estimated at R7 000-billion, including cheques cleared by the Automated Clearing Bureau, magtape and credit card transactions and cash. A 1% tax on both sides of a transaction (buyer and seller) would net R140-billion for the Government, eliminating the deficit altogether.

Critics argue that companies with high volumes and low margins would be forced out of business. Mr Shambrook says several companies were asked to measure the impact of the tax on their businesses. Pick 'n Pay's Raymond Ackerman said it would enable him to open three or four more stores and employ thousands more staff, according to Mr Shambrook. A chemicals producer calculated that it paid 4,3% of turnover in taxes. This would drop to 2%.

"The real problem is that we have people sitting on a tax commission who make a living out of a complex tax system. They are not seriously interested in reform."

ATA estimates the tax avoidance industry is worth R12-billion to R20-billion a year, money which could be better used elsewhere.

"The problem is that people think income tax is a part of life," says Mr Copeland. "It is a relatively recent phenomenon."

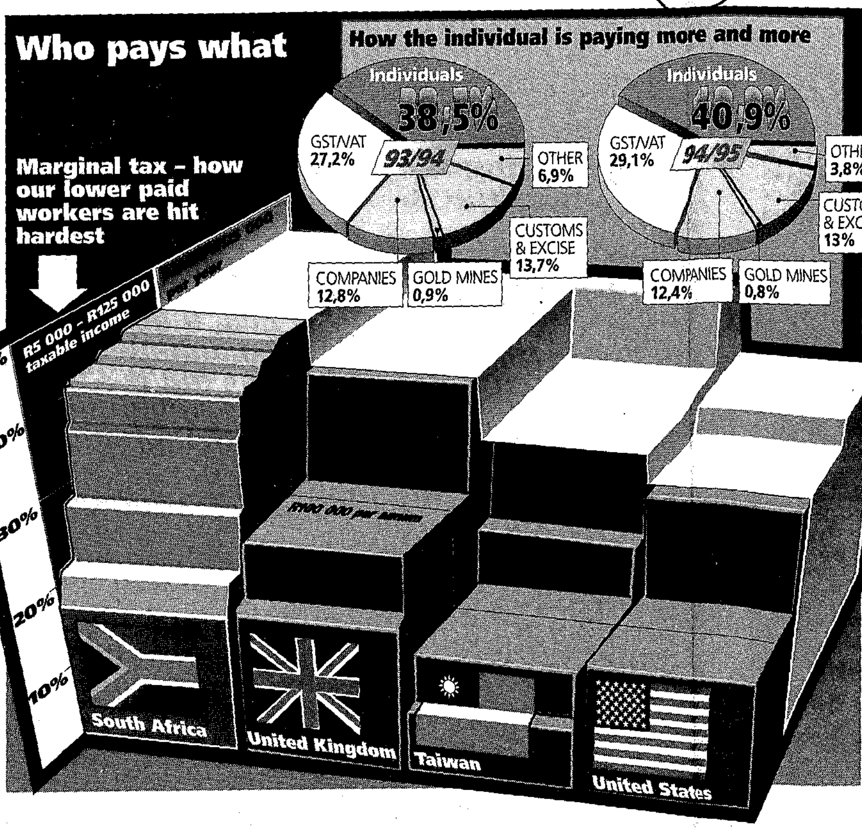
A 2% income tax was imposed on Americans in 1891, but was thrown out after being declared unconstitutional by the Supreme Court. In 1916 President Woodrow Wilson invoked emergency powers to impose an income tax to fund the First World War effort. Since then the tax has risen to fund the ever-growing Washington bureaucracy. Americans pay almost 30% of their total income to the fiscus.

*The Government has hinted at tax reforms. Experts say it has a chance to make the taxation system contribute powerfully to the Reconstruction and Development Programme, reports **Michael Chester.***

Star 29/8/94

Scrap the lot and start again

(320)



Every time Azar Jammine runs an expert eye over the latest information on key economic trends, whatever else the data indicates, it is always the relentless upward curve in the tax burden that is bound to cause a deep frown.

Director of the highly rated Econometrix research unit, Jammine has long crusaded for a radical reform of the entire tax system. He is convinced taxation levels can either act as a restraint on economic progress — or be turned into a vital springboard to economic dynamism.

Bold decisions on the future of taxation have become more pressing than ever, he contends, especially when the country needs all the incentives it can find to develop the economic muscle to make faster headway towards Reconstruction and Development Programme (RDP) targets.

So no one has given warmer applause to hints that the new administration may be poised to attack the problem at last.

The most significant hint of action has come from President Mandela himself in public criticisms of the current heaviness of the taxation load — stirring speculation that reforms may be in the pipeline.

Investment patterns

Optimism has been reinforced by the appointment of a special commission of inquiry, headed by Professor Michael Katz, to probe the taxation system from top to bottom — from personal and company tax to VAT and excise duties.

The commission, which is also expected to cover the influence of the tax system on patterns of investment and trade, is due to deliver a full report to the Government in November.

"Not a moment too soon," says Jammine as he assesses the impact of the 1994/95 Budget on tax bills. "It is not only local taxpayers who are demanding a better deal. The whole tax system is also under scrutiny by potential new investors both at home and overseas."

The imposition of the temporary 5 percent levy on taxpayers in 1994/95 has sharpened concern. But the Econometrix researchers are far more bothered about the longer term trends in the pattern of tax burdens — in particular, how more and more of the tax load has been hoisted on to the shoulders of individual taxpayers.

Simple pie-charts show the contribution of personal taxes to total government revenue creeping up from less than one-third to more than 40 percent — more than double the burden carried by individual taxpayers in many developing countries with comparable economies.

And, of course, the direct tax load is apart from how much the Government takes out of pay packets or on the shopping rounds. What used to be called GST had to contribute 22,6 percent of all tax revenue 10 years ago. In the current tax year, VAT is being relied on to find more than 29 percent.

What infuriates the researchers is that most of the billions of extra rands raised from taxpayers were swallowed by the bloated and extravagant bureaucracy that the former government nurtured — rather than used to plough into productive investments to bolster economic growth.

'At the moment, our tax system acts as a ball and chain . . . let's offer real rewards for rolling up our sleeves — and turn the whole tax system into a springboard to higher living standards for everyone.'

As Jammine points out, the growing burden of personal taxation in South Africa is at complete odds with international trends, where the emphasis has swung not only to lower tax rates but also far more simple tax tables.

In South Africa the tax ladder is one of the steepest in the world on incomes climbing no higher than a modest R50 000 a year. At that level, the marginal tax rate in SA reaches no less than 41 percent — meaning the taxman leaves families with less than 60c out of every additional R1 that goes into pay packets.

In contrast, at the identical R50 000 level, the marginal rate in Japan is 10 percent.

By the time South African incomes reach R100 000, the rate has already rocketed to its maximum of 43 percent. In Britain, which nowadays boasts one of the simplest tax systems of all, income tax is still no higher than 25 percent. In the United States it is yet lower at 15 percent. And Japan still holds the lid on 10 percent.

It is not until annual incomes reach around R125 000 that a number of overseas countries press the button for tax hikes. Even so, they usually manage to stay well under the SA level.

For instance, at R300 000 a year, marginal tax rates trail behind at only 30 percent in both Japan and Taiwan — and at only 28 percent in the US.

The situation in South Africa is worsened by high inflation, which even the Rolls-and-cigar brigade of tycoons cannot escape. Take as an example a high flyer whose earnings of R300 000 last year have been treated to a 9 percent raise to compensate for price increases.

Taxes in the current year will hack the raise down to 3,4 percent. If a projected inflation rate of 8,5 percent is taken into account, in real terms his income will actually take a knock of some 5 percent. Poor lamb.

But the Econometrix team is much more concerned with the added clout of inflation on the tax bills of low-income and middle-income families. The researchers take all the economic jargon out of explanations of fiscal drag and show in simple figures what happens when pay packets are increased by 9 percent to try to keep abreast of the consumer price index.

Typical profile

For a married man with two children, the typical profile used to find the average taxpayer:

- Pay packets of R15 000 a year will be lifted to R16 350, but annual taxes will rocket from R27 to R545 — no less than 98 per cent.
- Salaries of R30 000 move t. R32 700, but tax springs fro. R3 375 to R4 131 — more th. 22 percent.
- R50 000 climbs to R54 500 year, and taxation from R9 77 to R11 753, or by 20 percent.
- Incomes of R200 000 go t R218 000 and tax of R73 87 moves up to R87 210, or by abo 18 percent.

"True," agrees J...ine, "y cannot eat percen. ages. But . proportionate sizes of tax creases — heaviest at the t tom of the income ladder easing the higher that sala. go — serve as yet another ample of grave faults in the c rent tax system.

"Fortunately, the new Gov. ment has made a commitmen transparency on all issues. means the whole tax muc needs to be sorted out and n. more simple so that every can understand it and feel sured of a square deal.

"At the moment, our tax tem acts as a ball and chai. Let's offer real rewards for ing up our sleeves — and the whole tax system ir springboard to higher l standards for everyone."

Farmers reject land tax idea

PRETORIA. — The South African Agricultural Union on Monday has rejected the notion of a land tax, saying it would ruin many farmers.

Union president Boet Fourie said yesterday that such a tax would swallow up to one third of farmers' profits and undermine the viability of small farmers.

He was responding to reports that Land Affairs Minister Derek Hanekom was considering a land tax of two percent on the market value of farms. (320) (B)

Mr Fourie said rural communities would be especially hard hit by such a tax. ARG 30/8/94

He added: "The minister did say he would first want to examine the effects of a land tax. His statements before such a study had been done must be rejected as premature and untimely." — Sapa.

Call for higher taxes on luxuries

BiDay 1/9/94

GRETA STEYN

COSATU has suggested to the Katz commission on taxation that commonly acceptable definitions of necessities and luxuries be developed for tax purposes.

In its submission to the commission, Cosatu proposed that consumer surveys be carried out to compile lists of luxury goods and basic necessities. The major items of consumption for households earning R1 500 or less a month should be seen as necessities, while those consumed by households earning more than R6 000 a month — especially imports — should be seen as luxury goods.

The lists should be published for broad discussion before new taxation measures were adopted, Cosatu said.

The union movement called on the Katz commission to accept the reconstruction and development programme's proposal of a more progressive tax structure (raising the percentage of tax of income paid by the rich and reducing that paid by the poor). Cosatu noted the RDP aimed to reverse recent trends in the tax structure. In the past few years, the tax burden had shifted away from companies to individuals, and particularly to people earning under R4 000 a month.

Even with the limited zero-rating of VAT introduced in 1993, VAT placed a significant burden on the poor. People earning less than the minimum living wage for a family of five — about R1 000 a month in 1994 — paid over 7% of their income in VAT. This compared with less than 6% for those earning R7 000 a month, and 4,3% for the highest category studied (R22 200 a month). At less than R1 000 a month, the percentage of income paid to government in the form of VAT was higher than 7%.

Cosatu called on government to zero-rate basic necessities, including those other than food, and to impose higher taxes on luxuries. Cosatu recognised that administrative difficulties could ensue and that some of the benefits of zero-rating would accrue to the rich.

"Still, the benefits in terms of reduced tax on the very poor outweigh these costs," Cosatu said.

The proposal suggested additional tax measures to recoup the loss of revenue from the rich.

Direct taxes on companies had fallen from a quarter of the overall revenue total in 1989 to a seventh in 1993. Personal income tax rose from two fifths to half of the total, while indirect taxes had fallen slightly. In addition, indirect tax and personal tax as a percentage of personal income were rising while company tax as a percentage of company income was falling.

320

"The tax system has become more regressive. In recent years the poor have paid a higher share of their income, while the rich, especially those who benefit most from the company sector, have paid less."

NEWS FEATURE *South Africans still trust too much in their Government, says observer*

Heavy tax: time for liberation?

By Mzimasi Ngudle

■ SCANT REGARD *SA tax-payers meekly accept every Govt whim:*

OUTGOING Finance Minister Mr Derek Keys admitted in Parliament that South Africans are heavily taxed.

It was the first time that a Government minister has made such an admission. Beyond that, what are South Africans doing about high taxes?

Besides utterances of opposition MPs and snide criticism from extra-parliamentary bodies, the tax policies of South Africa's apartheid Government have never been seriously challenged.

Not to the extent that the implementation of devious tax policies had to be shelved. The same applied to wasteful State expenditure.

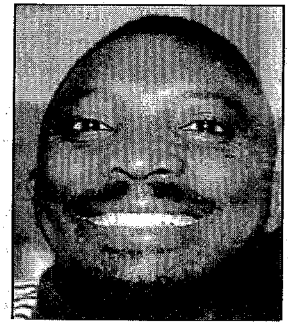
Scant regard

Understandably, a quarantined regime which had scant regard for its image and efficient governance could only be contemptuous of advice and impervious to criticism.

Now that a supposedly sensitive Government of National Unity is in place, a lobby for a vibrant "tax liberation movement", as Mr Matthias Boddenberg, chairman of the German Chamber of Commerce in South Africa and an observer on trade perspectives says, is an ideal thing for South Africans.

Boddenberg notes that there are no collective endeavours in South Africa to fight arbitrary tax increases and wasteful expenditure of tax revenue by the Government.

Derek Keys



Elridge Mathebula

Unlike other countries, South Africa does not have a single taxpayers' organisation.

Trade unions, consumer bodies and political organisations do not say a word about ever-increasing income tax.

Cosatu does not have a standing committee on tax increases and state expenditure.

Cosatu spokesman Mr Neil Coleman said the federation dealt with "such issues as they arise".

Likewise, Mr Eldridge Mathebula, a spokesman for the Africa Consumer Council, although keen on the idea, said the council has done nothing so far.

Cosatu and liberation movements have lobbied, at times with significant success, against indirect taxes like the Value Added Tax.

However, these campaigns offer no sanctuary to the individual taxpayer against the bureaucratic whims of Government.

While much can be said about this society's failure to organise effectively against tax increases, arguments for the urgent need to form taxpayers associations are more apposite.

In the United States, the National Taxpayers Union formed in 1969 is organising tax unions in member states to monitor state legislatures and work for tax and spending reductions on the state and local levels.

Its objectives include reducing government taxes, cutting taxes and protecting the rights of taxpayers.

On several occasions it has fought successfully against wasteful government projects.

Pay raises

320

The NTU has been a force in stemming pay rises for congressmen and succeeded in its drive to get lawmakers to pay social security taxes like everyone else.

In addition, a non-partisan Tax Foundation formed in 1937 devotes itself exclusively to research and public education on the fiscal affairs of federal, state and local government.

The foundation compiles reports whose objectivity has won it the confidence of senators and committees on taxation.

German journalist **Oliver Jarasch** reports that German citizens have, since the early 1950s, kept a critical eye on the state's taxing policy.

Today about 400 000 Germans are members of the tax payers association called the Bund der Steuerzahler.

In the beginning it was a sort of self-help group of citizens to protect themselves against the state claiming money too deviously and "generously" from its citizens.

Over the years the BdSt has had an important influence on the tax policy.

As Boddenberg points out, the BdSt had helped to keep about DM50 billion (R100 billion) in the purses of the citizens by a three-step tax reform in 1986, 88 and 90.

"Yet Germany is still a high tax country", he says. A maximum income tax rate of 50 percent and a total taxation of 60 percent "is simply too much".

The BdSt is heard in every legislation process related to taxes - "and its word counts", Boddenberg emphasises.

The BdSt has contributed to a "more disciplinary taxation policy" by, among other things, negotiating in parliamentary councils.

Once a year it publishes a so-called "black-book" listing all cases of tax waste in state-financed projects.

The BdSt also contacts the local tax authorities to keep application formulas simple and readable — "not always successfully", Boddenberg admits.

The BdSt tries to convince the government of a simple principle: Very high taxes discourage people from being efficient.

As a observer of German trade perspectives in the new South Africa Boddenberg emphasises this principle, too.

He says a "tax payer liberation movement" would be a good idea for South Africa.

At the moment Boddenberg does not see any attempts to form tax unions.

"My impression is that South Africans still trust too much in their Government", he says.

Long slog ahead for VAT forum

S Times (Buss)

4/9/94

By SVEN LUNSCHE

ANY hopes that the Tax Advisory Committee would find an easy solution to the VAT problem were dispelled this week when trade unions and business presented widely diverging positions on the issue.

In its submission to the committee, Cosatu called for an extension of zero-rating to basic goods and services and a higher VAT rate on luxury goods.

The SA Chamber of Business strongly rejected a further zero-rating of necessities and even called for an end to VAT exemption on passenger transport, financial services and local authorities.

The committee has until the end of November to submit proposals to the government on the future VAT structure. The VAT working group is headed by Eskom's legal consultant, Dolly Mokgatle.

Cosatu admitted in its proposals that differing VAT rates might cause administrative difficulties and would also benefit the rich.

On balance, however, the zero-rating of basic necessities would ease the burden on the poor, who spend 7% of their income on VAT.

The union suggested that the main items consumed by households earning less than R1 500 a month should be viewed as necessities.

Goods, particularly imported ones, and services used by households earning more than R6 000 should be classified as luxury goods.

The union has previously suggested that a 20% VAT rate should be applied to these items. (320)

In its submission, however, Sacob proposed a major simplification of the VAT system to increase revenue and to enhance the efficiency of tax collection.

The practice of zero-rating basic commodities, a safety-net approach to reduce the impact of tax on the poor, should be reduced, it said.

Evidence showed that zero-rating failed to reduce the tax burden on those who needed it most, and cost the government billions of rands in lost revenue.

"Based on household income levels emerging from the last census, more than half of the benefits would be enjoyed by people who were not really in need of such assistance," the document said.

Illustrating their argument, Sacob said that the zero-rating of all meat, chicken and fish products would lose the government R3-billion in VAT revenue.

More than R1,5-billion of these benefits would be enjoyed by people who did not need this assistance and the same amount lost for targeted poverty-assistance programmes.

Sacob also warned that problems would arise in defining which items and services should be classified as basic or as luxury goods.

It added that very little thought had been given to the impact on demand, and hence employment, if so-called luxury goods were taxed at a higher rate.

In a controversial proposal the chamber suggested that the tax base should be broadened by reintroducing VAT on passenger transportation supplied on a commercial basis, financial services and local authorities.

Sacob economist Ben van Rensburg said at a media conference that under the new political dispensation there was no longer any reason for transport to be exempt from VAT.

Although many South Africans continued to live in previously segregated group areas, "the government shouldn't correct injustices through the tax system — it must be done through other means such as the RDP".

Sash may take on taxman

THE Black Sash was considering taking legal action against the Commissioner of Inland Revenue over unequal taxation of women, the organisation said yesterday. (320)

The Katz commission was considering submissions from the public on the tax system in SA.

"It is quite clear that in terms of the new constitution the unequal taxation of married women must end. ARG 10/9/94

"The only defence for perpetuating this inequality raised thus far by the department of finance is that SA cannot afford to lose R1,6 billion in revenue, even for equality," the Sash said. — Sapa.

Mandela upsets T'kei tax ruling

PRESIDENT Nelson Mandela has intervened to reverse a decision exempting Transkeians from paying the five percent transition levy.

Mr Mandela is expected to address the issue on his visit to Transkei this weekend.

Mr Mandela said Finance Minister Mr Derek Keys and Eastern Cape Finance Minister Mr Sheperd Mayatula had acted immediately to "reverse an announcement that the transition levy would not be deducted in Transkei this month.

"The government cannot allow tax collection to be interfered with." (320) CT 15/9/94

He stressed that all employers would be required to make the necessary deductions. 5

A source in the President's Office said the source of the problem lay in Transkei, where the old administration had decided the transition levy should not apply.

Mr Mandela said a number of problems had arisen in the payment of salaries out of the account of the former Transkei.

He was in the process of appointing a judicial commission to investigate the salary position in Transkei.

New tax deal seen for married women

(320) ARG 20/9/94

Business Staff

TAX discrimination against married women will definitely be scrapped in the next Budget, tax expert and member of the Katz Commission on tax Pierre du Toit said today.

Interviewed at the convention of the Association for the Advancement of Black Accountants of Southern Africa (Abasa) in Cape Town, Mr Du Toit said this descrimination was unconstitutional and "would have to go".

"This will definitely be fixed up," he told delegates.

Other aspects of the tax system were also unconstitutional, he said, citing the right of inspectors who enter homes without a warrant.

Mr Du Toit said the Katz Commission would report only on urgent matters when its mandate expired in November.

A more thorough reform of the tax system would need more time and more consultation.

"This is the peoples' commission and we need to take issues back to the universities, the branches, labour and business."

The commission had to be as representative as possible of the population and if its mandate was renewed, representatives of the union movement might be co-opted, he said.

Mr Du Toit said the commission would "definitely not" recommend a levy to fund the RDP. The State's role, he said was less to fund the RDP than to "create the political space" to allow the RDP to go forward.

RDP was not only a political and moral imperative but also a necessity for economic survival.

Picture: BENNY GOOL

Civil servants set to strike

By BARRY STREEK, Political Staff

NEGOTIATIONS between the government and civil service unions broke down yesterday, opening the way for a strike by a large number of South Africa's 1,2 million civil servants.

Public Service and Administration Minister Dr Zola Skweyiya said last night the unions had rejected the cabinet's request that they be given another month to consider the unions' demands.

Dr Skweyiya said: "It was explained to them that the democratic process requires broader consultation before an informed decision can be taken."

The breakdown in negotiations — a deadlock was declared in Pretoria yesterday by the chairperson of the Bargaining Council — opens the way for a strike by civil servants.

Last night Public Service League (PSL) national chairman Mr Malcolm Domingo said the PSL would immediately begin a strike ballot.

Cosatu and Nehawu last night distanced themselves from the dispute, saying it had been "engineered by various right-wing staff associations to entrench their positions of accumulated privilege, and to resist democratisation of the public service".

Dr Skweyiya said the employee organisations had demanded a general salary increase of 15% and a minimum wage of R18 000 a year from December 1 this year.

"To implement the demand, an amount of R4,4bn will have to be provided in this financial year. R13,3bn will have to be provided for the 1995/6 financial year." CT 23/9/94

Personal tax in SA 'too high'

CT 23/9/94

PRETORIA. — Personal income tax must come down, Finance Minister Mr Chris Liebenberg said here yesterday.

"But I can give no time span," he added, at a press conference in his office. (320)

He added that corporate contributions to income tax were too low in comparison with those from individuals.

On international investor confidence he said he had come across "enormous goodwill" towards South Africa during his recent European visit.

Mr Liebenberg said the country now needed an economic vision and plan. It should be presented with built-in milestones on which South Africa's performance could be judged.

"We have to spell out a track record and stick to it. That is when the investors will start investing."

He added that an investment code should not only be aimed at foreign investors but also those inside the country. — Sapa

crack of dawn

I believe Tokyo Sexwale was so upset at the racist behaviour of rent boycotters in the Transvaal he felt like throwing up his food in despair.

Another liver op for Jessica

AILING liver transplant patient Jessica Lennon was on the operating table again early this morning receiving her second liver transplant — three weeks after the first organ was rejected.

A Red Cross Children's Hospital spokeswomen said last night that Jessica was in a critical condition when the transplant team began the marathon transplant operation about 10.30pm.

The operation was expected to last about 10 hours.

● Jessica gets a new liver — Page 3

'King' chants drown Natal premier's speech

(216) CT 23/9/94

DURBAN. — Hundreds of students at the University of Durban-Westville shouted down kwaZulu/Natal Premier Dr Frank Mdlalose yesterday, forcing him to abandon his speech.

Shortly before, shouts from the audience prompted Dr Mdlalose to ask if he had spoken too long.

Students shouted "Isilo, isilo (king, king)", followed by cat calls and laughter. Dr Mdlalose sat down.

ANC provincial leader Mr Jacob Zuma took the podium to applause and cheers of "ANC, ANC".

He reprimanded students for their intolerance and said until political attitudes were overcome issues such as ~~Zulu~~ King Goodwill Zwelethini's Shaka Day invitation to the invitation to President Nelson Mandela to attend Shaka Day would continue to cause problems and delay upliftment in kwaZulu/Natal.

Dr Mdalose said Shaka Day celebrations had never been sectarian, but certain people had politicised them.

When he finished students left the hall without applause or thanks to the speakers.

Mr Zuma said the ANC would heed the king's call to replace the celebrations with a period of prayer. — Sapa

● Shaka Day: IFP attacked — Page 2

BUSINESS BRIEF

Gold (Ldn) (close) $393,45

Joke at envoy's expense

TAX REFORM

FM 30/9/94

Consider the merits alone

Tax experts need not be politically correct

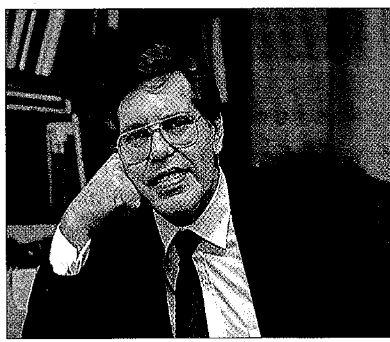
(320)

The Katz Commission, including many of our finest tax brains, was appointed in June this year to examine the entire tax system, including the collection process.

Cynics claimed that government was simply playing for time, to avoid an ugly confrontation within the ANC/SACP/Cosatu alliance over issues such as the extension of Vat zero-rating for food. By this view, the commission was supposed to merely tinker with the technicalities of the tax system and pass the ball back to government in November. The end of the year, on this interpretation, would — with some luck — be a politically easier moment to take hard decisions.

Cosatu, predictably enough, has urged the identification of luxury goods — presumably to expose them to higher Vat rates, excise duty or both. This is in the context of its general demand to make the tax system more progressive through shifting a proportion of the burden away from the poor to the rich.

The truly poor are the vast army of unemployed whose interests are best served by rapid growth, not Cosatu's membership, much of which already enjoys the benefits of discretionary spending power. The unemployed share common interests with business, which needs better incentives to invest, including a moderate and rationally arranged corporate tax burden. This argument makes moral nonsense of Cosatu's line of reasoning.



Katz ... *may canvas economists' views*

The SA Chamber of Business *(Economy* September 9) has called for a rationalised tax system, including strong investment incentives such as moderate corporate tax rates. In fairness, Sacob has also called for a reduction of the unconscionable tax burden on the middle class, brought about by fiscal drag.

The logic of Sacob's argument about direct taxes, especially in a tight fiscal situation, is that indirect tax (largely Vat) must remain a major prop of revenues. What Sacob did not mention is the tax on petrol, which also needs to be retained as a cheaply collected source of revenue — impossible to evade. There is

Sacob slams Vat zero-rating call

(320)

CT 2/9/94

From GRETA STEYN

JOHANNESBURG. — The SA Chamber of Business has strongly opposed Cosatu's call for the zero-rating of Vat in its submission to the Katz commission on taxation.

Sacob yesterday released its submission to the commission, which listed the "pitfalls" of zero-rating and expressed opposition to multiple rates. However, in its submission Cosatu asked for a public debate on abolishing Vat on basic necessities and raising taxes on luxuries.

The commission, headed by Edward Nathan & Friedland expert Michael Katz, has to report by November so that its proposals, if accepted, can be introduced in next year's Budget. The reconstruction and development programme favours zero-rating of necessities.

Sacob said zero-rating distorted prices and skewed demand. "There is clear evidence that the zero-rating of foodstuffs is an inefficient method of assisting the poor as the benefits are in fact enjoyed mainly by those who can afford to pay Vat."

Zero-rating of all meat, chicken and fish would cost R3bn, of which more than half would go to people who did not need the assistance. A better route was targeted assistance, but Sacob acknowledged that previous programmes had failed.

It also proposed that small and medium-sized enterprises be given favourable tax treatment, but emphasised that a definition for enterprises that qualify would have to be problematic.

Sacob strongly opposed the way in which inflation had pushed individual taxpayers into higher tax brackets, saying a government committed to openness and transparency could not allow "taxation by stealth" to continue. The organisation also noted that the middle income group was paying proportionately more tax than others, and proposed a restructuring of the brackets to spread the tax rate more evenly.

Sapa reports Sacob proposed a reduction in the corporate tax rate to about 30%.

"The tax system of the future will be vital in determining the levels of domestic and foreign investment needed for growth. If we don't get in tune with the way the global economy is moving in terms of tax systems, we're going to lose out," said Sacob director-general Raymond Parsons.

Corporate tax should be significantly reduced to attract much-needed international investment.

Tax revenue runs ahead of estimates

S Times (Buss)

By SVEN LUNSCHE

GOVERNMENT finances are receiving a strong boost from tax and customs revenues running well ahead of budgeted estimates.

Figures released by the Central Statistical Service on Friday show that in the first five months of the current, 1994/5 fiscal year total receipts amounted to R43-billion, R10-billion, or 30%, more than in the same period last year. This compares with a budgeted 11% rise to R106-billion for the full fiscal year.

Tax revenue rose from R28,6-billion to R37-billion and customs and excise duties from R4,4-billion to R6-billion. State spending, while ahead of targeted levels, is not running out of control.

During the April to August period expenditures totalled R55,3-billion, a rise of 15,3% on last year's comparative figure. The government budgeted for an overall 10,2% increase in spending to R135-billion.

The resultant deficit before borrowing of R12,4-billion is markedly lower than the deficit of R14,8-billion at the same time last year. If both revenue and expenditure trends are maintained the deficit for the year could fall short of the budgeted R29,7-billion, or 6,6% of gross domestic product.

No detailed tax breakdown is available in the CSS statistics for August but the July figures show a marked rise in income tax offsetting slightly lower VAT and fuel levy incomes.

The latest figures are significant in that they come at a time when economists and financial markets are critical of government attempts to curb excessive spending by the public service.

They also lend strong backing to continued assurances that addressing the social backlog will not take place at the expense of fiscal stringency.

In Parliament this week Deputy Finance Minister Alec Erwin announced tough steps to curb overspending in the 1995/6 financial year. 18/9/94

He said the Cabinet had already set a guideline figure of about R150-billion for spending in the 1995/6 budget. Of this amount R5-billion will be set aside for the reconstruction and development programme and about R30-billion will go on interest payments, leaving R115-billion to government departments and the provinces.

If 1994/5 budgets are maintained, this implies that spending will have to remain constant in real terms. B20

Mr Erwin indicated that government would once again try to reduce the deficit before borrowing as a percentage of GDP while holding interest payments relatively constant.

He also raised the prospect that privatisation would be "seriously considered" as a means to reduce state debt levels.

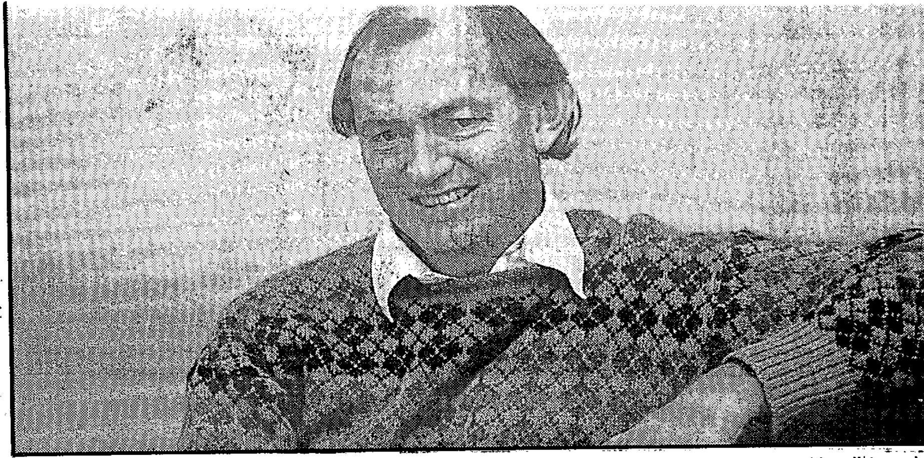
Government plans to control state spending are, however, seriously hampered by uncertainty over provincial allocations.

Sources warn that the Financial and Fiscal Commission will not have completed its work by the time the Budget will be drawn up, so that provinces will have to operate without all possible sources of revenue.

On Friday Mr Erwin presented a new Bill to provide the provinces with borrowing powers, defining the limits within which they could borrow funds.

A process was also under way to equip the provinces with an Exchequer Act, a Tender Board, a Provincial Revenue Fund and a Treasury, he said.

At present activities of the provinces are funded from the fragmented treasuries of former provinces and TBVC states.



THINKER ... Deputy Finance Minister Alec Erwin, who says privatisation may be 'seriously considered' to reduc

White collar crime 'may exceed GDP'

By JEREMY WOODS

LOSSES from white collar crime could be as high as R375-billion, says Peter Wilmot, former president of the SA Institute of Chartered Accountants.

"The rise of white collar crime has been quite staggering," says Mr Wilmot in a speech to be delivered to the Association for the Advancement of Black Accountants in SA next week.

"In 1986 there were 33 000 cases of reported fraud, in 1991 there 55 300." Mr Wilmot says this represents a 67% increase over five years, whereas all serious crimes increased by only 45% over the same period.

"If one takes into account the fact that for every fraud there could be as many as five to 10 unreported frauds, then the extent of the problem becomes apparent," says Mr Wilmot.

"Police estimates of the potential loss involved in these frauds have been put as high as R375-billion, a figure in excess of GDP."

He believes ethics should be taught at schools and police manpower increased. Harsher penalties for white collar crimes should be introduced and legislation overhauled.

Output to doub Nampak's can

By DON R

PACKAGING giant Nampak is to double the size of its beverage can manufacturing plant in Springs at a cost of R130-million.

The expansion plans follow Monday's announcement that Nampak had acquired British plastics company BlowMocan, for £20-million (R110-million) as a first step in establishing an offshore presence.

Nampak's two-year old facility east of Johannesburg has a 550-million annual can capacity and by doubling its output, total SA production of 340ml cans will rise by 25%.

Significantly, the R130-million will be financed internally because of the group's strong balance sheet and positive cash flow.

Nampak managing director Trevor Evans says that, in spite of competition, the Bevcan division continues to do well as a

result of customer and management ef

"We also foresee economy generally sector in particular,

Initial planning o line has started and on stream early in

BlowMocan, a lea blow moulded plas dairy, motor oil an has an annual turnc

The deal involve listed shares which international investc pean Depository Rec Luxembourg Stock

Proposals will also affect pensions

Katz plan to increase super tax

BIDay 6/12/94

(320)

GRETA STEYN

THE Katz commission into taxation is expected to recommend that top earners pay more personal income tax — a move which could soften Cosatu's criticism of its approach.

Sources said the commission would recommend that the top marginal tax rate be raised to 45% from 43%. At present, the 43% rate comes into force for income above R80 000. Tax experts said they expected the commission to recommend a complete restructuring of personal income tax brackets, with a greater burden falling on people who earned more than R80 000.

A source said yesterday a new bracket would be introduced for the rich, with the 45% tax rate kicking in "at a much higher level" than the present top marginal rate.

The report was handed to the Cabinet last week and is set to be made public this week. If its recommendations are accepted they will be included in next year's Budget.

Cosatu has criticised the commission's stance against extensive VAT zero-rating, saying the poor carry too big a tax burden. But a source said the proposal to raise income tax paid by the rich could help sell the reform package to the unions. The report would argue that poverty should be addressed through efficient relief schemes rather than through the tax system.

The source said the commission's recommendations would also affect the pensions industry. It would recommend that a limit be placed on tax-free pensions contributions — a suggestion bound to draw fire.

The commission is also expected to take a hard line on company tax incentives to narrow the gap between the nominal and effective corporate tax rate. As a result, there would be no need to raise the corporate tax rate from 35%, even once the secondary tax on companies was scrapped.

A major feature of the report is expected to be the billions of rands that could be recovered if decisive steps are taken to improve tax collection. Included in the tax that could be recovered are substantial erroneous payments of VAT refunds.

The report is expected to recommend the scrapping of non-resident shareholders' tax — a move which should boost the JSE. It would also make recommendations to prepare the tax system for the lifting of exchange controls.

Government is expected to announce that the commission will continue its investigations after its first report. Capital gains and land taxes have not yet been dealt with, but the commission has recommended that no tax measures should be implemented retroactively.

The commission's priority was to do a "constitutional audit" of the tax system, which meant that gender discrimination had to be removed. Extensive zero-rating of VAT also had to be examined.

Cosatu called for commission chairman Michael Katz to be removed after it became clear that the call to zero-rate basic necessities would not be heeded. But ANC sources indicated the commission would be backed on its VAT recommendations.

Government is expected to take a couple of months before it responds to all the recommendations, although expectations are that it will try to clear up uncertainty over pensions as soon as possible.

Land tax 'may be best option for SA'

(320)

CT 8/12/94

By ARI JACOBSON

A LAND tax is a strong possibility in the new tax system evolving in SA, said Katz commissioner Denis Davis delivering the keynote address at a function organised by Fenestra Financial Services in the Cape last night.

Davis suggested that the tax could be controlled at provincial level to provide much needed regional revenue, while also forcing landowners to cut land costs by scaling-down on plot sizes.

Covering the broad ambit of taxes under discussion by the Katz Commission he said that there would be "nothing unexpected" in the Katz report, out soon.

Starting with speculation that a new top rate of tax could be introduced for individuals at a higher level (increasing from 43% to 45%), he said that "it would hardly place a burden on the wealthy".

He was a little shifty on where the new top rate could settle but said anywhere between R150 000 and R200 000 a year, was the likely target.

Davis said "top people in SA are not paying that much tax".

He extrapolated that there was no capital gains tax in SA and no tax on dividends and this meant that a top income earner accrued a large portion of wealth tax-free.

Davis said that a capital gains tax was under discussion but was unlikely to be implemented "in the classical sense (as a tax on gross wealth)".

However he said that it was "quite likely" either a capital gains tax or a capital transfer tax would be considered.

Davis stressed that a prime objective of the Katz commission was to devise a means of lowering the tax burden on those taxpayer's that fell into the R20 000 to R80 000 a year tax bracket — without unduly distorting the burden of the top income earner.

Another contentious issue, was the demand to zero-rate more goods, otherwise caught in the Vat net, he said.

Davis pointed out that there was "overwhelming evidence" that increasing the amount of zero-rated goods was not the route to follow.

However he said it was a "delicate balancing act" because if there was no further zero-rating there would be a need for poverty relief, provided by government.

INCOME TAX FM 9/12/94

Katz out of the bag?

Personal income tax is set to jump from a 43% ceiling to 45% if reported Katz Commission proposals take force. This will hit married people earning more than R80 000 a year (R6 155/month x 13).

Any proposed increase in the maximum marginal rate could be counterbalanced by a less steep progression in the tax rates at incomes up to R80 000 to compensate for fiscal drag. The outcome could be that a taxpayer earning R150 000 a year would pay the same or even less tax — because his average tax rate has not changed.

If the commission has done its work well, it should recommend a downward adjustment of the tax tables to compensate for fiscal drag over the past generation. Another recommendation could be to place a cap on the tax deduction available for contributions to pension and retirement annuity funds. The level of the cap would be of great importance. (320)

Tax consultant Willem Cronje challenges the wisdom of unilateral abolition of non-resident shareholders' tax. It's better international tax strategy to use the existing (or even higher) tax as a bargaining chip in negotiations for favourable international double tax treaties.

He also points out that the system of taxing company income has already undergone major changes in aligning nominal and effective tax rates. These changes include the abolition of the investment and initial allowances, the removal of the Lifo option for valuing stock, the taxation of consumable stores and capital work-in-progress and the denial of new provisions for leave pay.

The introduction of the taxation of General Export Incentive Scheme benefits from 1995 will be a further step. All that is left to do is to address the problem of apportioning finance charges — especially with complex financial instruments — to prevent undue short-term tax benefits to companies.

Moves to abolish the zero-rating of food coupled to direct food aid to the really poor would greatly enhance the balance between direct and indirect taxation.

A constitutional audit will form an important part of the commission's report. Discrimination against married women tax-

FM 9/12/94

payers falls under this.

The commission's recommendations will have to be examined with particular reference to the balance between direct and indirect taxes and the impact of the totality of taxes on companies (including the unpopular secondary tax). If the overall balance is favourable, some negative features (such as the possible cap on pension and retirement annuity deductions) may be the price to pay for political acceptability of the changes. (320) ■

ARG. 10-11/12/94

Thumbs-up for new deal tax report

320

BRUCE CAMERON
Business Editor

THE Katz Commission has been given the thumbs-up from tax experts with the general comment that there were "no surprises" in its report.

But warnings were made that major revision of the tax system, particularly for companies, is still required.

They said the commission had moved towards making South Africa more tax friendly for investors, but more would still have to be done.

There was some disagreement whether standard income tax on companies should be scrapped with some commentators saying the system was an effective tax of dividends which created a position where foreign investors could see the results as a double taxation if their dividends were taxed at home.

Predictions were made that:

■ VAT could be increased to 15 percent in the Budget next year as the government sought extra revenue; and

■ Secondary Tax on Companies (STC) could soon be reduced or even scrapped because of the negative effects it has on foreign investors.

President of the SA Chamber of Business Les Weil said within the constraints imposed on the commission "it is to be congratulated on the wide range of improtant issues addressed and on the many proposals made.

The list of proposals, generally welcomed by tax experts and business organisations, included recommendations that:

■ The Receiver of Revenue should be separated from the general government administration.

Andersen Consulting taxation partner Henk Rossouw said staff were leaving at a terrifying rate while chartered accountants serving as national servicemen were no longer available. The Receiver had to be allowed to set its employment standards;

■ A proposed amnesty for people who had not submitted tax returns, exempting them from fines and interest.

Ernst&Young tax partner David Clegg said it was a good thing that the amensty would still require the tax to be paid.

■ Resisting political pressures and keeping a single VAT rate and not increasing the number of zero rated goods.

Mr Clegg said multiple rating would have made the system too complex while Mr Rossouw said that additional zero rating would not result in major benefits for the poor but would cause major revenue losses for the State. It was better to provide relief for the poor through a food stamp system;

■ A five-bracket marginal tax scale.

Mr Clegg said most taxpayers would benefit from the proposed bracket structure, but people getting travelling allowances could see their gains wiped out by the extra tax that would be levelled on the allowances if the commissions recommendations are accepted.

A person earning R80 000 a year, would in simple terms see taxation dropping from by more than R3 000 on the new scales with significant savings being made in lower brackets.

He warned that people should not misinterpret the new scales to read that for axample when they started earning more than R30 000 their tax rates would leap from nine percent to 30 percent.

The higher rate only applied for every rand earned above R30 000 — not for the rands below R30 000 where every rand would still be taxed at a marginal rate of nine percent.

■ The proposed scrapping of Marketable Securities Tax on share transactions and the Non-resident Shareholders Tax on investors, who held more than 25 percent of the shares in an undertaking, as well as the proposed move towards narrowing the gap between nominal and effective company tax by getting rid of tax incentives, were seen as good for attracting foreign investment.

Amnesty could broaden net

Tax breaks in the pipeline

Star 10/12/94

SMALL business is to get a tax break — the Katz Commission has recommended a handful of measures that will simplify administration and significantly help the smaller business's cash flow.

THE Katz Commission on Taxation was appointed by the then Minister of Finance, Derek Keys, in his Budget speech in June. The commission was asked to consider specific aspects of the current taxation system. The commission's report, released yesterday, is to be considered by Parliament and if the recommendations are accepted they are likely to be included in the March 1995 Budget. The report is an interim one as the commission will be continuing. LEIGH ROBERTS reports.

(320)

The major recommendation is that small and medium-sized businesses be granted the option of being taxed on the basis of cash flow.

In other words, the tax due will be calculated on their cash profit only.

The recommendation has been welcomed by tax experts, who say it will enable small businesses to build up working capital for expansion.

The commisssion has defined small, medium and micro-sized enterprises as those employing fewer than 200 workers, or with annual turnover of less than R12 million, or capital assets worth less than R10 million.

Saying it wants to alleviate the administrative burden placed on smaller businesses, the commission has recommended a simpler VAT system for them.

It has also recommended that an option of unified return dates for the payment of PAYE, unemplyment insurance and all other statutory returns be introduced.

The effect of tax incentives on smaller enterprises should be investigated, it suggests.

An amnesty is recommended to entice people who have not registered as taxpayers to join the tax net.

The Katz report says the amnesty should be granted only once and for a limited period.

The terms of the amnesty are generous. The new taxpayers would be liable only for the tax due in the three years before the introduction of the amnesty — the liability for previous years would be forgiven.

No interest or penalties would be charged on the tax due and payment terms would be available.

The commission has all but overhauled the Standard Income Tax on Employees (SITE) system.

SITE is the tax mechanism which allows taxpayers who earn less than R50 000 a year not to submit tax returns.

The first recommendation is that the income limit for SITE be lowered to R30 000 — bringing another 1 million taxpayers on to the tax register.

However, these taxpayers could be spared the ordeal of completing the usual 14-page annual tax return.

In a separate recommendation it is suggested that a one-page tax return be considered for taxpayers who earn between R30 000 and R60 000, whose earnings are subject to PAYE, and who earn no business income.

The second recommendation will bring relief to taxpayers who are seasonal or temporary employees.

Currently, earnings are annualised, so a higher tax is paid.

The commission says these problems will be overcome with a flat rate of tax — 9 percent — on income of up to R30 000.

New measure to tap companies in offing

THE Katz Commission recommends that company tax remains unchanged, but the Secondary Tax on Companies (STC) is set to be replaced after alternatives have been considered.

However, a new tax on companies is in the offing — while this tax has the nature of a wealth tax, it is not punitive in amount.

An annual "presumptive" tax on companies, close corporations and inter-vivos trusts (trading as well as those trusts created for estate planning purposes) has been recommended. Effectively, for every R10 million of a company's gross assets a tax of R1 500 will be liable — but this tax is deductible for income tax purposes, which reduces its overall cost.

In a bid to entice foreign investment, it has been recommeneded that the Non-resident Shareholders Tax of 15 percent (which is payable on dividends paid outside the country) be abolished. This will apply only in cases where the foreign investor owns a minimum of 25 percent of the shares in the local company.

P.T.O.

New tax system to suit a modern world

SI Times 11/12/94

(320)

By SVEN LUNSCHE

THE Katz commission, asked to revamp South Africa's tax system, has gone beyond that brief and proposed a range of measures that use financial incentives to direct social policy.

Under the existing system, the major beneficiaries are working men whose wives stay at home to look after the children. Married women who work are penalised. Having children is encouraged by the provision of a rebate for each child.

The biggest winners in the new tax regime proposed by the commission will be married working couples in the middle and low-income groups. And the rebate for children will be scrapped.

The commission, headed by Professor Michael Katz, said the child rebates dated from an age when "encouraging population growth was an important aim of policy". At that time, the rebates could also make a substantial contribution to the upbringing of a child.

"But inflation and changing social attitudes have combined to render them ineffective and inappropriate," the commission said.

At the heart of the proposed tax system are measures to broaden the tax base, simplified tax brackets and a gentle squeeze on the rich.

The report is interspersed with references to the new constitution, the Reconstruction and Development Programme, economic growth and the government's conservative approach to state spending.

The commission said it had begun examining the contribution which tax measures could make in improving income distribution and social security "in the context of South Africa's extremely unequal society".

In practical terms, this meant addressing the heavy tax burden on the R20 000 to R80 000-a-year income group and the unequal tax treatment of married women.

As the table (see Page 2) — prepared by Ernst & Young tax consultant Shirley Farrow — shows, this has been achieved, with the benefits further extended to the R120 000 to R200 000-a-year income group.

The commission proposes reducing the existing tax structure to five tax brackets. The lowest begins with a flat rate of nine percent tax on salaries up to R30 000 a year. Marginal rates will be 36 percent on earnings above R30 000 a year, 39 percent above R50 000 and 42 percent above R100 000.

The top marginal rate of 43 percent which, in the existing system, applies to annual incomes from and above R80 000, has been raised to 45 percent. However, the income threshold for this, the top bracket, is lifted to R150 000 a year.

On balance, the new structure will save taxpayers an estimated R3-billion a year.

In an effort to offset some of these losses, the commission proposes the elimination of primary, child and old-age rebates. Tax-free contributions to pension funds are capped at R9 000 a year and restrictions on car-allowance benefits are also proposed.

The cap on pension-fund contributions has already come in for a lot of criticism.

The South African Chamber of Busi-

□ To Page 2

Tax system for a new age

□ From Page 1

ness said: "In the absence of an effective social security system, the onus is on the individual to provide for his/her retirement. The proposed capping could serve as a disincentive to do so."

The report estimates that eliminating rebates and capping pension contributions could raise about R800-million, leaving a shortfall in revenue of about R2,2-billion.

A further R500-million will be collected from a new presumptive tax on companies, the only other tax-raising measure considered.

In particular, the commission shied away from introducing a higher VAT rate on luxury goods, as proposed by Cosatu. It also decided not to extend the present zero-rating on 19 food items to other basic goods and services, proposing instead a lifting of existing zero-ratings once efficient poverty relief programmes are in place.

Instead of raising taxes, the commission relies heavily on measures to extend the tax base and, more importantly, improve the tax administration and collection systems.

At a briefing on Friday, Mr Katz said tax administration in SA was in a state of crisis. An efficient system could collect anywhere between R5-billion and R15-billion more, the report estimates.

Tax-base broadening measures include far-reaching reforms of the Standard Income Tax on Employees (SITE) system, which could raise the number of taxpayers who are also subject to Pay As You Earn (PAYE) by about one million from its present 1,7-million.

In order to place more taxpayers on register, the report proposes a reduction in the upper limit of SITE from the current R50 000 to R30 000, coupled with a simple one-page tax return.

The Katz report is in the hands of Finance Minister Chris Liebenberg, who will have to decide which of the recommendations to incorporate in the March 1995 Budget.

● See Business Times

Personal income tax before and after Katz

Current classification	Taxable income	Current tax payable	Proposed tax payable	Difference
Married person	30 000	3 575	2 700	-875
(Note 1)	75 000	20 375	19 650	-725
	140 000	48 275	46 200	-2 075
	180 000	65 475	63 900	-1 575
Married woman	30 000	5 950	2 700	-3 250
	75 000	23 350	19 650	-3 700
	140 000	49 350	46 200	-3 150
	180 000	65 350	63 900	-1 450
Unmarried person	30 000	4 900	2 700	-2 200
	75 000	23 290	19 650	-3 640
	140 000	51 240	46 200	-5 040
	180 000	68 440	63 900	-4 540

The above calculations do not take into account the transition levy or the effect of proposals of the Katz Commission regarding pension contributions, car allowances and primary rebates.

Note 1 - For every qualifying child the current tax is reduced by R100.

Graphic: FIONA KRISCH

Source: ERNST & YOUNG

Taxation in a mess, says Katz inquiry

S[Times (Buss]

11/12/94

By SVEN LUNSCHE

SOUTH Africa's tax administration is in a state of emergency, says the Katz commission of inquiry into the country's tax structures.

Releasing its long-awaited report on Friday, Michael Katz, the commission's chairman, said the government was losing up to R15-billion a year because of low staffing levels and dismal collection systems.

At the end of September the Receiver of Revenue was owed about R9-billion in outstanding taxes, interest and penalties, 150 000 VAT audits were in arrears and VAT refunds totalling R1-billion were incorrectly made, the report shows.

The commission also estimates the tax gap — potential revenue against actual collections — at about R21-billion a year.

"The reform of tax administration is at the heart of our recommendations. Without it other tax reforms will have little impact," Mr Katz said.

The report calls for the restructuring of Inland Revenue and the Department of Customs and Excise into independent business units, accountable to Parliament, and recommends that spending on tax administration should be raised by 50% to 1,2% of all revenue collected.

The Commissioner for Inland Revenue, Trevor van Heerden, supported the views of the commission.

He estimated that his department was about 25% understaffed with higher shortages experienced at the more senior levels.

"Under ideal circumstances, with the proper computing and staffing systems in place, we could reduce the tax gap from its present 20% to 10%, raising an additional R11-billion," he said.

The commission's report details the severity of the staff shortages:

- At the Johannesburg VAT audit office only 45% of posts are filled. Well over half the staff have less than 12 months' experience. The office has some 60 000 cases on register.
- Nationwide, out of 1 505 authorised audit posts, only 55% were filled in mid-1994.
- The Sandton tax assessment unit, established to evaluate JSE-listed companies, has failed to attract qualified staff, leaving other badly understaffed offices to deal with the task. As a result, 68% of company tax assessments were outstanding at the end of February.
- At the most senior level vacancies exist — for three out of seven chief directors and eight out of 23 directors.

Mr Katz said administrative reorganisation of the unit over two to three years would yield at least R5-billion a year in additional revenue.

The modernisation of tax administration is a recurring theme in the report, which relies heavily on more efficient collection to make up for a R3-billion shortfall arising from a restructuring of personal tax rates.

The R3-billion savings for taxpayers follow the elimination of sex brackets — considered unconstitutional — and the introduction of lower marginal rates for all but the top income bracket.

The commission expects to raise R1,3-billion through a range of measures including the scrapping of child rebates, a cap on relief for pension fund contributions and changes to car allowance thresholds.

Most controversially, it introduces a new presumptive tax on corporations to bring in about R500-million, while leaving both the corporate tax rate and secondary tax on companies untouched. (320)

The presumptive tax should be levied yearly at the rate of R1 500 for every R10-million of gross assets.

Welcoming the overall report, the SA Chamber of Business warned that, if implemented, "the presumptive tax would effectively open the door to a fully-fledged wealth tax".

The commission comes out strongly against any tax incentives either for small businesses or foreign investors, but proposes the scrapping of non-resident shareholders' tax and marketable securities tax.

Value Added Tax should be retained largely in its existing form, the report says.

Flying in the face of suggestions by Cosatu, the commission rejected a higher VAT rate on luxury goods and the extension of zero ratings to other basic goods and services.

"The commission's judgment is that satisfactory poverty relief programmes together with a reduction in the degree of inequality in our society need to be achieved before greater demands on indirect taxation can be made."

● See inside page

Beginner's guide to Katz's taxes

320

By SVEN LUNSCHE

THE commission of inquiry headed by laywer Michael Katz has proposed wide-ranging changes to the corporate tax system.

The commission will continue to sit to investigate longer-term structural deficiencies of South Africa's tax system and make appropriate recommendations.

Here is a summary of its main recommendations submitted to Finance Minister Chris Liebenberg last month. If accepted the recommendations will be included in the 1995/6 Budget to be presented on March 15.

CORPORATE TAXES

The commission concedes the corporate tax rate of 35% coupled with the 25% secondary tax on companies (STC) — giving an effective 48% rate — is high when compared with countries South Africa competes against for foreign capital.

However, in view of the declining tax contributions by corporations, it recommends that the corporate tax rate be maintained. "The solution should rather be sought in effective administration and curtailment of tax incentives."

The report proposes the possible phasing out of STC to be replaced by an alternative form of tax on dividends.

However, the commission recommends the abolition of marketable securities tax, which the JSE says has contributed to poor liquidity levels on the stock market.

PRESUMPTIVE TAXES

The commission recommends the introduction of a presumptive tax to offset part of the R3-billion loss of revenue from restructuring personal income taxes.

Presumptive taxes, "increasingly common in foreign tax jurisdictions", should be introduced at a low rate on the gross assets of companies, the report says.

The tax should be levied at a yearly rate of R1 500 for the first R10-million or part thereof on gross assets and thereafter at the rate of R1 500 for each additional R10-million or part thereof.

Long-term assets of life-assurers should be excluded.

FOREIGN INVESTMENT

The commission does not recommend specific tax incentives to attract foreign investment.

"General incentives aimed purely at encouraging foreign investment should not be introduced, and the emphasis at this interim stage should fall on measures that will remove any specific anomalies or inhibitions that may cause the tax system to be an actual disincentive to foreign investment."

The commission recommends that the non-resident shareholders tax should be abolished for companies which have a minimum 25% shareholding by foreigners.

It also calls for the removal of tax disincentives for foreign companies wishing to use South Africa as a base for regional holding and finance companies.

VALUE ADDED TAX

The commission proposes that the current VAT rate of 14% and the zero rating of 19 basic food items remain.

It does, however, raise the prospect of restoring the zero-rated items to the VAT base at a future date "depending on the existence of a credible and effective social security net providing relief to those most vulnerable to survival-threatening income insecurity".

The commission admits that present poverty relief programmes have been unsuccessful in delivering assistance to the poor but it urges government to take a renewed look at targeted poverty relief and development programmes.

"Poverty relief cannot effectively be addressed through the tax system," the report says, adding that VAT exemptions, while providing some benefit to the poor, hold greater advantages for the well-off."

The commission rejects the introduction of a higher rate — Cosatu proposed 25% — on luxury items, arguing that a set of luxury goods "would be difficult to delineate and achieve only a marginal regressivity of VAT".

The present ad valorem excise duties should be retained at present rates although the commission suggested investigating a progressive duty on luxury motor vehicles.

In order to assist small businesses the commission recommends simplified VAT accounting systems and simplified registration procedures.

TAX INCENTIVES

The commission calls for a thorough overhaul of the tax incentives system. In principle it opposes incentives "as they increase the loopholes and complexity of the system and thus reduce the possibility of a reduction in overall tax rates".

In the event, however, that incentives are included as part of a fiscal package they should meet a number of conditions. These include the enhancement of social benefits, the establishment of predictable, but not permanent, incentives and their accountability in terms of costs and objectives to Parliament.

"The most appropriate way to stimulate investment spending is to provide a general incentive by keeping nominal tax rates as low as possible, while keeping the structure simple and neutral," the report says.

INVESTMENTS/SAVINGS

On the premise that increased savings in the economy do not necessarily raise economic growth, the commission does not recommend special tax incentives to improve saving or investment.

It proposes instead that existing incentives be reviewed and "preferably" abolished.

The report also calls for a renewed look at the "four-funds" approach adopted by life assurers as well as the tax-free status of pension funds.

EXPORT PROCESSING ZONES

The commission proposes investigating the establishment of export processing zones. If the government decides to introduce EPZs it should do so via a pilot project.

Initially EPZs should only admit foreign investors operating in an environment with virtually all tax burdens removed, free movement of capital and income and minimum controls and regulations.

RAISING ISSUES ... commission members Dennis Davis, Michael Katz and Dolly Mokgatle Picture: CHRIS COLLINGRIDGE

'Thin edge of the wedge' for taxes

(320)

CT 12/12/94

Analysts decry Katz proposals

From GRETA STEYN

JOHANNESBURG. — Business has raised fears that government will be able to milk the corporate sector if it introduces the Katz commission's proposal to tax companies' assets.

The commission on taxation recommended on Friday that a "presumptive" tax on companies be levied on gross assets at a low rate of R1 500 for every R10m or part thereof, bringing in R500m in revenue.

It would be deductible from income tax, effectively making it a minimum tax on companies.

But business people and tax experts warned the low rate could escalate as sales tax had. They said it was the "thin edge of the wedge" for wealth taxes.

The SA Chamber of Business said it was "unhappy" with the proposal. "Sacob believes that . . . it would effectively open the door to a fully fledged wealth tax — to which it is strongly opposed."

Anglo American group tax consultant Marius van Blerck said perceptions that the presumptive tax rate might rise would probably have a more negative effect than the tax itself.

Ernst & Young tax expert Ian MacKenzie said the presumptive tax was "obviously a Budget-balancing exercise". The tax would be levied at such a low rate that it would not have a significant financial effect. "But the introduction of the tax will affect investors' perceptions. Here is yet another tax that might not stay low." The sales tax had caused scepticism about taxes introduced at a low rate.

Business people also criticised the targeting of gross rather than net assets, which could inhibit companies from expanding as the debt incurred in the process would not be taken into account.

Tax commissioner Dennis Davis denied a wealth tax was being proposed. The new tax was a temporary measure until benefits of improved revenue collection were felt. He said the shortfall created by relief for individuals could not be sustained by a government facing deficit problems.

The proposal to bring in a minimum tax on companies is a response to Cosatu's concern that companies are paying too little tax and individuals too much. But Cosatu spokesman Neil Coleman said the debate on company taxation was not over. "We have to ensure that companies plough profits back into productive assets."

While Cosatu and business were mostly positive about the Katz package, they pointed out a number of issues that would be the subject of further debate. These included the proposed limit on the tax-free portion of pension fund contributions, changes to the SITE system and meeting the needs of the reconstruction and development programme. Cosatu would also ensure the commission kept its promise to investigate VAT zero-rating further.

There was unanimous support for tightening up tax collection, while personal income tax relief was also welcomed.

Referring to the proposed 45% marginal tax rate for people earning more than R150 000, Van Blerck said: "It is always regrettable when taxes go up, but the increase is understandable given the need to provide relief to middle and lower income earners."

in tax system ● Foodstuffs exempted

Katz' new tax indemnity plan

Sowetan 12/12/94

By Mzimkulu Malunga

■ FORGIVENESS SCHEME No moral grounds to force people :

(320)

THOUSANDS OF PEOPLE are likely to benefit from the proposed tax amnesty scheme by the Katz Tax Commission.

Appointed by the Government in June this year, the commission is proposing tax forgiveness for people who were liable for tax payment but felt they were not part of the mainstream tax system.

This recommendation came as a result of numerous submissions made to the commission that there was no moral argument to make previously disenfranchised people pay taxes.

Making its proposals public on Friday the commission, which is headed by lawyer Michael Katz, proposed that the amnesty scheme should be a voluntary one where people would be given a limited time to apply for indemnity for all taxes they owe prior to 1991.

If a person applies for indemnity he would be liable to pay all taxes owed to the taxman since 1991.

If necessary, the tax commissioner could grant terms under which an individual could pay off his tax debts.

This scheme is being proposed in order to give the country's tax regime legitimacy.

He says the commission is also very cautious not derail the morale of the other taxpayers who have been paying their taxes all along.

Katz's fellow commissioner, Mr Denis Davis, calls the proposal a "carrot-and-stick proposal".

Hundreds of black business people are going to benefit from the indemnity scheme. This was said the chairman of Nafcoc's tax commission, Mr George Negota. "This is what Nafcoc has been negotiating with the previous government for years, so we welcome it," he said.

Praise for proposal

By Mzimkulu Malunga

THE KATZ Tax Commission's decision to exempt basic foodstuffs from VAT has sparked praise from unexpected quarters.

Earlier comments attributed by a commissioner dealing with VAT, Dolly Mogatle, that she was not in favour of zero-rating, angered the trade union federation Cosatu.

But Cosatu now says the interim report by the Katz Commission "is not as bad as we have feared".

Cosatu had earlier questioned the legitimacy and the representativenes of the commission while comments attributed to Mogatle worsened the organisations skepticism of the Katz Commission. But Cosatu still questions the commission's legitimacy.

Cosatu's publicity officer Neil Coleman says they still want to see other basic needs like medical services exempted from VAT.

The commission says the decision to retain VAT is due to the high poverty situation in the country. The ball has been left in the Government's court to implement poverty relief programmes in order to eradicte the inequities in the country.

However, Cosatu does not see the poverty alleviation programmes as a substitutes to VAT exemptions.

Coleman says his organisation favours a system where more tax is levied on goods consumed by the rich and lower tax on goods which are consumed mainly by the poor in addition to the zero-rating. The organisation says it is still unhappy with attempts to lower companies' income tax because although company tax is 35 percent, effective rates are much lower.

For instance, a paper and pulp company, Sappi, paid one percent tax over the past 10 years, argues Coleman.

The proposal by the commision to eliminate discrimination based on gender has been welcomed across the board. Another proposal which will benefit a number of lower to middle income earners is the reduction of the tax load of people earning between R20 000 and R80 000 a year.

SA tax system 'remains destructive'

SELLO MOTLHABAKWE

SA's progressive tax system remained punitive and economically destructive despite changes recommended by the Katz Commission, People's Endeavour to Reform Taxes chairman Mike Copeland said at the weekend.

He welcomed the removal of gender discrimination and the reduction in the tax load for those in the R20 000 to R80 000 a year income bracket.

However, the proposed tax would result in price increases as it would be added to the 20% tax costs that were already contained in the price of goods and services.

A higher tax rate for certain corporations would punish producers and discourage foreign investment. It was time SA moved away from income tax and adopted a consumption tax. (320)

The SA Institute of Chartered Accountants warned many of the proposals would fail if an autonomous collection system was not created. BD 12/12/94

A reduction in the overall tax rate could not be achieved unless the government realised the important role efficient tax administration played, institute CE Ken Mockler said.

Fears that low rate will escalate (320)

BD 12/12/94

Asset tax a Trojan horse, says business

GRETA STEYN

BUSINESS has raised fears that government will be able to milk the corporate sector if it introduces the Katz commission's proposal to tax companies' assets.

The commission on taxation recommended on Friday that a "presumptive" tax on companies be levied on gross assets at a low rate of R1 500 for every R10m or part thereof, bringing in R500m in revenue. It would be deductible from income tax, effectively making it a minimum tax on companies. But business people and tax experts warned the low rate could escalate as sales tax had. They said it was the "thin edge of the wedge" for wealth taxes.

The SA Chamber of Business said it was "unhappy" with the proposal. "Sacob believes that ... it would effectively open the door to a fully fledged wealth tax — to which it is strongly opposed."

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Business people also criticised the targeting of gross rather than net assets, which could inhibit companies from expanding as the debt incurred in the process would not be taken into account.

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The proposal to bring in a minimum tax on companies is a response to Cosatu's concern that companies are paying too little tax and individuals too much. But Cosatu spokesman Neil Coleman said the debate on company taxation was not over. "We have to ensure that companies plough profits back into productive assets."

While Cosatu and business were mostly positive about the Katz package, they pointed out a number of issues that would be the subject of further debate. These included the proposed limit on the tax-free portion of pension fund contributions, changes to the SITE system and meeting the needs of the reconstruction and development programme. Cosatu would also ensure the commission kept its promise to investigate VAT zero-rating further.

There was unanimous support for tightening up tax collection, while personal income tax relief was also welcomed.

Referring to the proposed 45% marginal tax rate for people earning more than R150 000, Van Blerck said: "It is always regrettable when taxes go up, but the increase is understandable given the need to provide relief to middle and lower income earners."

● See Pages 4 and 6

KATZ COM

Reforms 'will rake in R9bn in taxes'

(320) BD 12/12/94

Reports by SAMANTHA SHARPE

URGENT reform of SA's tax administration — the major thrust of the Katz commission's report on taxation — could help bring in some of the R9bn owing because of deficiencies in the system, the report said.

The report said about R9bn in tax, interest and penalties were owed to the Receiver at the end of September, with 150 000 VAT audits in arrears.

It warned that incorrect VAT refunds had reached about R1bn, with the fiscus losing "substantial amounts" through inadequate valuation and audits of customs and excise duties and associated rebates.

While the estimate of potential revenue gains associated with the reforms was "inevitably hazardous", the commission had received representations which suggested additional collections would range from R5bn to R15bn, it said.

Enhanced collection, inspection, assessment and audit procedures should yield additional income tax revenue of about R1bn a year, complemented by additional VAT revenue of about R2bn.

Additional yields from the full complement of the Special Investigation Unit would be R1bn, while enhanced administration of customs and excise could bring in another R1bn, it said.

Katz commission chairman Michael Katz said the call for an urgent and thorough revision of the status and organisation of the revenue authorities had been spurred by the failure of Inland Revenue to improve company tax assessment.

A sharp decline in the qualifications and experience of staff had set back the Commissioner's ability to protect the fiscus, with about 68% of company tax assessments outstanding at the end of February.

Katz said the commission's recommendations for changes to the tax administration went beyond the purely "cosmetic" and would focus on the administrative autonomy of the auditor-general.

The contracting of revenue practices to private companies could also help reduce compliance costs and improve administrative efficiency in tax collection, he said. Technological innovation and improved office accommodation and facilities would further alleviate the "state of emergency".

The commission called for a strong affirmative action policy, with particular attention to the employment and training of significant numbers of black officials.

Katz commission member Dennis Davis said it was "insane" that SA spent so little on tax collection. The commission recommended that SA's expenditure on tax administration should be raised to about 1,2% of revenue collected from 0,8%.

Amnesty for defaulters proposed

320

THE Katz commission has recommended an amnesty as "a carrot" to who had previously refused to pay taxes to a regime that denied them the vote.

Commission chairman Michael Katz said the amnesty would probably result in additional taxation revenue, with improved benefits to all taxpayers.

Anyone not previously registered as a taxpayer would have a limited time to claim the amnesty. But it would apply only to those who voluntarily came forward to accept it and not to those detected by the authorities.

BD 12/12/94

Anyone accepting the amnesty would be liable for tax for a period of three years before the introduction of the amnesty. "The liability in respect of the three-year period will not be accompanied by interest or penalties and, if necessary, terms to pay off the liability will be granted."

But Deloitte Touche tax consultant Louise Vosloo said the three-year period could be construed as "a little harsh".

Katz said the announcement regarding the amnesty should be accompanied by extensive publicity to explain the concept and how it operated.

The publicity should also draw attention to the significant restructuring of the tax administration and its aim to enhance tax collection — "the stick" side to the amnesty proposal.

He said the effect of the tax amnesty on the morale of taxpayers who had been complying with their taxation duties would not necessarily be undermined.

The timing of the once-off concession in the context of other amnesties that were being granted as part of the introduction of the new dispensation in SA was good, Katz said.

More extensive use of a tax indentification number to encourage people to register as taxpayers was also proposed. A person registering at a university or having any interaction with a state organisation should be obliged to produce a tax registration number.

Constitution prompts review of rates structure

(320) BD 2/12/94

A "CONSTITUTIONAL audit" of SA's personal income tax system had prompted the Katz commission on taxation to recommend a new unified rate structure and a reform of the SITE system, the commission's report said.

The report said the current personal income tax system, which discriminated against gender and marital status — married women pay more tax than married men — was no longer appropriate.

The commission would recommend the adoption of a single schedule applicable to all taxpayers to replace the current system, which had three schedules of rates.

Those earning below R30 000 a year would pay a flat rate of 9%; those with an income of between R30 000 and R50 000 would pay a marginal rate of 36%; and those earning less than R100 000 and more than R50 000 would pay 39%, it said.

The commission had recommended that the R100 000 to R150 000 income band pay a marginal rate of 42%, while those earning more than R150 000 pay a marginal rate of 45%, the report said.

Everyone in the R60 000 to R200 000 a year income range stood to "gain substantially" from the changes, although recommendations for a 9% flat rate on those earning below R30 000 a year would place a burden on very low incomes.

"Some form of primary rebate is required to alleviate the burden placed on very low incomes by the proposed 9% flat rate."

Married women would be more lightly taxed in the range from R10 000 to R214 000, with unmarried people earning between R18 000 and R412 000 also more lightly taxed.

The commission proposed that the upper limit of SITE be reduced from the current R50 000 to R30 000, which would place an additional 1-million taxpayers on register.

The definition of "standard employment" within the context of those subject to SITE should also be changed to exclude employees who could not realistically be expected to pay tax.

The changes to the personal income tax system would yield R39bn on the current base, the report said, a R3bn reduction on estimated personal income tax revenue of about R42bn.

The report warned that R3bn would have to be found outside the personal income tax system if revenue was to be maintained.

ARG. 13/12/94.

Tax officials' search powers to be tested in constitutional court

823.

CLIVE SAWYER
Political Correspondent

TAX officials' sweeping powers to search premises without notice and seize documents are to be tested in the constitutional court.

The Income Tax Act allows officials who have been authorised in writing by the commissioner of inland revenue to enter premises at any time of day, without notice, and seize money and documents.

Officials are allowed to keep these "for as long as they may be required for any assessment or for any criminal or other proceedings".

Section 13 of the constitution guarantees the right to privacy, including protection from searches of person or property and the seizure of private property or communications.

An editorial in *The Taxpayer*, noting that Section 33 of the constitution allowed limitation of fundamental rights where this was justifiable in an open and democratic society, said this could give the commissioner "to an extent" rights of search and seizure.

But the section of the act which allowed search and seizure, as it stood, was unconstitutional.

The section could not be upheld in its present form just because there were particular circumstances in particular cases which justified search and seizure, the editorial said.

In a recent Witwatersrand Supreme Court case, a taxpayer applied for an urgent interdict to prevent the commissioner carrying out a search and seizure.

He applied for the interdict pending the decision of the constitutional court.

Tax incentives 'unlikely to boost private savings'

(320) BD 13/12/94

MUNGO SOGGOT

TAX incentives to encourage savings are unlikely to boost the rate of private sector saving, says Reserve Bank national accounts head Johan Prinsloo.

In a paper in the Bank's latest Quarterly Bulletin, Prinsloo said lifting government saving would be a better way to increase the domestic savings rate.

"Given all the uncertainties pertaining to the effectiveness of government policies to alter private saving, direct actions to increase the domestic savings rate would appear to be a much more certain prescription for success."

He said savings were too low to support a high economic growth.

The Bank, in its annual economic report, had said the savings rate would have to be lifted to 22% of GDP from 1993's 17,5%.

Savings of SA's household sector had been hit by a deceleration in income growth in the 1980s. Inflation-adjusted household income growth slowed to 2,8% in the 1990s, from 4% in the 1970s and 6% in the 1960s.

The Bulletin said a surge in consumer spending, spurred by post-election confidence, had dented savings in the third quarter of 1994.

Tax 'will penalise small trusts'

(320) BD 14/12/94

THE presumptive tax recommended by the Katz commission would place a disproportionate, and presumably unintended, burden on certain inter-vivos trusts, says Syfrets tax, trusts and estate planning consultant James Wolfson.

He said a company with gross assets of R10m might pay the same wealth tax as a small inter-vivos trust, the proceeds of which supported a pensioner.

The Katz report called for a presumptive tax of R1 500 a year for the first R10m, or part thereof, on the gross assets of a company, close corporation or inter-vivos trust, he said.

An additional R1 500 would be levied for every additional R10m or part thereof.

An inter-vivos trust is formed while the benefactor is still alive and exists after death. Testamentary trusts, which are formed in terms of a last will and testament, are exempt from this tax.

"While trading trusts appear to be the intended target of the tax, there should be a clear distinction between trusts opened for business purposes and those which are genuinely for the maintenance of a spouse, education of a child, support of a widow, and so forth.

"It is clearly unfair to tax trusts which are genuinely for support of beneficiaries," Wolfson said.

Wolfson said certain inter-vivos trusts were opened in terms of statute.

The funds accruing from a pension fund payout, on the death of an employee are required to be set up in a trust, in accordance with the Pension Fund Act for the benefit of minor children.

If the current recommendations were implemented, these trusts would have to pay the annual R1 500 presumptive tax, regardless of the trust's income. This income might in fact be less than the R1 500 presumptive tax, denying the beneficiary any proceeds.

Certain trusts might be created for disabled or mentally incapacitated beneficiaries — for example from a Motor Vehicle Assurance claim.

Such trusts ought to be exempt from presumptive tax. — Sapa.

Savings for all but the very rich

Reg Rumney

AT the same time as giving married women and unmarried people equal (and better) tax treatment, the commission has recommended changes to the tax tables which mean some savings for all but the very rich.

The commission recommends that the marginal tax rate should be raised to 45 percent at R145 000 a year. The present rate is 43 percent at R80 000 a year.

At the same time, the rates have been smoothed to eliminate the bulge which hit people earning between R20 000 to R80 000 a year, according to commissioner Dennis Davis.

The recommendations mean that everyone earning above a level of R250 000 a year will pay less tax.

The result, and what it will mean for the man in the street, is reflected in the table below.

At the same time, tax will be increased for those who have the fringe benefit of a car allowance, or whose retirement annuity contributions or pension fund contributions substantially decrease their tax paid.

Some examples of significant tax savings include unmarried persons who earn R140 000 a year. At present they pay R46 200 in taxes, whereas the new tax structure would reduce this by R5 040 a year.

Katzing flak for rushed taxes

(320) WM (BM) 15-22/12/94

From PAGE B1

retirement funding is a complex issue, and the subject of an investigation by the Mouton Commission — and recognised as crucial in a country where the burden of providing for the aged is already great.

"One should not look at any tax treatment of retirement funding in isolation," warns Old Mutual personal finance expert Abrie Meiring.

Left out of the commission's inquiries, for example, is the question of the tax-free treatment of the lump sums paid out on retirement.

Meiring says there could have been a cap on the tax-free treatment of the benefit on retirement. He also finds an anomaly between leaving "defined contribution" provident funds, which it says have become fiscally priveleged savings accounts, undisturbed, while denying income tax-deductibility for "defined benefit" funds.

Marius van Blerck, of the South African Fiscal Commission, considers the logic faulty behind the taxing of car allowances more heavily.

There should, he says, be a proper balance between the two so that one can take a normal economic decision about which is better.

The report notes: "The rapid growth of car allowances in remuneration packages indicates they are an attractive form of fring benefit, especially for employees who do not regularly use a car for business purposes."

Van Blerck says the present system is marginally biased towards company cars and against car allowances.

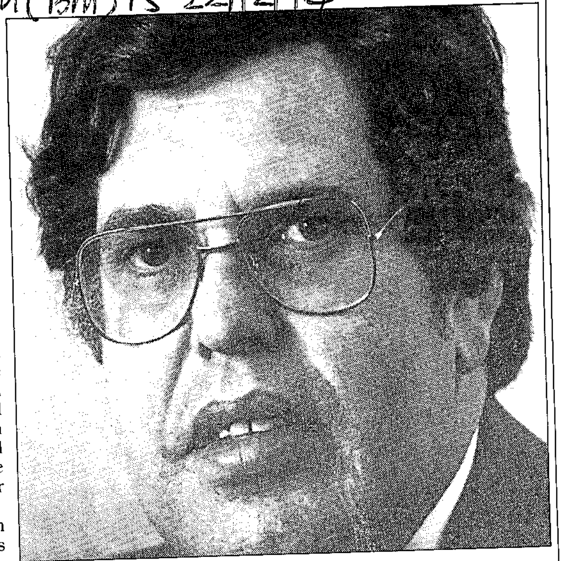
However, most employers appear to have opted for car allowances, not because it favours the employee, but because the company can avoid administrative hassle while giving employee more choice.

The report says: "The commission does not believe that the tightening up of the provisions relating to car allowances will precipitate a switch to company car schemes, the administrative disadvantages of which are by now well known to employers."

It does not advance any evidence this will not happen. Indeed, say Van Blerck, companies are likely to come under pressure from employees to switch. And then when, as promised, Inland Revenue reverses the bias, they will no doubt be forced to switch again.

Meiring thinks it was a "quick fix" get R500-million for the state and is not backed by substantial research.

Kessel Feinstein partner Beric Croome thinks the presumptive tax is more of a nuisance than anything else. The whole thrust of the report is to increase administrative efficiency in tax collection, he says, but this tax increases complexity.



Chairman Michael Katz: Proposed 'presumptive' tax severely criticised

WHAT THE PROPOSED CHANGES MEAN TO THE MAN IN THE STREET

CURRENT CLASSIF	TAXABLE INCOME	CURRENT TAX PAYABLE	PROPOSED TAX PAYABLE	DIFFERENCE
[illegible]	30 000	3 575	2 700	-875
(Note 1)	75 000	20 375	19 650	-725
	140 000	48 275	46 200	-2 075
	180 000	65 475	63 900	-1 575
MARRIED WOMAN	30 000	5 950	2 700	-3 250
	75 000	23 350	19 650	-3 700
	140 000	49 350	46 200	-3 150
	180 000	65 350	63 900	-1 450
UNMARRIED PERSON	30 000	4 900	2 700	2 200
	75 000	23 290	19 650	-3 640
	140 000	51 240	46 200	-5 040
	180 000	68 440	63 900	-4 540

The above calculations do not take into account the transition levy or the effect which the proposals of the Katz Commission, if accepted, will have on the calculation of the taxable income of an individual taxpayer.

(Note 1): For every qualifying child the current tax is reduced by R100.

Some dodged tax facts

FROM the commission's report are some startling facts about uncollected taxes:

- At the end of February some 68 percent of company tax assessments were outstanding.
- Some R9-billion in outstanding tax, interest and penalties was owed to the Receiver at the end of September 1994, and 150 000 VAT audits were in arrears.
- The "tax gap" in South Africa between taxes actually collected and those which should be collected is estimated at no less than R21-billion, or 20 percent — between the 10 percent norm of industrialised countries and the 33 percent usual in the Third World.
- The value of VAT evasion presently under investigation includes more than R100-million from just four cases.

Katzing flak for a few rushed taxes

WM (BM) 15-22/12/94

(320)

The Katz tax commission mostly makes sense, but some recommendations seem to have been hastily arrived at, reports **Reg Rumney**

Most recommendations of the Katz tax commission were hailed by commentators this week — with some bothersome exceptions that pointed to hasty decisions and gave the impression of tinkering with the system.

Under fire are proposals to:

● Limit pension fund and retirement annuity contributions.

● Increase the taxing of the car allowance fringe benefit.

While not punitive, these have been slated as basically unthought-out.

Severely criticised was the proposed "presumptive" tax on companies. This taxes companies on the basis of their gross assets, and though at a low rate — R15 000 for every R10-million of assets — has been slammed as a wealth tax in disguise.

Universally hailed are:

● The merging of the discriminatory three-rate structure into one tax table for married persons, married women, and unmarried people.

● The personal income tax relief for middle-class individuals.

● The strong emphasis on improving tax collection.

The commission had about three-and-a-half months to report. Not surprisingly, it avoided dealing with larger issues of tax reform, such as the People's Endeavour suggestion to Reform Taxes so that income tax is completely replaced with a consumption tax.

It left until a later date matters such as a capital gains tax, and the abolition of secondary tax on companies which has been slated as adding to South Africa's international uncompetitiveness — it did recommend scrapping non-resident shareholders' tax, also unpopular with foreign investors.

It recommends no change, for now, in the Value Added Tax rate or the way it is implemented. The union movement has criticised VAT as regressive and called for more basic items to be zero rated. The commission instead plumps for targeted poverty relief and suggests that zero-rating of some items be scrapped as the reconstruction and development programme takes off.

The commission's report does deal in detail with the constitutionally correct need for a non-discriminatory rate of tax, and provision of relief from fiscal drag bracket creep — whereby inflation pushes taxpayers into ever higher salaries and therefore tax brackets.

The personal income tax recommendations, if accepted by the government, will roll back slightly for the first time in years the effects of inflation. It does not ensure that in coming years government will avoid the boon of fiscal drag.

The commission said imposing some sort of legal limit on taxes or government spending should be investigated. It did not accept the South African Chamber of Business proposal that the government be required to account specifically for inflation every year.

Where the commission did lay itself open to charges of tinkering is on clawing back some of the R3-billion in tax revenue lost through its reforms.

Clearly, the simplest way of doing this, and of ensuring the informal sector pays its share, is to raise VAT. Just as clearly, this would be an unpopular move. The commission resisted political pressure to zero-rate more basic items than are already zero-rated.

It also held back from taxing employer contributions to medical aid schemes. This would have netted R2-billion, but would have been a dramatic step in the light of the present state of health care.

It is hoped some of the money will be raised through the increased efficiency of collection brought about by the commission's recommendations. The commission believes shaking up customs and excise and inland revenue could bring in at least an extra R5-billion tax a year, and recover more of the arrears of R9-billion now outstanding. Reforming customs and excise and inland revenue will take time.

To bring more people into the tax system the commission relies on a tax amnesty and the required use of a tax number in dealings with the state.

To recover some of that R3-billion immediately the report suggests:

● Scrapping the outdated child rebates to bring in R600-million.

● Phasing out or more carefully targeting the old age rebates, which cost the country R200-million.

● Taxing the car allowance fringe benefit more heavily, and capping the vehicle value allowed at R150 000. A gain of R600-million is forecast.

● Limiting the tax-deductibility of contributions to pension funds and retirement annuities. This is likely to garner R200-million.

The proposed cap on contributions to pension funds of R9 000 may seem reasonable, but Val Davies of Ernst & Young points out that if it is not regularly adjusted for inflation it will soon be a severe limitation on the ability of individuals to fund their retirement. The same applies to the cap of R27 000 on contributions of retirement annuities.

Perhaps even more pertinently,

■ To PAGE B3

Star 15/12/94

Government revenue up, spending down

BY CLAIRE GEBHARDT

Government spending increased by a lower-than-expected 8,5 percent in the first eight months of the year — well ahead of the budgeted 10,2 percent, the Finance Department said yesterday.

Total revenue is also set to end the fiscal year ahead of budget.

But the R2,5 billion allocated to the RDP remains unspent.

Total exchequer issues for the eight months were R87,097 billion, against a budgeted R135,1 billion for the year. November's receipts of R8,2 billion were reduced by R461 million because of a banking error in October.

Total revenue received for the first eight months was well above expectations — 16 percent up on the previous year at R68,776 billion, compared with a budgeted 12,9 percent.

Total income tax receipts for the first seven months were 18,6 percent higher than 1993/94 figures.

B201

Receipts from VAT were 15,5 percent higher, against a budgeted 15,3 percent, and net receipts from Customs and Excise were 3,9 percent higher (budgeted 2,6 percent).

Edey Rogers consultant Edward Osborn said yesterday the figures looked exceptionally good, but that things could change in the last quarter.

"The deficit for the eight months is R18,3 billion against a forecast R29,3 billion for the year. As far as expenditure is concerned, the interest has been grossly under-estimated in the Budget and this will come through in the second half.

"On the revenue side, the 5 percent levy will augment figures in the second half."

Life assurers slate Katz proposals

(320) BD 15/12/94

EDWARD WEST

CAPE TOWN — Life assurers yesterday slated the Katz proposals on retirement benefits, with an Old Mutual expert saying they were incoherent and had failed to adopt a holistic approach to retirement provision.

Life Offices Association executive director Jurie Wessels, who threw the LOA's weight fully behind Old Mutual's views, said the proposals had not been thought through correctly and were inconsistent with other SA retirement funding authorities. Considerably more discussion was needed on the issue.

Old Mutual Employee Benefits assistant GM Chris Newell said because of the commission's failure to view retirement fund taxation in a broader context the proposals would, if implemented, aggravate discrepancies in the tax treatment of pension and provident funds and fail to address disparities between private and public sector funds.

He criticised the commission for recommendations which discouraged employees from making provision for their retirement. As a result, the state would have to carry an added burden because of people setting aside insufficient funds.

"While the capping of tax deductible contributions to retirement funds is not opposed, much depends on the level of the limits set. The proposals are for rand amounts rather than percentages, and history shows that once imposed, authorities tend not to review these limits to compensate for inflation."

The commission's proposal that employer contributions be limited to twice the aggregate of employees' capped contributions would discourage the funding of deficits and benefit improvement provisions.

Newell said: "Instead of bringing clarity to the issue of developing a single retirement fund vehicle, the commission makes matters worse by introducing a further variable in its recommendation that employer contributions to defined benefit provident funds be denied tax deductibility for tax purposes."

The tax treatment of benefits from pension funds, retirement annuities and provident funds were a significant source of "tax arbitrage". The addition of another dynamic would compound the problems and could result in the collection of less tax revenue, he said.

"The whole issue of the tax-free status of lump sum benefits from state schemes is a further point of inequity," Newell said.

The commission appeared to favour defined contribution provident funds by proposing that the tax position relating to them remain unchanged — in spite of describing these vehicles as "fiscally privileged savings accounts rather than genuine retirement funds".

This approach favoured the movement to defined contribution provident funds where members carried the investment risk.

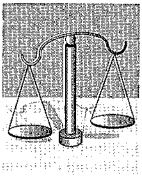
In addition, the implication of leaving these funds undisturbed, while at the same time shackling pension funds and defined benefit provident funds, was that the commission appeared to favour lump sum benefits.

KATZ COMMISSION

FM 16/12/94

Sensible, but dangers lurk

The commissioners did not need to anticipate the politicians



There is a fundamental flaw in the Katz Commission's often sensible recommendations on tax reform. It has a strong bias towards what the commissioners believe will be politically convenient for the ANC government.

It is not a single-minded endeavour to produce for this country the most economically efficient tax system.

The danger when tax commissioners allow political judgments to influence their thinking, is that utility is sacrificed to expediency and the outcome is invariably a progressive misallocation of scarce resources. If that is what the politicians want, they should be seen to bear the full responsibility. The commission's delicate balancing of what it believes to be politically possible with the need for efficiency deprives ordinary taxpayers of the facts they need in order to make up their own minds. And that in turn leads to the entrenchment of spurious notions, such as the belief that equity and utility are ineluctably at odds.

For instance, the need to give tax relief to middle income taxpayers, and the perceived constitutional obligation to iron out gender differences in tax, has led to the creation of a new, unified tax table. It compensates partly for years of fiscal drag when inflation pushed taxpayers in the band of R20 000-R80 000 annual income into ever higher tax brackets.

But to recoup the revenue that would be lost in this way, the commission has dug around among existing taxes without enlarging the tax base to include burgeoning informal sector incomes. It has instead come up with a miscellany of increased taxes, but has hesitated to recommend any changes to Vat or to the tax on petrol — both economically sound indirect taxes.

Some of the taxes proposed could justly be termed insidious, such as the proposed presumptive tax on companies, and are therefore politically dangerous.

The commission evidently believes its hand has been forced on proposing a single unified tax scale for single and married persons, men and women, because of the constitutional provision against gender discrimination. But this is a proposition that requires closer analysis. When the American Supreme Court (which functions as a constitutional court) concluded that school segregation was unconstitutional, it decreed that educational authorities had to move "with all deliberate speed" towards desegregation. This is not the same by any means as instantaneous compliance. There is no basis for supposing that SA's Constitutional Court would be less reasonable than the American court in requiring fiscal compliance with the gender clause in our constitution.

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If the commission is right in supposing that successful restructuring of Inland Revenue and Customs & Excise could generate an extra R5bn of tax annually, not to mention accelerated recovery of the current arrears of R9bn in tax, then various concessions, including gender equality, could be made from a much stronger platform one to two years hence.

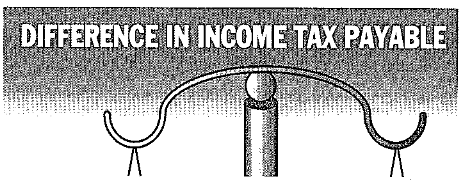
Compensation for fiscal drag is certainly urgent, but not at the cost of introducing other distortions into the tax system, even if they are regarded as temporary. There is nothing more permanent in tax matters than the temporary, as many fiscal precedents demonstrate. Experience has also taught us that there is a risk worse than nonimplementation of a tax commission's sensible recommendations — and that is selective implementation.

The report devotes many pages to analysing all aspects of Vat, but concludes that nothing should be done for the present to change either the rate or the list of zero-rated foods. While we should be grateful that the commission has not yielded to Cosatu's demands for further zero-rating, it has been timid in suggesting that any reinstatement of standard ratings should only be done once focused poverty relief is in place.

An efficient tax system is itself essential to poverty relief. But in any event this is a matter of political and social judgment from which the commissioners should have distanced themselves.

The main thrust of the recommendations is thus the unification of the three sets of tax tables, linked to income tax relief for the long-suffering middle class, for which fiscal drag has had such a damaging influence in real after tax-income in the R20 000-R80 000 region. None of this has come cheap, as the commission was at pains to prevent the unification of the three present tax scales (for married and single taxpayers and married women) from forcing up in compensation the lower income brackets. (See chart and tables).

Coupled to this plan is the proposed reduction in the Site ceiling from R50 000-R30 000 a year. Kessel Feinstein tax partner Ernest Mazansky observes that this will enable all Site deductions to be at one flat rate of 9% — a vast simplification, and one which will assist seasonal and part-time workers as well as bookkeepers at small- and medium-sized firms. These proposals must be read with the revamp of the rebate system. Taxpayers



Current classification	Taxable income in R000's	Current tax payable	Proposed tax payable	DIFFERENCE
Married person	R30	R3 575	R2 700	-R875
	75	20 375	19 650	-725
	140	48 275	46 200	-2 075
	180	65 475	63 900	-1 575
Married woman	30	5 950	2 700	-3 250
	75	23 350	19 650	-3 700
	140	49 350	46 200	-3 150
	180	65 350	63 900	-1 450
Unmarried person	30	4 900	2 700	-2 200
	75	23 290	19 650	-3 640
	140	51 240	46 200	-5 040
	180	68 440	63 900	-4 540

Source: ERNST & YOUNG

Figures are for married people with no child rebate, and do not include transition levy or effect of proposals to curtail travel allowances and pension and RA fund deductions

For each qualifying child reduce current tax payable in table by R100

FM 16/12/94

(320)

should be granted a rebate of R900, reducing to zero at an even rate over the range from R10 000-R20 000 annual income. If the tax rate for this range is 9%, this amounts to a tax threshold of R10 000 and a marginal rate of 18% for the next R10 000.

The overall cost to the fiscus of these simplifications of the present system of multiple rates and rebates (including the child rebate, the abolition of which is envisaged) would be around R1,2bn, which would have to be made up elsewhere in the tax system. If not, there would be an adverse effect on the deficit before borrowing, which is already uncomfortably large. The commission has also recommended a reduction in the number of tax bands, which will over the short run reduce the influence of fiscal drag. Sacob president Les Weil argues the commission has erred in not recommending automatic annual indexation of tax bands to compensate for future fiscal drag.

All this is commendable enough, but it creates the problem of finding compensating revenue. It seems the commission has searched through the rest of the tax system to find areas which could be loaded with extra tax without causing too much distress. Some of these apply to companies, others to individuals in the upper income group.

Commissioners ... *Katz, Mokgatle, Mohr*

These changes have imparted to the report a distinct tilt to the Left. As they stand, these impositions are not onerous, but if they are entrenched and subsequently found convenient to expand, they could undermine the balance of incentives.

The maximum marginal rate of tax recommended is 45% — to be attained at taxable incomes of R150 000. The long-debated idea of a cap on the deductibility of pension, retirement annuity and provident fund contributions has been recommended.

Sacob's Weil says this will inhibit saving for retirement, which is still important in the absence of a social security system. But more than that, it will discourage investment which government is desperately trying to stimulate to create more jobs. To tax thrift is not an intelligent thing.

The commission also recommends curtailments of travel allowances on employees' cars (page 18). Kessel Feinstein tax partner Ernest Mazansky says the commission is being naive in failing to recognise that these changes would result in an immediate switch to company cars from travel allowances.

There is much analysis but not much tangible reform of company tax. The proposal to introduce a tax on gross assets held by companies, CCs and nontestamentary trusts is startling, to say the least, and has justifiably aroused widespread suspicion. The proposed measure, to be called a presumptive tax, would be set at R1 500 a year on every R10m of gross assets, payable at the time of the first provisional payment, and would be treated as a deduction for income tax purposes. The long-term assets of life companies should be excluded.

Weil says the presumptive tax, if introduced, could open the way to a fully fledged wealth tax, to which Sacob is strongly opposed. Mazansky says it is noteworthy that the commission has cited Argentine and Chile as precedents. But it ignores other economic reforms there, such as widespread privatisation and abolition of exchange controls.

The report proposes a one-off tax amnesty, to be available for a limited time to those who come forward voluntarily. Those who do will be forgiven all taxes applicable to periods more than three years in arrear, and taxes within the three-year period will be free of interest or penalties. Those who reject the amnesty because they wish to carry forward losses will be allowed to do so.

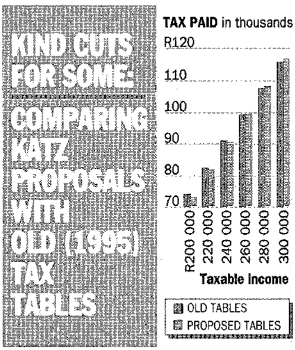
Another useful proposal is to oblige individuals to furnish their tax registration number in a variety of circumstances, such as tendering for a contract with the State, applying for employment with the State or a semi-State, or even registering at a university.

Book-of-life number

Tax consultant Willem Cronje says this is commendable as an interim measure, but SA should aim eventually for the equivalent of the US social-security number, used for tax and many other purposes. Another approach is to key the book-of-life number into the tax system.

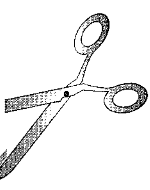
The commission has also drawn attention to transfer pricing as a means of tax evasion (it is of course, also a means of finessing exchange controls). This practice involves shifting the profit on a transaction to a jurisdiction of low or even zero taxes. This is commendable and in line with international practice, but must surely await a time when a restructured Inland Revenue has the resources to apply more sophisticated techniques.

A related issue is "thin capitalisation." This means the financing of a local operation primarily through borrowing, while share capital is modest or even nominal. This is considered disadvantageous for several economic and fiscal reasons. A set of criteria should be established for minimum share capital in relation to debt. Infringement could result in interest on the excess debt being treated as a dividend for tax purposes or denial to the borrowing company of the deduction for the interest



Taxable income in R000's	Old tax tables	Proposed tables	DECREASE/ INCREASE IN TAX
R25	R2 525	R2 250	-R275
50	9 975	9 900	-75
75	20 525	19 650	-875
100	31 075	29 400	-1 675
125	41 825	39 900	-1 925
150	52 575	50 400	-2 175
175	63 325	61 650	-1 675
200	74 075	72 900	-1 175
225	84 825	84 150	-675
250	95 575	95 400	-175
275	**106 325**	**106 650**	**+325**
300	**117 075**	**117 900**	**+825**
325	**127 825**	**129 150**	**+1 325**
350	**138 575**	**140 400**	**+1 825**
375	**149 325**	**151 650**	**+2 325**
400	**160 075**	**162 900**	**+2 825**
425	**170 825**	**174 150**	**+3 325**
450	**181 575**	**185 400**	**+3 825**
475	**192 325**	**196 650**	**+4 325**
500	**203 075**	**207 900**	**+4 825**
525	**213 825**	**219 150**	**+5 325**
550	**224 575**	**230 400**	**+5 825**
575	**235 325**	**241 650**	**+6 325**
600	**246 075**	**252 900**	**+6 825**

Source: ERNST & YOUNG



RESTRICTIONS ON PERSONAL DEDUCTIONS

FM 16/12/94

The Katz Commission has recommended a variety of restrictions on deductions allowed to individual taxpayers:

❑ The deduction for employees' contributions to pension funds (now deductible up to 7,5% of pensionable income) should be capped at R9 000 a year. Higher contributions will still be allowed but out of the employee's after-tax income;

❑ An employer's deductible contributions to a pension fund should be limited to twice the aggregate of employees' capped contributions. Further contributions will still be permitted but without deductibility;

❑ Tax-exempt bodies other than State institutions should be penalised where they contribute to pension funds more than twice employees' contributions;

❑ Employers running noncontributory pension funds should be given a grace period to change their arrangements;

❑ The commission says defined benefit provident funds have been abused for "top hat" schemes, which are designed to give extra retirement benefits to high-earning employees; employer contributions to such schemes should no longer be deductible;

❑ With the unification of the tax tables, the separate rules which apply to married women in relation to retirement annuity (RA) contributions should be scrapped. All taxpayers should be allowed to deduct RA contributions up to 22,5% of their incomes, with a cap of R27 000 (now 15% with no cap). Other bases of deductibility — R3 500 a year minus pension fund contributions or R1 750 — should remain;

❑ Though employers' unlimited claims for the deduction of contributions to employees' medical aid cost around R2bn a year, the commission considered this right should remain, in the light of the bad state of public health services. Does this mean that some reconstruction of the present collapsing medical aid structure is envisaged to rationalise the costly mess?

(320)

❑ The amount of imputed private travel should be increased to 18 000 km a year, from 12 000 km, subject as before to adjustment where the employee keeps a detailed log book; and

❑ The table of assumed costs for business travel should terminate at a vehicle cost of R150 000. Taxpayers who want more expensive cars for business should get no tax benefit from the additional value.

Tax changes may pinch at every level

S I Times (Buss)

18/12/94

By TERRY BETTY

LOWER-income earners may not escape higher taxes if all of the Katz commission's proposed changes are implemented.

From the proposed tax tables it appears that those with earnings less than R275 000 a year will pay less tax.

But after taking into account the abolition of rebates, higher taxes on car allowances and a capping of pension fund contributions, many people face a higher tax bill.

The commission has proposed a single unified table applicable to all taxpayers. The new rates aim to give relief to middle income earners who, through fiscal drag, have been pushed into higher tax brackets.

The commission also proposes reducing the level at which PAYE kicks in — R30 000 from the current R50 000. Those earning below R30 000 will be taxed at a flat 9%.

Tax rebates to be phased out include R2 225 for married people, R900 for married women and R1 950 for unmarried people. The taxpayer also loses the R100 rebate from the tax bill for the first five children, and R150 for every child thereafter.

People over 65 also lose the R2 500 rebate on their tax bill.

The tax benefits for car allowances have been reduced to a maximum of 14 000km, rather than the 20 000km of travel a year for business purposes. This applies only if the taxpayer cannot prove greater business usage. (320)

Employees may not deduct more than R9 000 a year in pension contributions. This affects people earning more than R120 000 a year and is likely to discourage retirement savings.

The Katz report says married women earning under R214 000, unmarried people earning less than R412 000 and most taxpayers earning between R60 000 and R200 000 stand to be taxed more lightly.

Car allowances and pension fund caps are likely to bite most severely in the last category.

This, together with a phasing out of the rebates, more than offsets the gains for many people.

Ernst & Young tax consultant Shirley Farrow has prepared illustrated examples that show even the divorced mother of two earning only R45 000 a year, with no car allowance and unaffected by the pension capping, pays R125 more a year as she loses her R100 rebate per child and her primary rebate of R2 225.

Her effective tax rate is increased only slightly from 15% to 15,3%.

The married woman also faces only a tiny tax increase of R175 a year, with her effective tax rate rising 0,1%. The effective tax rate of her husband, earning the same salary, will rise from 24,1% to 25,8%.

Worst off is the top earning executive, who faces a 4,7% rise in his effective tax rate from 35,3% to 40%.

Even the widowed pensioner feels the squeeze with a 2,1% rise in her effective tax rate to 26%.

Miss Farrow says the calculation assumes individuals maintain their pension contributions. It also does not take the transition levy into account.

She says people who travel between 12 000km and 18 000km a year will have the tax benefit of the travel allowance greatly reduced unless they have kept a detailed logbook of business travel.

The impact will be greater for cars costing more than R150 000 as the proposed expenditure tables are limited to cars at this price. This is likely to encourage more people to use company cars.

Miss Farrow says people who travel great distances for work purposes, such as salespeople, should keep a logbook of business mileage clocked up.

EXECUTIVE
- 3 children, wife not working
- Gross salary R700 000 per annum
- Under 65 years old
- Receives travel allowance
- Motor vehicle cost R150 000

Existing tax payable:	R247 143
Proposed tax payable:	R279 889
Increase in tax payable:	R32 746

PENSIONER
- Widower or widow
- Earns R80 000 per annum (pension and interest)
- Over 65 years old

Existing tax payable:	R19 135
Proposed tax payable:	R20 820
Increase in tax payable:	R1 685

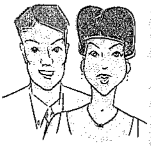
DIVORCED MOTHER
- 2 children
- Gross salary R45 000 per annum
- Under 65 years old

Existing tax payable:	R6 760
Proposed tax payable:	R6 885
Increase in tax payable:	R125

UNMARRIED PERSON
- Gross salary is R150 000
- Receives travelling allowance
- Motor vehicle costs R100 000
- Under 65 years old

Existing tax payable:	R37 036
Proposed tax payable:	R37 276
Increase in tax payable:	R240

YUPPIE COUPLE
no children



HUSBAND
- Gross salary R150 000
- Receives travelling allowance
- Motor vehicle costs R80 000
- Under 65 years old

Existing tax payable:	R36 174
Proposed tax payable:	R38 714
Increase in tax payable:	R2 540

WIFE
- Gross salary R150 000
- Receives travelling allowance
- Motor vehicle costs R60 000
- Under 65 years old

Existing tax payable:	R39 774
Proposed tax payable:	R39 949
Increase in tax payable:	R175

Net effect for couple: R2 715

Graphic: FIONA KRISCH

18/12/94

Pensioners reassured on tax proposals

320

CT 20/12/94

By ARI JACOBSON

SOME alarm seems to have been caused by the statement of the Katz Commission regarding the reduction of primary rebates for individuals, comments Ernst & Young tax expert David Clegg.

Clegg points out moreover that the Commission has deemed that primary rebates should not be applicable for annual incomes beyond R20 000.

"Some elderly individuals have taken that to mean their old age rebates will also disappear, in which case their tax liability would increase, not decrease."

Clegg stresses that one needs to distinguish between primary rebates "applicable to all" — and the old age rebate "which is an entirely different thing — additional to the primary rebate".

Clegg adds that "as far as the old age rebate of R2 500 for persons aged 65 and over is concerned, they (the Katz Commission) merely commented that it should possibly be targeted and might be phased out over a period of time.

"It is clear, however, that it would not be acceptable to do so in such a manner that the burden of tax on the elderly is raised."

Clegg concludes: "If you are over 65 — sleep easy".

Informal sector workers remain untaxed — Seeff

320 1530

Business Staff

THE Katz Commission had made a mistake by tackling salary earners instead of informal sector operators, said Seeff Trust sales and marketing director Andrew Smith.

In South Africa like in other African countries, he said, informal sector operators were often beyond the reach of revenue collectors.

"The amount of money being lost to the fiscus because of non-collection of VAT and income tax on income or sales that is never reported by these privateers must be colossal and immeasurable", said Mr Smith. ARGT 24/12/94

"You never see anybody from the Receiver's office or a City Treasurer's department collecting in the townships.

"They stay away because understandably they are just too scared to police these areas.

"Try and chase away an informal trader from the sidewalk and you have a near riot on your hands."

"Nevertheless they are earning an income, in many cases a very lucrative one, but they earn it with impunity, tax free."

Mr Smith stressed that he was not referring to "the black vegetable hawker sitting on the pavement with a few tomatoes and potatoes", but to traders — black and white — who often carried stock as big as many small shops but managed to avoid paying tax, UIF, medical aid, pension plans, rentals, garbage collection or municipal rates.

The Katz Commission should have tackled this problem instead of going for the "soft target" of higher salary earners, he said.

"In Africa personal income tax is inefficient, focussing as it does on the easily identifiable, soft targets, of salary and wage earners, while the informal earner and casual worker, of which there are hundreds of thousands, escape the tax net, although they continue to enjoy the social services like civil pensions, free health care and education for their children."

Corporate tax too low, claims Cosatu

Star 17/10/94

(320)

BY CLAIRE GEBHARDT

Cosatu's proposal to squeeze more tax out of big business to ease the lot of workers and the poor has angered the corporate world.

Cosatu's submission to the Katz Tax Commission last week argued for a hike in company taxes, either by the removal of some of the current exemptions or by a rise in the general level of company tax.

Basically, Cosatu believes that companies are bearing an insufficient burden compared with international norms because the effective rate of tax is too low.

But companies challenge this view. They say research shows that higher taxes on companies deter investment and lead to a weaker economy and fewer jobs over time.

The proposal could also damage prospects in the global marketplace where other countries are scrambling to give tax incentives in order to promote investment.

And South Africa has few special advantages, apart from its infrastructure, say analysts.

But taxpayers are stretched to breaking point and Cosatu's contention has some merit, says Econometrix director, Dr Azar Jammine.

The share of corporate tax revenues in the national kitty has fallen dramatically from 38 percent in 1980/81 to a budgeted 12,4 percent in 1994/1995, he says.

To compensate, personal income tax has risen from 16 percent in 1980/81 to 40 percent of the total in 1994/95.

In addition, revenue from GST/VAT has had to rise from 12 percent to a budgeted 29,1 percent of ototal tax revenue in 1994/95.

Cosatu points out that large conglomerates such as Anglo American pay an effective tax rate of well below 20 percent.

Anglo group tax consultant, Marius van Blerck, says the biggest single cause of the low "effective tax rate" is that Anglos is a conduit for dividends from group companies.

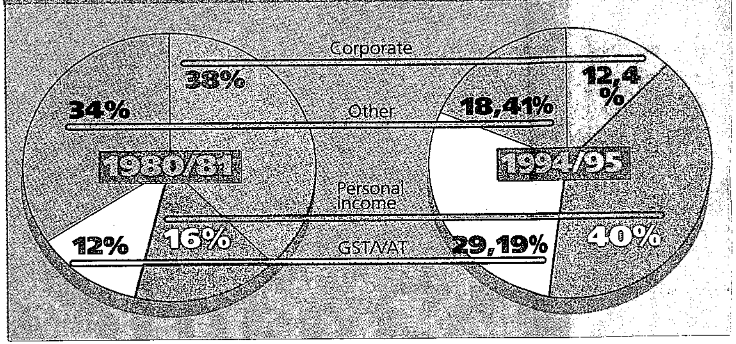
"Although dividends are classified as accounting income they are not taxable income as they are allowed to flow through the corporate system tax-free in order to avoid the economic double taxation of corporate earnings.

"Most advanced economies have one or other system to ensure that such double taxation doesn't exist and South Africa is no exception."

South Africa's combination of corporate tax of 35 percent and a secondary tax on companies (STC) of 25 percent means that the total tax rate ranges from 35 percent, where no dividend is distributed, to 48 percent where the entire after-tax profits are distributed as a dividend

Adding to the companies' burdens is this year's special transition levy of 5 percent.

GOVERNMENT TAX REVENUE



Cosatu tax hike call angers big business

(IHOA) (320)

ARG 17/10/94

CLAIRE GEBHARDT

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Cosatu points out that large conglomerates such as Anglo American pay an effective tax rate of well below 20 percent.

But tax experts counter that effective rates are lower than nominal rates in almost every country and tax allowances in South Africa today are far less favourable than 10 years ago.

They are also significanly below the level of allowances offered by many competitors who start, in many cases, from a base of far lower nominal tax rates.

"Lower effective tax rates are also the result of the recession which has led to losses being carried over from year to year," said one.

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FARMERS MEET ... Agriculture Minister Dr Kraai van Niekerk gives a bale of wool the nose test at a South African Agricultural Union meeting in the city yesterday. With him are the German agricultural attaché, Dr Peter Bohlem (left), president of the SAAU, Mr Boet Fourie and director of the SAAU, Mr Piet Swart. Picture: ALAN TAYLOR

(B) (320)

Tax 'death-knell' for farming

CT 20/10/94

By MELANIE GOSLING

THE South African Agricultural Union has come out in strong opposition to the government's proposed land tax on farms, which some farmers described as the death-knell for commercial agriculture.

At the union's annual congress in the city yesterday, a resolution was passed which unanimously opposed the proposed tax on agricultural land at any level of government.

Mr Hennie Wentzel of the East Cape Agricultural Union, described the land tax as "blatant discrimination" against a sector which was one of the biggest employers in the country.

He said land taxes in other countries had contributed to the stagnation of agricultural production.

"In Zimbabwe the Chelliah Commission found land tax had no merit as a mechanism for redistribution. Nowhere in Africa has land tax been successful," Mr Wentzel said.

Vice-president of the agricultural union, Mr Chris du Toit, said the World Bank had found those countries which taxed agriculture the least had the highest economic growth rate.

Minister of Agriculture Dr Kraai van Niekerk warned farmers at the meeting not to issue the government with demands, but to negotiate.

"You must be careful not to paint yourselves into a corner. 'Never' should not be a word in your vocabulary. If you don't negotiate you can lose your whole case and soon you will find yourselves irrelevant," he said.

Agricultural union condemns land tax

ARGT 20/10/94 (320)

☐ 'Blatant discrimination with political overtones'

JENNY VIALL
Staff Reporter

THE South African Agricultural Union has rejected a tax on land as being financially discriminatory and a ploy to get white farmers off their land.

This rejection, contained in a unanimously adopted resolution, was voiced at the SAAU congress in Sea Point yesterday.

Eastern Cape representative Hennie Wentzel said agriculture had stagnated in many countries in Africa due to land tax.

"The agriculture sector is the backbone of the country and will continue to be — if it's allowed to. Land tax is nothing but blatant discrimination against this sector.

"We say to the government: Wake up! There's no place for a land tax in South Africa."

SAAU vice-president Chris du Toit said there was not one fair argument in favour of land tax, but the arguments against it were overwhelming.

"It's obvious that the land tax has political overtones and has nothing to do with a just tax system or a healthy agricultural policy," said Mr du Toit.

A land tax amounted to nationalisation, Orange Free State delegate Johan Neethling said.

"Farmers must have land to produce, just as factories need machinery. Why is my means of production to be taxed, but not the factory owner's?"

The congress unanimously accepted a resolution stating the SAAU's opposition to a tax on agricultural land as a source of income for the government.

The resolution said any land tax aimed at a redistribution of land to artificially influence the price of agricultural land was unacceptable.

Transvaal delegate Leonard Venter said farmers had to design a strategy to fight the land tax at grassroots level.

Dave Williams, of Natal, cautioned against rushing in and condemning the land tax without first knowing all the facts.

"We are not looking for a system to pay more tax. But we may be able to channel the land tax into the upgrading of our rural infrastructure and reap benefits from a local tax being spent locally. Let us proceed with caution."

Other delegates said they believed land tax was aimed at getting white farmers off the land and bringing people of colour onto the land.

● The congress also passed a resolution that the SAAU fully take part in the development of a favourable environment policy to enable agriculture to contribute to the sound development of the country's economy.

The workings of STC

(320) WM(BM) 21-27/10/94

From B1

What most companies have been doing is avoiding STC by having a capitalisation issue, effectively giving shareholders the option of taking shares instead of cash. This favours the company because it retains the cash, but dilutes the shareholding, so reducing future earnings per share.

While it dodges tax, from the point of view of encouraging investment, it remains neutral: the company still has the cash and will want, in theory, to invest it. Listed companies, particularly, will be under pressure from shareholders to pay dividends or make productive use of the cash.

Some companies, particularly unlisted ones, will hold on to the cash hoping that STC will be abolished. And they will be confirmed in their reluctance to touch the money by rumours that the Katz commission will indeed abolish or cut STC.

A taxing problem

(320) WM(BM) 21-27/10/94

From B1

tax rate to 35 percent, Van Blerck points out the corporate tax rate can't be slashed to next to nothing. The fiscus needs the income.

So what effective rate would be acceptable?

"My gut feel is that 45 percent is the psychological maximum rate, although 40 percent would be preferable," says Van Blerck.

A 45 percent rate can be reached by a slight reduction in STC to 18 percent.

It could be said that tax incentives such as these tackle the problem from the wrong end: the investment climate is more important.

That is the basis of the criticism voiced by University of the Western Cape economist Lieb Loots.

He says, firstly, that the change in corporate tax was not properly thought through. Secondly, he believes that even if it was an appropriate change, the introduction of STC was premature.

"Until investors have regained confidence tax incentives won't really have a significant impact on the economy." In the meanwhile, he says, STC will be exploited, but not for investment, further undermining tax morality.

Loots adds that STC means a loss of revenue to the fiscus which the new government can ill afford. Also, that loss of revenue meant the transition levy had to be imposed, depressing consumer demand at exactly the wrong time.

Because of the length of the recession and the general lack of confidence among investors, consumers have to lead the boom, he considers.

"Consumer demand would have to stay high for a couple of years for firms to recover losses they have endured to get rid of excess capacity." Those firms would need such renewed demand to convince them the boom is enduring and not just a mini-boom of the sort we have had in the past. Only then would they be tempted to increase capacity, and would then need STC to spur them to invest.

The recent increase in interest rates could have been foreseen. The possibility the financial rand would be scrapped was known, says Loots, and that this would upward pressure on interest rates. That the drought would increase food prices and so fuel inflation, which would in turn also put upward pressure on interest rates, was also known.

Yet STC was raised in the last Budget — and corporate tax lowered — while the levy was imposed, making consumers more cautious about spending when they should be digging into their pockets to get the economy going again.

Can STC simply be scrapped?

Loots believes we are stuck with it, which is why he was opposed to its introduction at the time, and that going back to a higher corporate tax rate would send the wrong signal.

Van Blerck points out that chopping and changing the tax system is sometimes more of an impediment to investment than high rates, and that the stability of the tax system is more important.

"It is one thing changing rates. It is quite another abolishing a major system within a couple of years of its implementation."

Taxing problem for the new government

WM (B'm) 21-27/10/94 (320)

Pressure is building to change corporate tax, but it isn't easy as it seems, reports **Reg Rumney**

HARD on the heels of a call by the major union group to raise corporate tax, organised business has called for a change in the corporate tax regime.

The focus of unhappiness is on the tax levied on dividends paid to shareholders, the "secondary tax on companies" (STC).

Lauded when it was introduced two Budgets ago by then finance minister Derek Keys, STC is now suddenly out of favour.

It was used then to lower the basic corporate tax rate while not sacrificing too much tax revenue and encouraging companies to reinvest profits productively.

The Katz commission of inquiry will have to decide what to do about STC and rumours have been circulating that it will be abolished — even though STC is said to be tax expert Michael Katz's brainchild.

The South African Chamber of Business has criticised STC because it can raise the overall tax the company pays to 48 percent. This figure can then pushed as high as 55,8 percent by the withholding tax a foreign investor has to pay. Sacob has called for STC to be lowered to 15 percent or less, calling the present rate a disincentive to new investment.

In looking at the pros and cons of STC, one problem is the results of STC are not easily seen, and research on quantification of how much money has been diverted from dividends to investment has yet to be done.

Nedcor chief economist Dennis Dykes considers the effect of STC unquantifiable, but his impression is that it has not had much effect on encouraging investment.

"Many major companies are fairly cash flush anyway. The problem is not access to funds, but rather the kind of project to invest those funds in. It all goes back to confidence and what's happening in the domestic economy."

A contrary view is expressed Marius van Blerck, of the South African Fiscal Association, who says that in his experience many companies have used the cash generated by STC to invest in plant and machinery.

He believes the real issue is the effective nominal corporate tax rate, that is the combination of the corporate tax rate with STC, is too high.

This effective rate has risen from just under 48 percent to 48 percent — virtually no change.

Because it is much higher than the rate applicable in the countries which compete with South Africa for investment, this concerns foreign investors, he says.

What should be done?

Simply scrapping STC would be the equivalent of dropping the corporate

■ To PAGE B2

How STC works

ONE of the things the Katz commission of inquiry into tax will have to decide is what to do about the tax on dividends — secondary tax on companies (STC). The commission has to report by the end of November.

STC was introduced two Budgets ago to lower the basic corporate tax rate while encouraging companies to reinvest profits productively. Effectively, it fudges the comparison of South Africa's tax rates with those of other countries even more than tax concessions do.

STC was introduced at 15 percent and corporate tax dropped from 48 percent to 40 percent. In the last Budget, STC was raised to 25 percent, while the basic corporate tax rate was dropped to 35 percent.

The way it works, as can be seen from the table, is that if a company decides to pay out all its distributable profits, the addition of STC will mean it is paying the Receiver of Revenue as much as 48 percent.

SLEIGHT OF HAND?

Profit	R100,00
Less coporate tax of 35%	-R35,00
Distributable profit	R65,00
Less STC at 25%	-R13,00
Dividend	R52,00
Total tax take (corporate + STC)	-R48,00
Previous corporate	-R48,00

■ To PAGE B2

Send the helicopters for a loop, Mr Receiver

(320) WM 21-27|10|94

Labour Research Services head **Gordon Young** gives the Receiver of Revenue some free advice on how to make our tax regime fair — and even popular

A PROMINENT, rich businessman tells the story of his visit to the Receiver of Revenue. His request for assistance was greeted with friendly advice to appoint a tax consultant, and to buy helicopters. He bought four and saved millions. Is this the kind of advice that we expect from the government department charged with collecting tax?

A new attitude to tax is needed if the government is to implement the reconstruction and development programme without damaging the productive sectors of the economy.

Forty years of National Party rule have produced a tax regime in dire need of reform. It is truly frightening to see how many obvious loopholes and concessions to special interests exist in the Income Tax Act.

South Africa's published tax rates bear little relation to the tax actually collected. An entire industry has come into being to help people pay less tax. That has several undesirable consequences. Only the well-heeled can afford the services of tax consultants, so only they score from the loopholes.

The ordinary worker has little, if any, scope for tax avoidance: he ends up paying not only his own share of tax, but also the share that his wealthy neighbour has succeeded in avoiding.

Tax loopholes also lead to distortions in the economy. Many economic activities are undertaken, not to produce goods or even profits, but to avoid tax. Numerous aircraft — and our rich friend's helicopters — have been imported into this country solely because they attract a more rapid rate of depreciation. That's a pleasure for cash-rich corporations which would not otherwise think of buying aircraft.

Removal of loopholes and special favours for vested interests would substantially increase the tax base. The government could choose to use the income so gained to spend on the RDP, or reduce basic tax rates. That's especially needed at lower income levels, where the burden increased dramatically under the Nats.

Lower basic tax rates would reduce the incentive to avoid tax, and would confer greater legitimacy on the tax system. The shift in the tax burden from poor to rich — without necessarily increasing the total tax take — would moreover be politically popular and contribute directly to higher net incomes for the poor.

Here are some free tips for the Receiver. Close these loopholes, and tax rates could actually be reduced:

● Place a monetary cap on the tax-free contributions to pension and retirement annuity payments. At present, up to 15 percent of income can be paid to a pension fund free of tax. This gives substantially greater benefits to high-income earners. There is no rand limit at present to the tax-free amount that can be claimed.

The Mouton Committee estimated that this loophole costs anywhere between R5-billion and R8-billion per annum. Great for the insurance industry — but why should insurance companies get special treatment?

Ultimately, the tax-free allowance could be abolished, when pension fund membership is made compulsory (a promise made in the RDP). In the meantime, the tax-free allowance could be capped in rand terms.

Take a tycoon earning R240 000 per annum. His 15 percent contribution to a pension fund would be R36 000, tax-free under present rules. The tax at his marginal rate would have been R15 480. This is the cost to the Receiver of this particular loophole.

By capping the allowance, all taxpayers would still receive an incentive to join a pension fund, but the Receiver would not be subsidising the rich. Cap the benefit at R100 000 salary per annum — the salary of a junior manager. A pension contribution of up to R15 000 would be tax free for all taxpayers. Any additional contributions would come from taxed income.

The saving to the Receiver for our tycoon would be R9 030 each year.

● Car allowances are hugely abused. The Receiver allows a notional 12 000km for private travel. Anything above that can be claimed for. But how much of the claimed kilometres were really for business purposes? The Receiver doesn't know, or care, because no logbook is required.

Solution: enforce the use of logbooks. And require the employer to countersign all entries. That way, car allowances will be claimed only for legitimate business purposes.

● Tax-free car allowances rise in proportion to the cost of the car. So a Mercedes-Benz owner can claim a far higher allowance than a Uno owner. But why should the Receiver subsidise the owners of luxury cars? Nobody needs to drive a Mercedes-Benz to conduct business.

Solution: cap the car allowance at the price of an ordinary saloon car. If people want luxury cars, they should not be able to get a government subsidy for them.

Today, the owner of a basic-model Mercedes-Benz E class could get a tax-free car allowance of R36 960 (on the basis of 12 000 business kilometres pa). Most of that is due to the cost of the car, at more than R160 000.

A modest saloon car — say, the Ford Telstar GL with 2 litre engine — costs just half that. The car allowance could be R21 720.

By capping the car allowance at R80 000 capital value, the Receiver would get extra tax income of R6 553 for every Mercedes E-class owner!

● Another much-abused allowance is the entertainment allowance. Johannesburg has the Receiver of Revenue is paying 35 percent (or more) of every gourmet meal paid for by the company.

Solution: declare that entertainment is not a deductible business expense. When fancy lunches have to come out of taxed profits, we may find that quite a lot less is spent on extravagance at the partial expense of the fiscus.

In Britain, you may claim entertainment expenses only if your guests are foreign — presumably to encourage exports. As Maggie Thatcher said, there are no free lunches.

● A whole government department is devoted to reducing the rate of population growth. The Receiver of Revenue, however, actually rewards taxpayers for having children. A tax rebate of R100 is paid for each of the first five children. After that, the reward goes up to R150 per child.

Perhaps we should follow the British example, where the tax system is not used to support children. Instead, mothers may claim a child allowance from the social security system. That way, the money is more likely to go to the person looking after the child.

● All taxpayers receive a rebate, but a married person (usually the male breadwinner) receives R275 more than a single person. And a married woman receives R1 325 less than her husband, to compensate the Receiver for the husband's rebate!

> Paying income tax is a privilege, one that relatively few people in this country enjoy

Solution: abolish all rebates. In modern society, there is no justification for using the tax system to encourage marriage by favouring men.

● A favourite trick these days is to get your employer to pay for medical aid. In fact, it pays to take a salary sacrifice for the purpose. For the employer, the full contribution to the medical aid scheme is a deductible expense. Medical aid contributions made by employees are not, however, tax deductible (except when they exceed five percent of income).

Solution: treat medical aid contributions as fringe benefit, and tax them at full value.

● Employers try the same trick with provident fund contributions, especially the so-called Top Hat schemes contribution is tax deductible when made by the employer, but taxable in the hands of the employee.

Solution: rule that any provident fund contribution by the employer in excess of that made by the employee is not tax deductible.

● Companies which make losses are entitled to carry those losses forward — that is, to set them off against profits in later years. This leads to numerous distortions. Assessed tax losses actually become assets, and are traded. Companies pass the benefits from one subsidiary to another through transfer pricing. That's illegal of course, but how can it be traced?

A hotel is typically separated from the property company which owns the building. The assessed tax loss at the hotel is passed to the property company which makes a profit, through manipulation of the rent. The end result is that tax is deferred for both companies — sometimes for ever.

Solution: adopt the attitude that profits are taxed, and losses are not. But don't allow losses to be set off against later profits.

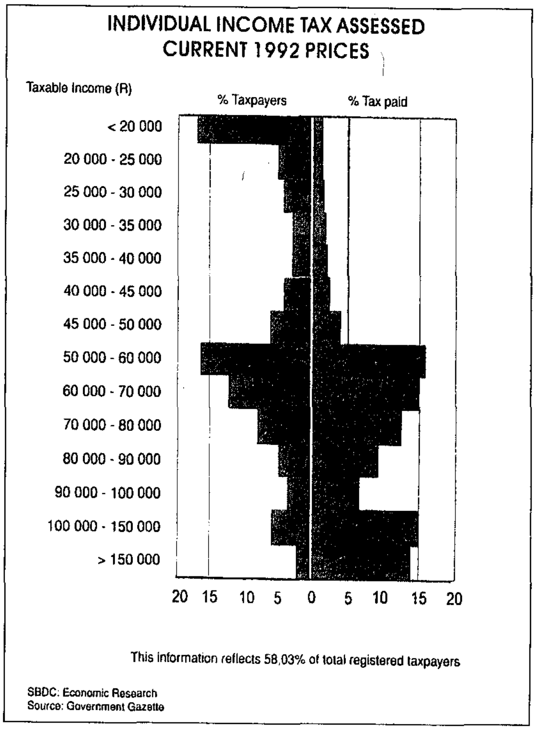
● Numerous reputable companies are offering staff incentives in the form of overseas trips. A phoney seminar is set up to justify it as a business expense. The seminar is usually held on the beach at Monte Carlo.

Solution: prosecute a few leading companies for tax evasion. That will discourage the others.

The Receiver has a powerful weapon for this purpose in Section 103 of the Income Tax Act. This allows the Receiver to declare any transaction or scheme invalid if it was entered into to avoid or postpone a tax payment. More use needs to be made of this power — and the prosecutions should receive a blaze of publicity.

● Civil servants still receive their pension fund gratuities tax free. Other citizens pay tax according to a complicated formula. Why should one class of citizen be treated differently? Taxpayers are already paying for far higher contributions to state pension funds for the benefit of state employees than other employers do for their staff. Abolish this perk!

Paying income tax is a privilege — one relatively few people in this country enjoy. We should count our bless-



As this table illustrates, the ordinary worker carries the greatest burden

Shop parries body blows

The summer row over business ethics has failed to dent Body Shop's profits, reports Roger Cowe

BODY SHOP is taking steps to counter the kind of criticisms which swirled around the cosmetics company during the summer, with changes to the board and independent audits of its social and ethical position.

The company says the furore caused by a United States magazine article has made virtually no impact on the sales, but chairman Gordon Roddick said independent assessment of performance on animal testing, Third World trade and other ethical issues was now seen as essential to deal with criticisms.

A full social audit, which would be published next year, is expected to be announced in the next few weeks, while the company says it has already commissioned an independent review of its controversial animal testing policy by a leading European agency.

The most obvious response to criticism has been on the corporate governance front. Two non-executive directors have finally been appointed, after a search lasting almost two years. They are Penny Hughes, president of Coca-Cola GB and Ireland since 1992, and the retired American Express executive Aldo Papone.

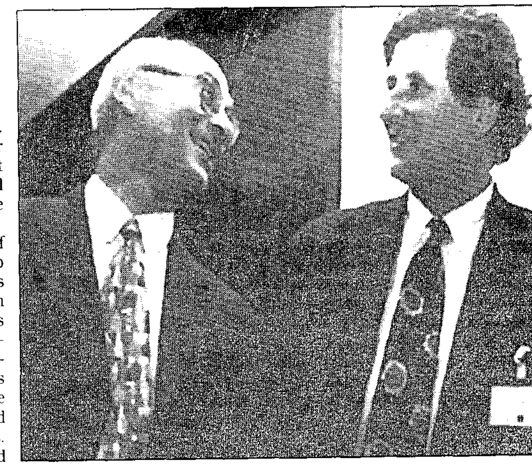
Body Shop managing director Stuart Rose said the board had wanted people who would help the business as well as satisfying corporate governance requirements. He added that three more non-executives were still being sought.

Financially, Body Shop appears to have shrugged off this summer's attack on its ethical performance. Roddick reported buoyant half-year results and exuded optimism about the future despite the ethical row and growing business competition in the US and UK.

Announcing an increase in profits of almost a quarter, he said the group had continued to develop the business internationally and had not been affected by the ethical row. There was a small dip in UK sales early in September, but business quickly recovered. In the US, where the criticisms were taken more seriously than in the UK by ethical investors, there had been no noticeable effect in the shops.

The large increases in sales and profits reflect the group's rapid expansion. In the six months, 83 shops were opened, mostly franchised and mostly outside the UK. There were 29 openings in the US, bringing the total to 199, while there are now almost 700 shops elsewhere in the world after 53 openings.

These openings pushed up shop sales in the US by almost a third, but the underlying trend was down. Sales from shops which were open last year were one percent lower in the half year.



Stuart Rose and Graham Roddick share a smile over Body Shop's profits

The Markets
Jacques Magliolo

Run with the bulls, hunt with the bears

THIS week I decided that instead of hanging around the corridors of the Johannesburg Stock Exchange, consorting with insider traders, analysts deciding on career moves or stockbrokers facing a hail of new regulations, it was time to look to Wall Street for some market advice.

While our analysts are separated from the trading floor and therefore only knowledgeable in shares they have analysed, in the United States analysts are usually experts in several fields.

For instance, here analysts are often prohibited from talking to the public. When queried, numerous reasons are given, but all are nonsensical and simply add up to free advice not being conducive to propagating income for the stockbroking firm.

Therefore, existing and potential investors seem to have nowhere to go but to form their own systems of checks and balances against changing market trends.

Here are some time tested, age-old tips which US experts religiously follow. There are two main rules and two converse rules and these are used primarily as mechanisms to detect sudden changes in bull or bear markets.

- The first rule tells investors to avoid shares that do not move in bull markets. The logic to this rule is based on the general perception that, if insider traders avoid the share, then there must be something inherently wrong with the company. Opinion is that insiders would sell the share if it moved at all.
- The converse of the first rule, to buy shares that do not move down in a bear market, also applies. If a share has strong support during adverse trading conditions, it should provide investors with substantial capital gains when the market does turn. In fact, of all the mechanisms used by experts, this rule provides the best and most reliable advice in stock exchange circles.
- The second rule states that: when a bear market turns to bull, buy the share that has gone down the most and the share that has gone down the least. These may sound contradictory, but an assessment shows investors that the advice is sound as this rule represents the two extremes of the market.

Firstly, shares that have gone down the most are expected to turn with the next bull market and, secondly, shares that have fallen the least obviously have strong shareholder support and should — once the bear market has run its course — move upwards on that support.

- The converse indicates that when a bull market turns to bear, sell the stock that has gone up the most and the least. A share that has rocketed during a bull run will have the greatest potential to fall, while the share that has climbed the least has no support and is expected to fall with the new trend.

Finally, while not a rule, US advisers suggest that investors should buy during strong bear trends and sell during bull runs. The logic is that it is too late to sell when everyone else is, but that shares — during bear trends — display future upward potential.

After all, strong market trends reflect investor senti-

Tax should replace RSC levies

320

CT 21/10/94

Political Staff

PORT ELIZABETH. — The proposed land tax should not be an additional tax, but should replace existing tax such as the Regional Service Council levies, Deputy Land Affairs Minister Mr Tobie Meyer said here yesterday.

Land tax should not affect the productive use of agricultural land.

The system should be acceptable to taxpayers and they should be consulted first, he said.

"People should have the right not to be subjected to tax which would have a confiscating effect or intrude on the use or value of the property."

Sacob calls for move to halt 'taxation by stealth'

(320) (🞄) ARG 25/10/94

Business Staff

SACOB has made an urgent appeal for the Secondary Tax on Companies (STC) to be reduced to not more than 15 percent.

"The combined effect of corporate tax at 35 percent and STC at 25 percent is a disincentive for new investment and therefore a restriction on economic growth."

Delegates to Sacob's (SA Chamber of Business) annual convention in Bloemfontein were told the total effective tax rate could be as high as 48 percent which, for a foreign investor, was then increased to 55,8 percent by the non-resident shareholder tax.

Sacob's Johannesburg branch also slated the tax system as outdated, inefficient and perceived by many to be illegitimate and inequitable.

"It needs to be appropriately revised to meet the needs of the new South Africa."

Sacob said the government had consistently failed to adjust individual tax rates and brackets to compensate for the effects of inflation-induced bracket creep.

"Such taxation by stealth cannot be allowed to continue."

Government was urged togive specific attention to the removal of remaining surcharges on imports and the more frequent adjustment of personal tax rates.

Sacob welcomed the appointment of the Katz Commission with its broad terms of reference.

"Tax reform should form part of a broad economic policy to promote economic growth and the global competitiveness of local business.

"Without economic growth, the aspirations of our population will not be able to be met and, in particular, the objectives of the Reconstruction and Development Programme will not be achievable."

Sacob called for the status of the Commissioner for Inland Revenue to be upgraded and for greater autonomy to be given to his department in respect of staff, salaries and conditions of employemnt to ensure an efficient and cost-effetive administration.

Business pledged its full support for the Reconstruction and Development Programme (RDP).

In a motion proposed by Errol Springer of the Border chamber, the private sector said it accepted its important role in terms of employment creation, human resource development and the provision of basic needs.

Rather than become irrelevant and subject to the "tyranny of the majority", it stood prepared to engage as an equal partner in the decision-making institutions of civil society.

Sacob called on the government to establish regional and local government consultative bodies with strong business representation.

The Sandton chamber urged the government to expedite the process of deregulating the liquid fuel industry.

The elimination of inefficiency had the potential for a reduction in the price of petrol and diesel in the short term.

"A de-sensitisation and partial de-coupling of the price of goods and services from fuel prices should help to bring price increases in other industries into line with true cost escalations."

A lowering of fuel prices would also benefit both output and employment in the motor vehicle manufacturing, transport, tourism and other industries.

National African Federated Chamber of Commerce (Nafcoc) president Joe Hlongwane welcomed Sacob's support for the RDP.

He expected Nafcoc and Sacob to merge into a single body.

"Many obstacles need to be overcome to ensure the full participation of black business in the mainstream economy."

and whether or not they would return to people and damage to property

Tax crackdown

(320) CT 26/10/94

Liebenberg to get tough

By ANTHONY JOHNSON
Political Correspondent

FINANCE MINISTER Mr Chris Liebenberg used his maiden speech in Parliament yesterday to spell out his vision for the new South Africa — lower taxes, inflation at one to two percent and escape from a crippling debt trap.

The new minister's blueprint for economic health and bolstering the RDP includes boosting capital and labour productivity, lowering government consumption expenditure and revamping the country's inefficient tax-collection system.

Speaking in the Senate, during which he was warmly applauded by the ANC and other parties, Mr Liebenberg said the government would make tough proposals soon to implement President Nelson Mandela's programme of "national belt-tightening".

He emphasised he would support Mr Mandela if the President decided to reduce public service salaries — even below the recommended level of the Melamet Commission.

There were only two ways South Africa could reduce its high level of borrowing, which was consuming vast quantities of the nation's wealth: Consume less and sell off state assets — including embassies abroad.

Taxes were "at a level we would not like to see increased" and what was needed were remedies for the inefficient tax-collection system.

"The purpose of a better collection system is not necessarily to get a higher tax-take ... Rather it is to enable us to lower the rate for those who do pay and so create the opportunity for the public to save more," he said.

Mr Liebenberg said the time had arrived for the government to demonstrate it had the political will to carry through fiscal discipline.

The reduction of government expenditure from 22% of the GDP to 17% over the next five years would be painful and require strict discipline.

"About one rand out of every five the government spends goes on debt."

Mr Liebenberg said the Finance Ministry had submitted "an economic vision for the country" to the cabinet, which would be made public soon.

Under fire

It would be founded on stable government, growth and policies geared to creating "certainty".

- The ANC has come out firmly against making any tax changes retrospectively, including to the mooted capital gains tax.

In its submissions to the Katz tax commission, the ANC largely put to rest one of the biggest investor fears.

Property owners, shareholders and investors in other capital assets have been worried that any capital gains they made in past years might be taxed.

- Former finance minister Mr Derek Keys came under fire yesterday in the Financial Times for his decision to move to London to run Billiton for Gencor and for the continuing mystery over his resignation.

VANDAL-PROOF ... The upgraded train prototype (above) with Mr Brian Carver (left) and Mr Piet Marais of Metro. LEFT: Mr Carver in a new coach. Pictures: ALAN TAYLOR

New vandal-proof trains set to roll

Staff Reporter

VANDAL-PROOF commuter trains — with shatter-proof glass windows and rip-proof plush seats — are set to roll in South Africa.

The Cape Times had a sneak preview yesterday of the first prototype coach that will be unveiled to the public next month.

Mr Brian Carver, senior manager of rolling stock at Metro Rail Services, beat his fist against the new coach windows to demonstrate the shatter-proof glass.

"A brick would just bounce off it — but it is not bullet-proof," he said.

ea access to the world's ii- in view of the shortage of approached diplomatically. nity.

made a useful contribution to trade figures.

Investment trusts have edge

■ BY CHARLOTTE MATHEWS

The best-performing investment trusts outperformed the best-performing non-mining unit trusts in the year to September, figures supplied by Intrust and Genbel show.

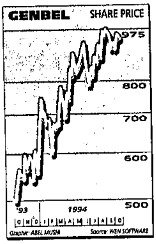
They show that Ettington Investments made a 100,7 percent return for its shareholders, based on a lump sum investment at the beginning of the period and including dividends reinvested and appreciation in the share price.

This was closely followed by Intrust, with 98,5 percent.

According to Genbel, it ranked third, with an 80,8 percent return.

The top-performing unit trust, calculated on the same basis and including initial investment costs, was Norwich with 74,69 percent, followed by Metfund with 53,61 percent and UAL Selected Opportunities with 53,05 percent.

Genbel said yesterday an investment trust offered many advantages over traditional unit trusts. As a closed-end fund, any demand for shares was reflected by an increase in the share price.



Its closed-end structure meant an investment trust could gear — in 1993 Genbel was able to borrow almost R1 billion against the security of the core portfolio.

Intrust investment manager Zelda Zaayman said this gave investment trusts a particular advantage in a falling market, when a unit trust management company might have to sell good investments to pay out its unitholders who decided to sell and would normally be unable to take advantage of buying opportunities.

According to Genbel, it could operate its portfolio without any of the restrictions applying to other managed investments, with no minimum liquidity requirements and the ability to trade in derivative instruments.

This enabled the fund to take a longer-term view on its investment strategy.

Zaayman said the lower costs of an investment trust were a big advantage and had made them one of the most popular forms of investment in the UK.

Against the initial unit trust charges totalling about 2 percent to 7,5 percent, the only costs of an investment trust were the management expenses, 1 percent marketable securities tax and the brokerage fees, which were on a sliding scale, starting at R30 plus 1,2 percent on a R5 000 transaction.

Genbel said its own fund was ideal for a private investor wanting to graduate from indirect equity investments to outright share ownership.

Zaayman said an investment trust was suited to a sophisticated investor who wanted to take a more active decision-making role.

Intrust emphasised that as it focused on second-tier shares and had no blue chips or mining interests, investors should make Intrust part but not all of their portfolios.

A unit trust source said if investment trusts wished to compete with unit trusts they should operate within the same parameters, with the same restrictions on gearing, liquidity and maximum weightings in the portfolio.

The arguments put forward by the investment trust managers made no mention of the risks involved, he said.

Unit trust managers were not allowed to write naked options, but there was nothing to stop an investment trust manager from taking risks in derivatives if it is part of its investment philosophy.

While the price of an investment trust share could rise, the converse was also true, he said, and investors were likely to try and get out of a geared portfolio in an environment of rising interest rates and a falling market.

Polaroid, Electrolux returning

Star

■ BY BUSINESS STAFF

Swedish multinational appliance manufacturer Electrolux and US photographic giant Polaroid are returning to South Africa. 27/10/94

A strong vote of confidence in South Africa and its new direction prompted Sweden's AB Electrolux to re-invest, chief executive officer Magnus Karlburg said yesterday.

Similar sentiments were expressed by senior vice-president of Polaroid Europe, Lee Brewer.

Polaroid, a Fortune 500 company headquartered in Massachusetts, with sales in excess of R7,5 billion, disinvested in 1977 in opposition to apartheid.

Electrolux also disinvested 17 years ago, but the local company has manufacturing plants in Cape Town and Bronkhorstspruit.

Saitex '94

South Africa is poised to be an economic success story by attracting trade and investment to the entire sub-Saharan region, say foreign representatives taking part in this year's South African International Trade Exhibition (Saitex '94).

Speaking at an exhibition preview press conference in Johannesburg yesterday, six of this year's largest participants said international capital viewed South Africa as the pivotal player in the future of the emerging sub-Saharan market.

That fact would ensure the healthy performance of South African business, they said. — Sapa.

Bus industry at crossroads, says Putco chief

Star 27/10/94

■ BY CHARLOTTE MATHEWS

Clarification on second- and third-tier government responsibility for the transport needs of commuters is urgently required, Putco chairman Albino Carleo says in the annual report.

"The issue of bus ownership remains a crucial question," he says. "While there is uncertainty about the future, there is a reluctance by bus operators to make long-term commitments."

The government's decision on subsidies would have a major effect on the viability of bus companies. There was strong passenger resistance to fare rises and it would be even more necessary to have all interested parties agree to acceptable fare structures.

In the year to June, Putco's attributable profits dropped to R17,6 million from R20,4 million previously on turnover up 13,2 percent to R477,9 million (R421,5 million).

Earnings a share fell to 66,4c from 77,2c and the dividend to 38c from 40c.

The group is still faced with the problems of hijacking of vehicles, robberies and violence.

Revenue fell by R4 million owing to the shortfall between the passenger subsidy proposals put forward by independent consultants and final approved figures.

Net fixed assets on the balance sheet amounted to R152,2 million, up from R147,6 million in 1993. The figure consists mainly of the current value of buses at R101,4 million, with land and buildings accounting for R39 million.

Putco shares were at 350c yesterday, compared with their net asset value of 534c a share and their high in June of 430c.

At the current price they show a P/E of 5,3, about a quarter of the sector average of 21,1.

Warning to VAT vendors

Star 27/10/94

■ BUSINESS STAFF

Inland Revenue has warned vendors registered for VAT to be on the lookout for fraudulent export documentation or face having to make up the amount of VAT lost.

Although the VAT system has reduced tax evasion, Inland Revenue says it is concerned about fraud in relation to fictitious exports of certain commodities, in particular sugar, tobacco, toiletries and confectionery.

(320)

"Goods are purported to have been exported, but are in fact being sold to the informal sector or to final consumers in South Africa."

It says a number of evaders have already been identified and investigations have reached an advanced stage.

"Where tax fraud and collusion with the perpetrators of fraud is uncovered, Inland Revenue will have no hesitation in instituting criminal proceedings and civil action for recovery of taxes.

"Additional tax equal to 200 percent of the tax evaded will also be imposed.

Inland Revenue asks vendors to report suspect cases to receivers of revenue.

"Discussions have taken place with tax authorities in neighbouring countries, whose taxes are also being evaded, and a concerted effort is being launched by Inland Revenue in co-operation with the business sector and tax authorities in neighbouring states to identify and prosecute offenders".

Shilowa slated over VAT call

320

ARG 27/10/94

CLAIRE GEBHARDT

JOHANNESBURG. — Of the R1,5 billion it will cost to eliminate VAT on red meat, little more than R300 000 will reach the poor, says Katz Commission member Pierre du Toit.

Mr Du Toit told guests at a Fiscal Association Gala Dinner here that Cosatu's Sam Shilowa would have to explain to the very poor why he wanted to throw billions of rands at the wealthy of Sandton and elsewhere while the poor were dying of hunger.

"And he wants to do this at a time when a democratically elected government needs every cent to make the RDP deliver to those same people."

Mr Du Toit said the commission's chairman had been criticised by Cosatu because he was perceived as being against the zero rating of a growing list of items.

Mr Du Toit said the Katz Commission report, due for release next month, would be no more than an interim report on some pressing issues.

"The real work lies ahead, whether it be this commission, another, or a somewhat changed one."

With the greater time available after November, the process of consultation on tax policy, law and administration would be taken to every corner of the land, to develop consensus in the same way as was done in the economic and political arenas, he said.

Mr Du Toit said two things had already emerged at an early stage of the Tax Commission of Inquiry's work.

The first was that the nation had instinctively assumed that its terms of reference would extend way beyond a few specific issues for purposes of the March 1995 Budget.

"They know that a comprehensive re-look at the very basics of our tax system is required."

Submissions received exceeded those received by the Margo Commission both in terms of depth and in terms of representativeness.

"The system needs to deliver in the context of a broad fiscal discipline and macro-economic responsibility."

TAX POLICY

Fm 28|10|94

Encouraging signals from ANC

320

Submissions by the ANC to the Katz commission on tax policy show how far the organisation has moved from the populist policies that characterised its official entry to the economic debate.

The ANC notes that countries compete to offer a competitive corporate tax rate. It accepts that high rates discourage local and overseas investment. Therefore, the company tax rate (now 35%) should remain at a level competitive with other industrial countries. And it concedes Secondary Tax on Companies (STC) is unwieldy and has already created distortions in the corporate sector, which is turning to capitalisation issues as an avoidance measure.

It argues there are alternative systems for taxing dividends preferable both to STC and the previous system of dividend taxes. This hints at procedures, used abroad, for crediting the shareholder with tax already paid by the company,

Ambiguously, the ANC suggests re-evaluating other forms of corporate taxation, such as the RSC levy. This is a notoriously cumbersome and inefficient tax, which originated in the Nats' problems with local government finance. The rationalisation of local government structures should provide the opportunity to exclude this messy tax by reverting exclusively to the proven, traditional forms of revenue-raising for local government — rates and rationally priced user charges for electricity, water and refuse removal.

The ANC warns that provincial tax surcharges — allowed under the Constitution — should not be so large as to neutralise international competitiveness at the national level. The need for revenue in the lower tiers of government must be subordinate to the objectives of the national tax system.

The ANC is cautious about the heavy tax burden borne by salaried employees and wage earners, which it wants to reduce (who doesn't?). This would include reducing the number of tax brackets and adjusting them regularly to minimise fiscal drag, but also — inevitably — widening the tax base. Free market economists would favour higher indirect taxes — petrol and the VAT rate and tax base.

Instead the ANC shows its left hand on capital taxes, arguing we should rather investigate a broad range of possibilities, including property or wealth taxes, capital gains tax, capital transfer tax, land taxes and user fees.

Rational user fees have to be supported by free market adherents. But they are strongly opposed to a capital gains tax, which is essentially punitive and brings in little revenue at great cost.

This would also go against the successful safe haven rule for protecting share re-

alisations from income tax — which have freed up mining house funds to invest in new projects. The Margo Commission admittedly proposed that existing donations tax and estate duty be rationalised into a capital transfer tax. Provided the rate remains reasonable, this would be less objectionable than capital gains tax, or worse, wealth tax.

Unrealised capital gains accrued before the introduction of the tax would be exempted. But there is — disastrously — no mention of indexing capital gains for inflation.

While the ANC favours a continued role for the private sector in providing pensions and health care, it calls for a fully funded national pension scheme and a national health insurance scheme.

Commendably, it opposes special tax incentives for business. Less commendably, it thinks exceptions might be made and it sees subsidies as a replacement, to be justified annually at Budget time.

All assistance should have a time span, and be continually reviewed for effectiveness. This might require amendments to the procedures for tax returns and more intensive use of computers by Revenue.

Child rebates and other non-targeted deductions for wealthy taxpayers should be abolished, it says. Could this imply a cap on deductions for retirement annuity and pension contributions?

The ANC wants to help small and micro businesses by reducing the administrative and financial burden of tax. It proposes incentives to bring them into the tax system — a wry acknowledgment that they often evade taxes at present. One over-ingenious idea is a smart-card system for tax-registered small businesses, allowing them better access to small business support mechanisms.

This seems impractical. Small businesses can — and often should — operate on the basis of personal trading. More to the point would be a reduction in business procedures for aspirant entrepreneurs, such as licensing requirements. Still better would be to reduce the very real burden on small businesses of the industrial council system and aggressive unionism generally. And the last thing they need is a capital gains tax.

The ANC commendably calls for a review of the zero-rating of foods for Vat. There is more than a hint that this is considered a blunt instrument and that targeted assistance for the poor would be more cost-effective — a point long supported by the *FM*.

As to collection, the document calls for Inland Revenue and possibly also Customs & Excise to be removed from the civil service to improve staffing policies.

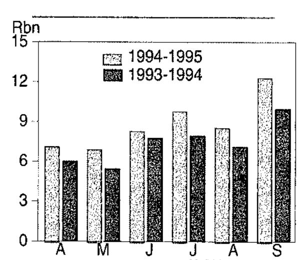
This document is encouraging. But the grey areas in it leave scope for backtracking.

EXCHEQUER FLOWS

Taming the beast

The leap in State revenue in September — Inland Revenue brought in R12,5bn from the previous month's R8,7bn — is a welcome bonus. But it doesn't necessarily mean a significant reduction in the deficit before borrowing — R29,3bn or 6,6% of GDP.

Borrowing costs are likely to be above the amount budgeted. Capital market rates have been higher than the Budget projection. And this week the benchmark long-dated stock, government's R150, edged up further from 16,5% to 16,7%. This followed publication of figures for September imports and exports. The surplus was down



Certain SA tax deductions may be abolished

B/Day 3/11/94

PETER GALLI

CAPE TOWN — The Katz commission on taxation was considering the abolition or scaling down of deductions allowed for a variety of areas such as health care and education, chairman Michael Katz said yesterday.

He told an international investment conference every incentive would be subjected to a cost-benefit analysis. The study would determine whether the incentive had achieved the required goal, Katz said.

Incentives tended to distort the economy and drive resources into specific areas. Unless they could be justified by the cost-benefit exercise, they would be scrapped. The commission was also looking at alternatives to achieving the objectives of incentives to the tax system.

The balance between direct and indirect taxes had to be examined and the old tax system had to be tested against the new paradigms in the country. The constitution prohibited discrimination on the basis of gender or marital status and the tax system had to be investor friendly, facilitate foreign investment, be competitive with global tax systems and encourage trade, he said.

The reconstruction and development programme (RDP) and the associated finances necessary for this would not place inordinate pressure on government's finances.

He said the country's tax system could cope with the demands of the RDP. "Government will benefit from a hugely enhanced tax collection system and I am confident the benefits of the RDP can be obtained."

He described the facilitation of small and medium enterprises as "vitally important".

The commission was also examining the issue of incentives to encourage foreign investment and had held discussions with a variety of people about what had an effect on their investment decisions.

"A World Bank study showed that tax holidays and tax in general were far less important to offshore investors than exchange controls. The most important criterion was whether the after-tax returns were comparable with investments in other countries," he said.

It was very positive to see that democracy had created a willingness of the black population to participate in the tax system as they would benefit directly from its spending.

Minister without Portfolio's office deputy director-general Bernard Fanaroff said government had been talking to most major international banks about its privatisation options, but felt the route followed in Eastern Europe was inappropriate.

Eastern European states had tended "to hand shares out" to underprivileged people. (320)

A company like Eskom was profitable and surplus funds were channelled back into its electrification drive, which benefited underprivileged communities. There was little reason to privatise Eskom.

"But we are looking at other state assets to see that they are run properly and efficiently."

Government was examining its land holdings and buildings and those that were not being utilised effectively would be sold.

The RDP would be used as a tool to force state departments to look at their staff utilisation and resource allocation. It wanted to reprioritise the allocation of state expenditure and was monitoring reformation of the development finance sector and development aid flows so these went through budget procedure.

"We have to finance the RDP out of our own resources and there have to be savings in state spending.

"We are working with the line departments to improve productivity — which will involve the reduction in civil service staff numbers."

President Nelson Mandela had told his Ministers that he wanted a detailed transformation strategy for the next five years from them by December. "The RDP White Paper is being finalised. The public hearings end this week and the paper is likely to be finalised and approved by Parliament on November 15. A more detailed paper will be released next year," Fanaroff said.

See Page 5

'Doesn't pay to be white, female and a single parent

CT. 9/11/94

(320)

From R HILL, (Sea Point):

THE truly disadvantaged person in South Africa today is the white, middle-class, female single parent.

In a comparison in my office, it was found that two women, one black, one white, earning the same salary, ended up with such diverging nett amounts of spending money that I was impelled to write to you.

This is an example:

	Black woman	White woman
Salary	R3 000	R3 000
Net salary (after deducting tax, medical aid and pension)	2 086	R2 086
Rent	-	900
Electricity	-	180
Water	-	30
Telephone	-	120
Travel	150	200
Education	- (bursaries)	800
	R1 936	**R144**

Both women live in "rented" houses. Both have two children at university.

The black lady chooses not to have a telephone, as her children run up large bills.

The white lady needs the phone for work and has a car (very old), used mainly by her children to get to their part-time jobs at night. The black children do not have jobs.

As a responsible member of the community, I cannot bring myself to shirk my rent, rates, electricity and water payments.

I have never qualified for council aid, first-time bonds, or any other sort of financial help, because I have a job with a reasonably salary.

The taxes deducted from this salary support employed people who choose to avoid meeting their service obligations and unemployed people who need welfare support.

Members of the informal business sector are even better off, as they don't pay taxes but get the welfare benefits.

My children did not have free education as, being an anti-apartheid supporter, I thought it very important that they attend private schools where they would mix with children of all colours.

As a white, female single parent, I tried for three years to obtain university bursaries for my children, writing up to 300 letters per year, to no avail, in spite of their excellent marks.

My son, who qualifies at the end of this year, will have enormous trouble getting a job, as he is a white male and every firm wants blacks, preferably females.

At the end of all this responsible self-sufficiency, I end up with a deficit every month and consequently have a huge overdraft, secured by a loan against my mother's house, which puts her at risk in her old age.

It is time that the Government and black people wake up to the fact that blacks are not the only disadvantaged people in this country and that aid opportunities should be donated equally.

Not everyone in this country supported apartheid and we have not benefited from this commitment to equality at all.

In fact, we are worse off than the "disadvantaged" people, as the above comparison shows.

ARG. 11/11/94.

Tax arrears equal entire RDP budget

320.

CLIVE SAWYER
Political Correspondent

ARREARS owed in value-added tax and general sales tax equal the R2,5 billion to be spent this year on the reconstruction and development programme, the national assembly has been told.

Speaking in the debate yesterday on the Taxation Laws Amendment Bill, Willie Botha (FF) said R1,48 billion was outstanding for VAT and R1,2 billion for sales tax. Inland revenue staff should be expanded so that priority could be given to collection.

AR6. 11/11/94

Taxpayers are 'coughing up' too much — DP

(320)

CLIVE SAWYER, Political Correspondent

THE Democratic Party stood alone in parliament in opposing the Income Tax Bill, protesting against what it called continual unjust taxation by stealth.

DP finance spokesman Ken Andrew told the national assembly yesterday the government was taking R6,5 billion more this year than last year from taxpayers' pockets. This was the largest increase so far.

"It is hardly surprising that people are struggling to make ends meet and that our economy is struggling to get going again. People simply do not have the money to spend because the government is taking too much."

Unreasonable levels of personal tax were going to harm the economy because they were a disincentive for some and a justification for tax evasion by others.

This was aggravated by lawlessness. Law-abiding citizens were asked to "cough up" taxes while others indulged in corruption or caused mayhem in the streets, said Mr Andrew.

Deputy Finance Minister Alec Erwin said he was disappointed at the stand taken by the DP.

The party had raised a serious issue but in an inappropriate way. "It was not a useful step," Mr Erwin said.

The bill, which will be voted on later, stipulates tax tables for individuals and makes special provision for the transition levy to be paid by certain companies.

It provides for the transition levy to be paid in the former TBVC states.

Other issues addressed by the bill are the general export incentive scheme and anomalies in foreign exchange regulations as well as the treatment of trading stock for tax purposes.

Theo Alant (NP) said middle to high income earners were worried that the transition levy would not be as transitional as intended.

Noting that R400 million had been spent on the failed national peacekeeping force and that integration was costing R1,5 billion, he said taxpayers were asking whether they had to pay for "the circus at Wallmannstal".

Mr Erwin said it was not acceptable for the NP to criticise the cost of integration because it had to share responsibility for the situation.

Personal tax has doubled, says DP

CT 11/11/94 (320)

By ANTHONY JOHNSON
Political Correspondent

INDIVIDUAL income tax has more than doubled over the past five years — from R19 billion in 1989/90 to more than R40bn in the current financial year.

Democratic Party finance spokesman Mr Ken Andrew told Parliament during the debate on the Income Tax Bill yesterday that the government was doing nothing to alleviate the "unjust exploitation" of middle-income taxpayers.

"The reason for this is simple: It is much easier for the government to allow fiscal drag, or bracket creep, to effectively increase the taxes on individuals silently than to have the guts to announce that tax rates are being increased," he said.

Mr Andrew warned that these "unreasonable" levels of personal taxation would harm the economy "as they will act as a disincentive for some and a justification for tax evasion by others."

He said the problem was being aggravated by high levels of lawlessness. "It is one thing to ask people to pay tax to assist in meeting the basic needs of the disadvantaged.

"It is another thing altogether to expect law-abiding citizens to cough up while others indulge in corrupt practices at various levels of government or create mayhem in our streets and at our universities or refuse to pay for rents and services, or cause unjustified disruption in other people's lives — yet appear to get away with it," he said.

The DP voted against the bill.

Capital gains tax, wealth tax 'on hold'

CT 23/11/94
(320)

By AUDREY D'ANGELO
Business Editor

THERE will be nothing about a capital gains tax or wealth tax in the interim report of the Katz Commission on Taxation, due to be released shortly, one of its members, Dennis Davis, said in Cape Town yesterday.

But, Davis warned, this was only because the commission had not reached a decision yet on several suggestions for such a tax. "It is something on the menu — but not for November."

He assured his audience, however, that any such tax would not be retrospective. "Foreign investors want consistency."

He and the chairman of the commission, Michael Katz, were speaking at a seminar organised by Deloitte & Touche at the Mount Nelson.

Both he and Katz stressed the importance of containing Government spending and the fact that it should be transparent so that taxpayers could see where their money was being spent.

Pointing out that no tax system could work well if Government funds were being stolen, Davis said: "The key to this country's problems relative to fiscal policy is far less on the taxpayer side than in Government expenditure."

He said the tax system recommended by the commission would not be confiscatory.

And, since it could not be out of kilter with the new constitution, there would be big changes in dealing with the Revenue Department. The department would no longer be able to give tax assessments without giving the reasons for them, in writing.

Transitional levy

This would enable the taxpayer to challenge them and, if it was necessary to go to court, to have access to his dossier with the department.

Davis said the tax system would also have to be equitable, giving equal treatment to taxpayers regardless of gender or marital status.

Katz stressed that the 5% transitional levy this year was a one-off measure, that would not be repeated.

He pointed out that "a huge number of people are now in the tax system for the first time."

It would be important to educate them about it. There should be Revenue Department offices in the township, manned by black public servants fluent in the languages spoken there.

And, since the recommendations of the Margo Commission, there had been significant changes in ways of doing business. More plastic money was being used, there were new financial instruments and more use was being made of derivatives.

The elimination of bracket creep would be a huge cost to the fiscus. And one of the greatest problems in SA was the huge inequality in our society. No tax system could be blind to that. The question of poverty relief was hugely important.

VAT was an important issue. Although only 30% of the benefit of zero-rating basic foodstuffs would go to the poor, that was a benefit they would actually get.

Davis said a further complication was that the new regional governments could levy surcharges on company taxes and raise property rates.

W Cape farmers await land tax legislation

CT 4/1/95 (320)

Municipal Reporter

WESTERN CAPE farmers are bracing themselves for a new land tax to pay for rural local government structures.

But, depending on how the provincial legislation turns out, the move may not be fiercely resisted.

Western Province Agricultural Union general manager Mr Gert Bosch said yesterday that under the old divisional council system farms had paid rates.

Farm rates had always been far below urban rates.

Under the old system rural property rates had been spent on local services and infrastructure, which "made them acceptable to the farmers".

Under the later regional services council system farms had been levied as businesses.

"We want any new property tax in the rural areas to replace these existing levies and not be added to them," he said.

"We will make our input. We are just waiting for the draft legislation."

Local Government Minister in the Western Cape Mr Peter Marais has said the proposed legislation will be tabled next month during the next sitting of the provincial parliament.

Meanwhile, rural local authority boundaries are being drawn throughout the province, Mr Bosch said.

'Little woman' a big asset to small business

Reports by
AMANDA VERMEULEN

THE spouse of a businessman operating a small enterprise can be his greatest asset, but this fact is often overlooked, according to Momentum Life assistant GM of legal services, Martin Kourie.

"She has the potential to make a significant difference to her spouse's business and their long-term financial planning."

One benefit would be to involve the wife in the business, paying a salary and registering her for tax purposes. Disadvantages to this move had now fallen away.

"Previously, the authorities deemed all pay given by a husband to his wife as still being in the hands of the husband/proprietor. This measure was removed in 1990, and today a wife can become part of her husband's business without their earnings being lumped together and taxed as his."

While small business did not have the same tax advantages large corporations had, there were measures that could dilute their tax conditions. BD 19/1/95

Self-employed people cannot deduct medical expenses before tax, but a husband/proprietor could make it a condition of his wife's employment that she join a medical scheme.

She could then list him as a dependant, securing medical cover while the wife claimed a deduction for medical aid contributions. (320)

Another opportunity was that fringe benefits could be secured by the employee/spouse. The husband could claim the business expense and his wife would pay a favourable tax rate on the perk.

Deferred compensation mechanisms also became available if the wife was employed by her husband. The head of the business could take out a deferred compensation policy on his wife's life, paying premiums each month equivalent to a planned pay-rise. These contributions would be tax deductible by the business.

The spouse would then be entitled to a tax-free R30 000 from the policy with the remainder taxed at the average rate.

Kourie warned that businessmen should not use this approach to reduce an existing salary with the intention of escaping tax.

"The intention is not to reward past services but add incentive for future effort. By using these techniques as alternatives to future pay rises, the businessman would be on safer ground with the Receiver."