TAXATION — 1993

JANUARY — MARCH.

Fuel levy increases expected this year

320

BIDAY 4/1/93

GRETA STEYN

GOVERNMENT revenue from tax on fuel is the only source of income running above budget, signalling there was room for a substantial increase in the tax this year.

Latest available Central Statistical Services (CSS) figures show revenue from the fuel levy rose by 42,7% in the April to October period to R3,9bn. The increase is significantly higher than the budgeted rise of 27,6%.

Economists said the figures suggested fuel consumption was not particularly sensitive to price increases, and that government could therefore comfortably raise the tax on fuel by a significant margin.

Government could opt for a substantial hike in the fuel levy as part of a strategy to keep the VAT rate as low as possible, as a higher VAT rate appeared to have a greater effect on consumption while public opinion against VAT was also stronger.

In the last Budget, levies on petrol and diesel a litre were increased by 8c and 6c respectively. Economists said higher increases than last year could help government avoid another VAT headache.

A substantial increase in the fuel levy would be in line with the stated policy of raising a greater proportion of revenue through indirect taxes.

Indirect taxes accounted for less than 34% of total revenue in the third quarter of 1992, Reserve Bank figures show, from 42,1% in 1989. Taxes on individuals now accounted for about 44% of total revenue.

The CSS figures showed that the income from VAT was running at almost 10% below the previous year's revenue from GST. Economists said the VAT rate should have been about 13% for government to reach the year's revenue targets.

Revenue from tax on companies and individuals was also running well below Budget — up 5% compared with a budgeted figure of almost 17% for the year as a whole.

W/mail 8/1-14/1/93 (320) (1023)

LABOUR BRIEFS

Nactu suggests new taxes

INSTEAD of shifting the tax burden to the poor by increasing Value Added Tax, the government could introduce at least eight other taxes to raise revenue, suggests the National Council of Trade Unions in a report prepared by the Labour Research Service.

The report will serve as Nactu policy at the National Economic Forum meeting next week.

The federation suggests the government tax pension fund contributions and introduce progressive property taxes, rural land taxes, a minimum business tax, a capital transfer tax, a capital gains tax and a tax on interest earned by emigrants. The government should also reintroduce the tax on dividends.

These, together with the proposed increase in the fuel levy announced this week and the luxury tax introduced last year, could raise R15,4-billion. Increasing VAT to 13 percent will only raise R6-billion.

Taxman closes CC route

Star 9/1/93 (320)

EMPLOYERS will soon be obliged to deduct the maximum amount of PAYE withholding tax (48 percent) from the monthly income of those 'employees' who operate through a CC — which is more than the top marginal rate, writes LEIGH HASSALL.

THE TAXMAN has dealt a blow to taxpayers seeking to outwit the PAYE system by selling their services to their employers through a close corporation.

Employers will soon be obliged to deduct the maximum amount of PAYE withholding tax (48 percent) from the monthly income of those "employees" who operate through a CC.

This was the Christmas "gift" proffered to such taxpayers as promulgated in a Government Gazette issued late last year.

The taxman should be particularly pleased that at last he has caught the errant "CC employees" in his PAYE net.

The relevant laws of the new provisions were enacted in 1990 but could be activated only once details had been promulgated in the Government Gazette.

Perks

The new legislation effectively stamps out the abused labour-broking practice where ordinary employees could avoid the monthly PAYE deduction from salaries.

The employer would pay the CC a monthly amount (free of PAYE) for the services of the "employee" — the sole member of the CC.

The CC would then pay the "employee" who in this way could enjoy, among other perks, the timing benefits of a provisional taxpayer.

This practice is fairly widespread, particularly in the computing, engineering and draughting professions.

John Hanssen, director of law application at Inland Revenue, said that in addition to closing off the one-person CC practice, the new laws would spell out in clearer terms the PAYE treatment of all labour brokers.

He added that some labour brokers were not deducting PAYE from payments to their workers to the detriment of those employers who were making deductions.

Hanssen said the new laws would stop the inequity whereby the CC "employees" could deduct certain expenses which ordinary employees could not.

The new provisions are effective from March 1 1993, allowing for a two-month period of grace in which certain taxpayers may apply for a special exemption certificate.

Ernest Mazansky, tax partner of Kessel Feinstein, said the exemption was applicable to those businesses providing the services of individuals, for example a secretarial temping service.

Such businesses should obtain an exemption application form from the local Revenue office.

He added that, other than in exceptional circumstances, the one-person CC selling services to a single client was unlikely to be granted an exemption.

Mazansky pointed out that a business which provided a service, for example bookkeeping, fell out of the ambit of the new legislation as it offered a particular service.

Mazansky advises labour brokers who will not get the exemption to cancel their CC agreements with their employers as they stand to pay substantially higher monthly PAYE provisions.

For example, a computer analyst (married with no children) who earns R120 000 a year will pay an average PAYE of 33 percent — if the analyst continues to be employed by her CC she will effectively pay the maximum PAYE rate of 48 percent on her monthly salary.

The latest move is seen as an effort by the taxman to increase revenue at a time of tight squeeze on Government finances.

Fuel tax on the up and up

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From GRETA STEYN

JOHANNESBURG. — Government revenue from tax on fuel is the only source of income running above budget, signalling there was room for a substantial increase in the tax this year. C 14/1/93

Latest available Central Statistical Services (CSS) figures show revenue from the fuel levy rose by 42,7% in the April to October period to R3,9bn. The increase is significantly higher than the budgeted rise of 27,6%.

Economists said the figures suggested fuel consumption was not particularly sensitive to price increases, and that government could therefore comfortably raise the tax on fuel by a significant margin.

Government could opt for a substantial hike in the fuel levy as part of a strategy to keep the VAT rate as low as possible, as a higher VAT rate would have a greater effect on consumption.

Call for lower corporate tax rate to fuel growth

(320)

ADRIAN HADLAND

PRETORIA — SA's high 48% corporate tax rate was a strong disincentive for investment and was stunting economic growth, Ernst & Young national tax director Ian MacKenzie said yesterday.

Speaking at the Platform for Investment conference, MacKenzie urged government to reduce the corporate rate to 40%, in line with other middle-income economies, in order to improve SA's competitive standing in the international community.

Urgent measures should also be taken to increase the upper personal tax threshold of R150 000 to encourage capital accumulation, to limit tax brackets to four and to avoid fiscal drag, MacKenzie said.

While it was inevitable that VAT would be raised to at least 13% in March and possibly further in the medium term, government should consider instituting a multiple rate system of VAT, MacKenzie argued.

If negotiated politically, the implementation of a multiple rate system would lead to higher incomes from the tax in particular with regard to the "low-visibility" informal sector.

Investor confidence in the SA economy would be significantly boosted if more appropriate personal and corporate tax rates could be established, if the tax base was broadened and if an equitable, legitimate and consistent system of taxation was efficiently administered, MacKenzie said.

"We are not suggesting the immediate implementation of these proposals, but it is vital to set meaningful goals in the transitional period or impair investors' confidence," he added.

BDAY 20/1/93

Vat crunch

(320) CT 15/1/93

Deficit nightmare forecast

By ARI JACOBSON

A HIKE of at least three percent in VAT became a virtual certainty last night after figures showing a shortfall in government income were released.

Although the figures show that the government has kept a tight rein on spending in the current fiscal year, and looks set to end the year close to budget, there was a deficit of R18 billion in the first nine months of 1992/93.

This deficit — the shortfall between government revenue and spending — is already higher than the projected budgeted deficit of R15,9bn.

Economists have warned that spending could end the year about 20% up, triggering a deficit nightmare, but said it was difficult to predict spending in the final quarter — seasonally a period of heavy spending.

A spending spree in the last three months would present a major setback.

Government spending in the nine months to December amounted to about R73bn, while revenues collected totalled about R55bn.

Tax revenues have risen by 4,4% compared with the corresponding period last year, way-off the budgeted rise of 15,7% for the full financial year.

A government spokesman said yesterday that "revenues were stunting the government's ability to fund its activities and this would force even greater control of expenditure, to keep the deficit in check".

Commenting of the figures last night, tax consul-

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Vat (310) CT 15/1/93

tant Mr Godfrey Shev of Kessel Feinsteins said: "It's now commonly accepted that VAT will be increased from 10% to at least 13% in the budget due to be announced in March."

Other tax experts have predicted an even higher rise — to 15%.

Democratic Party leader Dr Zach de Beer said last night that the bills for National Party mismanagement "were finally being presented".

He pointed out that the only solutions to the revenue shortfall were an increase in the VAT rate, which "would be catastrophic", or a sharp decline in government services.

"Either way the masses in South Africa are set to suffer," he said.

The ANC was fundamentally opposed to further increases in VAT "in order to pay for the government's injudicious use of taxpayers' money", ANC spokesman Mr Karl Niehaus said.

He said that when VAT was introduced, the tripartite alliance had said that it would lead to increases in living costs for poor people, "and that is exactly what has happened".

"We also predicted that once introduced the government would use VAT to make up for its ridiculously high expendture."

Mr Shev pointed out that the fall-off in revenues was indicative of tough trading conditions, which had in turn affected company profits and individual incomes.

He added that high level of retrenchments had also affected collections of PAYE.

TIM MARSLAND reports from Johannesburg that Public Investment Commissioners (PIC) has committed itself to lending the government R5bn by March to fund the rest of the deficit.

"We have more than enough cash to fund the deficit," PIC director Mr Badie Badenhorst said.

FW's revenue drive

ARGT 16/1/92. 320

Anti-insolvency measures rile public sector and opposition

PRETORIA. — The president's two-fisted blow — higher taxes and confirmation of no further salary improvements for public servants — has been met with a chorus of indignation from opposition spokesman and public service representatives.

■ President De Klerk's announcement of tax hikes and no further increases for public servants in an effort to get the Budget deficit down has drawn angry criticism from many quarters.

Weekend Argus Correspondent

Mr De Klerk yesterday told a meeting of public servants' groups and teachers' bodies tax increases were inevitable to prevent the country from sliding into insolvency.

Although Mr De Klerk did not specify which taxes would be increased, personal income tax as well as VAT would be affected, according to an informed source at the meeting.

However, Mr De Klerk said the tax status of pension gratuities would not be changed in the coming budget, thus cushioning the effect of higher taxes on public servants who have taken early retirement.

"We will, unfortunately, not be able to avoid a tax increase in one form or another.

"In taking this decision, the government will naturally take into account the fact that the economy still finds itself in a recession. Efforts will also be made to ensure that the growth sectors of the economy are affected as little as possible.

"The approach, therefore, will be calculated and objective, but the ultimate result is inevitable: And the taxpayers will, unfortunately, have to contribute more to the treasury," Mr De Klerk said.

Painting a bleak picture of the economy, Mr De Klerk said the country would become insolvent unless State expenditure were further curbed and addititional revenues secured.

Inflation had dropped to single-digit figures in the past three months — one of the few positive signs in the economy.

Mr de Klerk said the net decrease in State expenditure by personnel reduction and other means had not been "anywhere near enough" to relieve the necessity of fiscal discipline.

Reacting to the speech, Democratic Party (DP) spokesman Mr Douglas Gibson said he was "amazed" at the announcement.

"What does he mean? Is VAT to be increased? If so, at the very least VAT on basic foodstuffs should be abolished.

"If the president is referring to income tax he must be told South African taxpayers are now among the highest-taxed people in the world."

Conservative Party finance spokesman Mr Cas Uys said the higher taxes would lead to higher inflation, and the "ordinary man" would have to foot the bill for the government's inability to apply fiscal discipline.

The National Professional Teachers' Organisation of South Africa condemned the proposed tax increases, saying it would in real terms amount to a reduction in salaries which lower salaried teachers will be unable to cope with.

Mr Casper van Rensburg, deputy chairman of the Public Servants Association, said the association understood the difficult position the country was in and supported initiatives to improve the lagging economy.

However, he expressed concern that the public service was particularly hard hit for carrying the state's debt and felt the salary increases for the past years were inadequate.

FW's 5% shock

(320) CT 16/1/93

By ANTHONY JOHNSON
Political Correspondent

PRESIDENT F W de Klerk warned taxpayers yesterday to brace themselves for "unavoidable" tax increases in the March budget and announced that South Africa's 760 000 public servants would get only a 5% pay increase from July.

He said the "painful steps" were necessary to revive the ailing economy, and warned that unless the economy could be placed on a growth path again "the message will become worse every year".

In a briefing for the Public Sector Employee Organisations in Pretoria, which was also attended by Finance Minister Mr Derek Keys, Mr De Klerk said all South Africans had become poorer "in the past few years" and there was no room now or in the foreseeable future to remove "real or imagined" backlogs in public service pay.

The harsh medicine announced by Mr De Klerk came after predictions that VAT will be increased by at least 3% because of an expected R18 billion government deficit before the March budget and indications by Mr Nelson Mandela that the ANC may call for the lifting of remaining sanctions because of the dire state of the economy.

Mr De Klerk said, however, that despite the "grievous" economic recession and falling state revenues, "considerable new outlays" would have to be made in the socio-economic sphere.

He said the government had already committed itself to spend "considerably more", for example, on "the essential elimination of indefensible disparities in social pensions".

Mr De Klerk said efforts would be made to ensure that the growth sectors of the economy were affected as little as possible.

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He claimed that most people did not realise that South Africa was winning the difficult battle against inflation and that, since September, the country had single-digit inflation of 6%.

"We dare not allow this hard-won prize to slip through our fingers.

"Greater fiscal discipline is necessary — also your and my additional taxes are necessary — to further anchor that which we have achieved. In that lies the medium and long-term salvation of everybody." (320)

Mr De Klerk said that when a country's output failed or it received lower prices for its output, such as gold, there was no way it could avoid becoming poorer.

The long recession had already taken a severe toll of people, firms and industries. Public servants had largely, but not entirely, escaped the traumas. CT 16/1/93

"The measure of sacrifice now being called for will naturally be painful, but the factor of a continuing income and greater job security should outweigh it considerably."

In some departments, like the SA Police, it was imperative to appoint more staff, Mr De Klerk said.

Last night teaching bodies and the Conservative Party condemned the government's decision to increase taxes.

Irish wolfhound be called — wasn't always so big. He wasn't the biggest in his litter at birth, when he weighed only about 500 g. But by the time he was a year old he had grown to a staggering 73 kg.

never had a hassle with the two-year-old wolfhound's temperament. He grew up with her daughter, and has never had problems with children or with the horses she keeps on her smallholding.

protective instincts are aroused.

Nice Blarney, very nice Blarney. Blarney, put the photographer down now Blarney... Blarney!

Taxes must be increased — FW

STAR 16/1/93.

(320)

ROBERT BRAND and DEREK RODNEY

THE State President's two-fisted blow — higher taxes and confirmation of no further salary improvements for public servants — has been met with a chorus of indignation from opposition spokesmen and public-service representatives.

De Klerk yesterday told a meeting of public servants' organisations and teachers' bodies that tax increases were inevitable to prevent the country from sliding into insolvency.

Although De Klerk did not specify which taxes would be increased, personal income tax as well as VAT would be affected, according to an informed source who attended the meeting.

However, De Klerk gave the assurance that the tax status of pension gratuities would not be changed in the coming Budget — thus cushioning the effect of higher taxes on public servants who have taken early retirement.

"We will, unfortunately, not be able to avoid a tax increase in one form or another. In taking this decision, the Government will naturally take into account the fact that the economy still finds itself in a recession. Efforts will also be made to ensure that the growth sectors of the economy are affected as little as possible.

"The approach, therefore, will be calculated and objective, but the ultimate result is inevitable and the taxpayers will, unfortunately, have to contribute more to the Treasury," De Klerk said.

Painting a bleak picture of the economy, he said the country would become insolvent unless State expenditure were further curbed and additional revenues secured. Inflation had dropped in the past three months — one of the few positive signs in the economy.

"Greater fiscal discipline is necessary — and also your and my additional taxes are necessary — to further anchor that which we have achieved."

De Klerk said the net decrease in State expenditure by personnel reduction and other means had not been "anywhere near enough" to relieve the necessity of fiscal discipline.

The Government therefore could not afford to spend more money than already earmarked to improve public servants' salaries. A 5 percent increase had been promised to them last year, and the Government would stick to this promise even though this offer would have been lower if the Gov-

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Taxes

(320)

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● FROM PAGE 1.

ernment had to formulate it now.

With the economy in a recession, public servants should be glad to have jobs at all, he added.

Reacting to the speech, Democratic Party spokesman Douglas Gibson said he was amazed at De Klerk's announcement.

"What does he mean? Is VAT to be increased? If so, at the very least VAT on basic foodstuffs should be abolished.

"If the president is referring to income tax, he must be told that South African taxpayers are now among the highest-taxed people in the world."

Conservative Party finance spokesman Cas Uys said higher taxes would lead to higher inflation, and the public would have to foot the bill for the Government's inability to apply fiscal discipline.

"Three years ago (former Finance Minister) Barend du Plessis said taxes would be reduced, and now the opposite happens," Uys said.

Lessons from death row

FM 22/1/93 (320)

Pierre du Toit is senior tax partner at Arthur Andersen & Associates

The debate on the special Section 37E incentive allowance rages on and is, in turn, part of the larger debate over the desirability of incentives in the tax system. But, with all the policy and political considerations, we should not lose an important technical lesson from the S37E example.

This provision of the Income Tax Act allows taxpayers to write off, subject to Ministerial discretion, certain export-productive capital expenditure in the year in which the money is spent. A taxpayer who does not have the tax base to benefit from the allowance can be issued with a negotiable tax credit certificate. He can sell the certificate to someone with a tax liability and, in this way, turn the benefit to cash.

For a tax incentive — whether or not it is justified on policy grounds — to be economically relevant, it must at least be effective. This touches not only issues of consistency and predictability of incentives (remember the counter-productive tap dance around export incentives) but their practical value to a taxpayer. Through the tax credit mechanism, S37E is at least effective.

The legislator may be reluctant to allow such tax credit certificates to be negotiated too widely on other allowances; after all, it represents a form of tax base trading. But the mechanism could be useful in a group context. A group typically represents an economic interest pool or unit. So a group approach would be based on economic reality.

As long as legislators do not provide a tax credit certificate mechanism to make incentives effective, taxpayers must make the most of the opportunities they have. All plans must, of course, be absolutely legal, but whether the Receiver likes the plan is not our concern. Phrases like "this is not really cricket" are not appropriate in this context.

It often makes sense not to push legal rights to the theoretical limit, though there is nothing morally reprehensible about doing so. But trying to make an incentive effective is not out of line with its legislative objective. After all, it is no different in intent from the S37E mechanisms.

For example, in a group situation, an incentive or allowance may be made effective through an intra-group joint venture or other group transactions. This is in line with the basic objective of making the project viable. Indeed, such an arrangement is probably more in tune with the substance of the group economic unit than the unconsolidated tax system is.

The same could apply in situations between suppliers and customers where there is a valid economic joint interest.

This approach will not protect anyone from anti-avoidance measures.

For such mechanisms to work, care must be taken to protect "normality" and "substance." But let no-one speak of such planning as morally reprehensible. In S37E, the legislator has taken the lead in recognising that an incentive is useless if it cannot be turned to advantage through a tax loss or cash benefit.

Whatever the policy merit of S37E, the provision is a reminder that to be relevant, an incentive must be technically effective. And, within the bounds of the law and strategic decency, it is legitimate to help the legislator achieve his purpose.

'Sweeping tax reforms are needed'

BIDAY 21/1/93.

(320)

LINDA ENSOR

CAPE TOWN — Sweeping tax reforms — including corporate and maximum individual tax rate cuts to 40% on a phased basis — were needed if SA was to meet the objectives of new investment and economic growth and satsify political aspirations, Ernst & Young national director Ian McKenzie said yesterday.

To attract foreign investment, SA's tax rates would have to be internationally competitive, though he did not believe it appropriate to grant new investors tax holidays or exemptions. A tax rate of 30% should be applied to businesses with taxable profits of less than R100 000 a year.

At a presentation on the Frankel Max Pollak Vinderine, Sanlam, Ernst & Young and Human Sciences Research Council study findings, Platform for Investment, McKenzie said tax reform had to be among the instruments used to restructure SA's economy.

"It must not be undertaken in isolation or with the simple objective of raising additional finance in the short term, but must form part of a broad economic policy which will raise the platform for investment," he said.

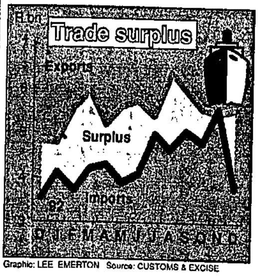
He mooted eliminating the difference between nominal and effective rates of tax by introducing a method to determine taxable income which followed generally acceptable accounting principles, with particular reference to the timing of recognition of income and expenditure.

Group taxation, if implemented, would eliminate "the unproductive time spent by the taxpayer in structuring group operations so as to achieve optimum tax efficiency within commercial and legal constraints and by Inland Revenue in challenging the structures".

McKenzie recommended that the practice of ring-fencing certain transactions be eliminated. While tax-based incentives should be the exception, they would be required in the medium term to encourage investment, and would have to be linked to a targeted plan for industrial development.

One of the aims of the study was to show that the prospects for SA's future were not as dismal as had been forecast.

The findings are to be presented to political and business groups, including the ANC and the Cabinet.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Because of technical difficulties yesterday's trade graph incorrectly showed SA exports declining in December. Customs and Excise figures show exports rose in December to R5,54bn from November's revised R5,45bn, while imports dropped to R3,78bn from R4,44bn.

France and SA consider joint projects

BIDAY 21/1/93.

PETER DELMAR

SA GOVERNMENT officials are negotiating with their French and German counterparts on the possible funding of several multimillion-rand development projects in southern Africa.

A Foreign Affairs spokesman said yesterday senior officials were to meet a delegation from the German economic development ministry this week on joint involvement in infrastructural projects.

This followed "general" discussions the South Africans had with German Development Co-operation Minister Carl-Dieter Spranger when he visited SA late last year.

It is believed the South Africans are particularly concerned about finding foreign backing for the upgrading of the Ressano Garcia road and rail links with Mozambique.

With the end of Frelimo-Renamo hostilities in that country, improving these links has become a priority because of their importance in reconstructing the Mozambican economy. Upgrading is expected to cost at least R50m.

The Foreign Affairs spokesman said talks also had been initiated with the French government on similar projects.

The talks were continuing.

Last year the SA and Italian governments signed a protocol committing the Italians to providing finance, and SA the technical expertise, for projects which are worth about R200m.

Get ready to have your pocket picked

STm 4/1/93.

(320)

Years of economic mismanagement have dragged government finances into a mess. Think-tank researchers believe the 1993 Budget will force consumers to fork out an additional R7,5 billion in higher VAT and fuel taxes to counter the rising tide of national debt, reports MICHAEL CHESTER.

BY SUBTLE hints more than firm commitment, the Government has already alerted South Africans to brace themselves for new tax shocks in the 1993 Budget that will be spelt out on or about March 17.

Increases in the VAT rate from 10 percent to 13 percent or higher — in tandem with moves to abolish the sales tax on basic foodstuffs — have been been mentioned in whispers that have deliberately been made loud enough for everyone to overhear.

Also on the cards may be another upward twist in the fuel levy, bringing new pressures on petrol and diesel prices. No doubt the motive has been to use the rumours as shock absorbers.

What the latest bulletin of the Econometrix research unit sets out to do is explain *why* it now looks almost inevitable that VAT and the fuel levy will be strapped to the whipping post.

In short, it argues, the Budget will be virtually forced to thrash more revenue out of them both to help avert a still further deterioration in a financial crisis that has grown to the worst on record.

But don't shoot the messenger. The new Minister of Finance, Derek Keys, brought in from outside the political arena to use hard-nosed business tactics to try to sort out the mess, may have no alternative.

Econometrix director Dr Azar Jammine concedes the tax increases may be the only treatment at hand to start bandaging the wounds inflicted on the national accounts by at least two decades of bungling and mismanagement.

He thinks it best to come eyeball-to-eyeball with the hard facts — and bite the bullet.

The logic is based on a review of the severity of problems amassed by a government out on a spending binge it should have seen it could not afford, with state debts piling higher and higher.

The 1992 Budget predicted that state expenditure would work out at R101 billion and revenue at R85 billion, leaving a deficit of R16 billion to be borrowed from somewhere, at an enormous cost in interest charges.

Results have turned out even worse than that. Revenues have been running well under forecasts, largely because of cutbacks in spending by individuals and companies alike as a result of the recession, meaning less cash exposed to taxation.

Meanwhile, the cost of maintaining a bloated civil service has spiralled even higher.

Even the Director-General of Finance, Gerhard Croeser, had admitted the critical gap between government income and expenditure — the deficit to be filled in by borrowing at high interest rates — looks likely to soar from an initial estimate of R16 billion to at least R23 billion.

An ordinary South African consumer/taxpayer could easily lose interest when such multiple telephone numbers are tossed around inside the mysterious world of high finance.

However, the Econometrix think-tank, with an unrivalled ability to bring such issues down to earth, underlines the economic repercussions that eventually hit everyone when the Government over-shoots its budget.

For instance, if the 1992/93 deficit proves to be as high as R25 billion, which it suspects is likely, that is the equivalent of no less than 7,5 percent of the sum total of the economic clout of South Africa, which the gurus call gross domestic product.

No more the wiser?

Jammine explains in simple terms the implications if the Government fails to staunch the gush of red ink on the national balance sheet.

The interest charges on total public debt equalled no more than a modest 5 percent back in the 1970s. As government splurges worsened year by year, the public debt had grown to such dimensions that by 1991/92 the interest payments were equal to no less than 16 percent of the national budget.

Jammine estimates the 1993 Budget will reveal interest charges equal to a staggering 19 or even 20 percent of expenditure — the largest single item in the entire Budget, even overtaking the 18 percent allocation going to education.

"It is impossible to go on this way indefinitely," he says. "Unless the Government learns to pull in its horns, especially with cutbacks in spending on a bloated civil service, it will trigger a bout of hyper-inflation that will turn South Africa into a banana republic."

Happily, the new Minister of Finance had already proposed cropping state spending by 3 percent in real terms by reducing the size of the civil service by 30 000, or about 5 percent of all the bureaucrats.

"Even so," adds Jammine, "there is little clarity yet about either the feasibility or the time-scale of such cutbacks and one therefore deduces that revenue will also have to be increased significantly to reduce the budget shortfall."

Derek Keys . . . doing his best to repair the damage caused by excessive government spending.

That turns the spotlight on to taxation.

Econometrix feels it highly unlikely the Government will have the audacity to worsen the income-tax rate on individuals, who had been shouldering an increasingly unfair share of the tax burden.

In any event, even leaving the actual tax rates alone, the Government would rake in an additional R7 billion in the 1993/94 budget year as inflation continued to push more individuals into higher income brackets and all the snags of fiscal drag.

Higher company taxes?

Here again, the researchers point out, the repercussions of inflation on business profits can be relied on by the Government to reap additional revenue — about R1 billion more next year.

Also, a new minimum company tax, which they predict will be reintroduced, should boost revenues by R500 million or perhaps as much as R1 billion.

> *'Tax increases may be the only treatment at hand to start bandaging the wounds inflicted on the national accounts by at least two decades of bungling and mismanagement.'*

They believe a tax on dividends may be reintroduced, though bringing in less than R1 billion. And they feel there is a vague possibility that a tax on pensions may be introduced to raise an extra R5 billion — "but", they add, "it is unlikely such a dramatically sensitive new tax will be introduced by the present Government".

That switches the focus to indirect taxes.

Econometrix reckon there may be further rises in Customs and Excise duties — enough to collect an additional R300 to R400 million from items such as beer and cigarettes. Inflation, however, should net an extra R2 billion.

All in all, if the Government decided to leave all tax rates at current levels, inflation alone could be depended upon to boost revenues and finally net the tax collectors a total of about R89 million.

Unfortunately, that would still leave a huge deficit of around R23 million, threatening to swell to R30 million unless the Government slashed its spending.

It means, argues Jammine, that VAT rates and the fuel levy must be seen as obvious targets in the next budget.

He estimates that a hike in VAT from 10 percent to 13 percent, plus an increase of 15 c/litre in the fuel levy, should bring in an additional R7,5 billion or so. That would trim the deficit down to R16 billion, or a more reasonable 4 percent of gross domestic product.

However, cuts in VAT to zero on basic foodstuffs would cost no less than R1,5 billion in revenue losses. So it was possible that VAT may have to climb even higher than 13 percent on non-essential items, perhaps running to 15 percent on luxuries.

But there could be a backlash for inflation, which optimists have forecast should soon be in retreat.

Econometrix calculates that a 3 percent rise in the VAT rate could lift inflation back higher by about 2,4 percent. Also, an increase in the fuel levy of 15c/litre (equal to a 10 percent rise in petrol prices) would add a further 0,3 to 0,6 percent to the inflation rate.

"It may well put paid to hopes of single-digit inflation by 1994," warns Jammine.

Yet South Africa would face an even worse predicament in the longer run if the government ostrich ducked its head back in the sand and decided to borrow its way out of its problems, and risk the national debt running out of control. □

Squeezing the middle classes

S/Times (Buss) 24/1/93. (320)

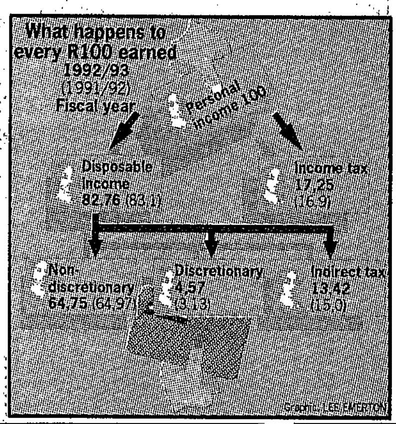
Government is desperately trying to dissolve the National Party's empire of patronage at great cost to South African taxpayers. Comment by CIARAN RYAN.

NO amount of fine tuning the present taxation system will disguise the fact that middle-income South Africans will have to foot the bill for two decades of government profligacy.

An economic model by Econometrix suggests that the average South African's discretionary income could be almost halved as a result of higher income tax and indirect tax payments, trashing hopes for a consumer-led economic recovery or a substantial increase in personal savings.

With Government revenues expected to undershoot spending by between R25-billion and R30-billion by fiscal year-end, the deficit will be between 7% and 8% of GDP.

Fiscal drag — where salary increases push taxpayers into higher tax brackets — will mop up R2,4-billion in income tax in the 1993/4 fiscal year. This is what government will net by simply leaving tax brackets unadjusted for inflation.



Graphic: LES EMERTON

The Government is expected to raise VAT to 13%, at the same time zero-rating certain food items. This will generate an additional R3,4-billion, says Louis Geldenhuys, economist with Senekal, Mouton & Kitshoff. Fuel levies are likely to be raised by at least 10c, raising the pump price by 6% and generating around R1,1-billion for the fiscus.

For every R100 earned in SA in 1992, an average 31% was paid to Government, 17,25% in income tax and 13,42% in indirect taxes. Discretionary income will fall to about 2,65%.

The country is edging towards a dangerously high level of taxation. Who will pay these higher taxes?

Middle class South Africans, of course. Nearly 40% of all taxes collected this year will be paid by the 1,6-million taxpayers earning between R40 000 and R80 000.

A Department of Inland Revenue model shows that a married taxpayer with no children earning R120 000 a year pays about 40% to government. Particularly hard hit will be the 1,57-million taxpayers earning less than R20 000 a year. Fiscal drag ~~means that~~ many of these, who can least afford it, will become first-time taxpayers.

Individual taxpayers, already paying 70% of all income tax, will shoulder an even larger share of the tax burden.

Mines will pay almost nothing and companies will pay proportionately less. Increasing taxes on companies is an indirect way of taxing individuals and, keeping a steady eye on where jobs are created, government will be careful not to kill the goose that lays the golden egg.

Finance Minister Derek Keys is the man charged with administering the bitter medicine. He will, as his predecessors did, grab a larger slice of your earnings in an attempt to settle the apartheid bill once and for all.

But in this he will fail because the country can no longer afford it. The Laffer Curve principle suggests that there is a point at which higher taxes do not produce higher revenues. The economy becomes so over-taxed it goes into decline.

The interest bill on government debt — over R20-billion in the coming year — will become the largest single item of expenditure and reduces the fiscal latitude of future administrations.

Ironically, it is the victims of apartheid who will end up with the bill.

NEWS IN BRIEF

Denard opts to quit SA

BOB Denard, the veteran French mercenary who led coup attempts in at least two African countries, is to leave SA for France, where he faces arrest and a jail sentence, on Sunday.

Denard said in Pretoria yesterday he had received documents allowing him to travel to France.

He was sentenced to five years in prison by a Paris court last year for his part in an aborted coup attempt in Benin in 1977.

Denard said he was returning of his own free will. "I want to clarify my situation, and hear the accusations levelled against me, against which I have never had a chance to defend myself."

Housing exhibition

LOW-cost housing company McNaughton Victor will host the three-day Afribuild '93 exhibition to showcase solutions to the national housing crisis at Nasrec, Johannesburg, from July 30.

Concern over judge

THE General Council of the Bar of SA added its voice yesterday to the concern at news reports alleging Supreme Court judge W H Booysen was a member of the secret Afrikaner Broederbond's executive council.

Bar council chairman Brian Southwood said it was fundamental to the administration of justice that judicial officers not only be impartial but that they be perceived to be impartial.

Funds for education

THE Japanese government has granted R228 500 for educational projects in disadvantaged communities in SA, the Japanese embassy said in Pretoria yesterday.

US house salessoar

SALES of previously owned US homes jumped 5% in December to a 13-year high, helping boost sales for the year 8,7% to the highest level since 1988, a property trade group said yesterday.

REPORTS: Sapa-AFP, AP-DJ, Business Day Reporters.

Govt debt 'will not push up rates'

BDAY 27/1/93

GRETA STEYN

GOVERNMENT's borrowing requirements in the next fiscal year were not expected to put upward pressure on long- or short-term interest rates, economists said yesterday.

They predicted government would not have to borrow more in the next fiscal year than it did in the 1992/93 year, as Finance Minister Derek Keys was expected to announce a deficit of 6% of GDP or about R22bn in the March Budget.

A 6% deficit would be achieved only by raising VAT to 13%, increasing the fuel levy by 10c/l, raising customs and excise duties and possibly increasing other taxes, economists said. They believed it was not possible to cut back enough on government spending to avoid raising taxes, as Sacob suggested this week. The organisation said pinning down the increase in spending to below 7% would obviate the need to raise taxes.

Most economists expect an increase in spending of 8%-10%. Rand Merchant bank economist Rudolf Gouws said it would be difficult to get the increase in spending down to single digits. The state's wage bill would rise by about 10%-11%, in spite of the 5% overall increase in public servants' salaries, because of the effect of notch increases. He doubted Keys could announce an increase in spending substantially below 10% without endangering his credibility.

Without tax increases, revenue would rise by only about 9%, yielding a deficit of R30bn. At 8,5% of GDP, Gouws argued a R30bn deficit would be unacceptable and billions of rands in extra tax would have to be found to bring the deficit down to a more acceptable level. Most economists believed Keys would opt for 6%.

Sanlam economist Johan Louw said a 13% VAT rate with zero-rating of basic foodstuffs would be a major ingredient of a Budget strategy to avoid a deficit of more than 6% of GDP. At R22bn, the expected deficit would not place upward pressure on interest rates as the capital market could easily accommodate that level of borrowings. He said short-term interest rates such as the prime overdraft rate should also not be adversely affected by the Budget, as the deficit would be lower than in the present fiscal year.

Economists are forecasting a deficit in the present fiscal year of about R26bn — excluding extra spending on drought relief. The possibility of huge spending on drought relief being reflected in this fiscal year could push the figure up to R28bn-R30bn.

Shortfall expected in Receiver's income

BDAY 27/1/93.

GERALD REILLY

PRETORIA — Government's tax income problem is worsening by the month, says Absa senior economist Adam Jacobs.

He was commenting on the latest income tax and VAT collection figures released yesterday by the Finance Department, which show the total take from both sources in the April-December period was R44,7bn — R27bn short of the R71,5bn budgeted for the whole financial year.

Income tax revenue in the nine months was just more than R32bn and VAT revenue was R12,644bn.

The Budget expectation for the financial year was R50,484bn from income tax and R21,019bn from VAT.

Although state revenue would be boosted by provisional tax payments next month, it would miss the Budget target by a substantial margin.

The recession's effect on the business community was reflected clearly in shrinking company tax and VAT. In the first six months of the financial year, company tax take was 19% down on year-earlier figures.

Absa estimated that tax income at the close of the financial year would be R9bn below the budgeted figure.

GEIS fraud probe could involve millions

BDAY 27/1/93.

PETER DELMAR

INVESTIGATORS in the Trade and Industry Department and the Office for Serious Economic Offences are investigating cases of alleged General Export Incentive Scheme (GEIS) frauds involving millions.

A department spokesman confirmed the investigations, but said it was impossible to attempt to estimate the amount involved.

It was believed, however, that the department was looking into several dozen cases. The spokesman said current investigations showed the revised GEIS guidelines published late last year had apparently closed many of the system's loopholes.

The guidelines required more detailed disclosure of GEIS claims and attempted to tighten up on the accountability of senior company executives making claims.

"Claimants are (now) much more careful and attentive in completing their claims.

"As claims which have to comply with the revised guidelines are being processed only now, it is somewhat early to arrive at firm conclusions about their effects," the spokesman said.

An Office for Serious Economic Offences spokesman said investigators checking allegations of abuse of the Phase VI vehicle local content programme were also looking at abuses of GEIS.

These GEIS probes were, however, incidental to the Phase VI investigations, he added.

Tax hike would be immoral - PAC

Sowetan 18/1/93

Sowetan Reporter and Sapa

(320)

■ **Liberation groups furious over tax proposal:**

SOUTH Africans, already reeling under an economic recession, would not be able to afford yet another tax increase, said Azapo publicity secretary Dr Gomolemo Mokae in a statement yesterday.

He was commenting on State President FW de Klerk's announcement on Friday that tax increases could be expected this year.

PAC's secretary-general, Mr Bennie Alexander, said the regime had no moral right to increase taxes as it was riddled with corruption scandals and had grossly overspent on its budget.

"The PAC of Azania will not tolerate any tax increases. The unemployment, homelessness, escalated medical costs and increased education fees together begs for a policy of interim relief for the people rather than increased taxation," Alexander said.

Mokae said rather than contemplate a tax increase, the Government should "transform" the health services and "unify" the education system, or they should resign so that a popularly-elected majority government could come into being.

He added that after its 11th national congress held in Port Elizabeth in December last year, Azapo had experienced a "phenomenal surge" in membership.

"We will not hesitate to mobilise this membership against any tax increase."

Alexander said the PAC was "shocked and outraged at the dictatorial decision by De Klerk" to increase taxes during this year and to give civil servants only 5 percent salary increases.

1992/3 BOOKINGS NOW OPEN

Tax increase storm growing

STAR 18/1/93

Staff Reporter 320

Political parties have added their voices to those of trade unions and public servants criticising President de Klerk's announcement on Friday of a likely tax rise and a 5 percent salary increase for civil servants.

ANC spokesman Carl Niehaus said the organisation would oppose any increase in taxes such as VAT which included an increase in the cost of basic foodstuffs. Many people were living on the breadline, he said.

He added that the shortage of funds was a general indication of the country's economic crisis and highlighted the need to reach a political solution as fast as possible to end uncertainty.

He said any efforts to increase taxes had to be on luxury goods, rather than basic foodstuffs.

PAC general secretary Benny Alexander said he was shocked and outraged at the dictatorial decision taken by De Klerk. He added the PAC would use the issue of taxation in a campaign to discredit an interim government of elitist collaborationists.

Azapo publicity secretary Dr Gomolemo Mokae said South Africans were already reeling under an economic recession and could not afford another increase.

Mokae said rather than contemplate a tax increase, the Government should transform the health services and unify the education system, or they should resign so that a popularly elected majority government could come into being.

He said that after its 11th national congress in Port Elizabeth in December, Azapo had experienced a phenomenal surge in membership which the organisation would use to mobilise against any tax increase.

Niehaus said it was wrong for top civil servants and those in Government to give themselves large salary and perks increases, while those lower down faced the same shrinking incomes as others in the workplace.

FW's proposal to raise taxes creates a furore

Sidney 18/1/93 (320)

LLOYD COUTTS

COSATU, the PAC and Azapo warned yesterday that President F W de Klerk's proposed tax increase for this year could place government on a collision course with the three organisations.

De Klerk's announcement of a 5% pay increase for civil servants and a possible tax hike was roundly condemned by political parties, trade unions and civil service employee organisations.

Cosatu spokesman Neil Coleman said the increases would be "another case of the man in the street having to pay for the blunders of government", which should instead be taking decisive action against apartheid expenditure, corruption and state expenditure.

PAC secretary-general Benny Alexander said his organisation was outraged by the move. Government had no moral right to increase taxes and the 5% increase would decrease the income of civil servants in real terms.

"The tax increases will erode even the 5% increase ... we are especially concerned about the consequences of the announcement on black schools, which may be hit very hard by teacher strikes."

CP spokesman Casper Uys described De Klerk's announcement as further evidence of government's inability to manage a collapsing economy.

Azapo publicity secretary Gomolemo Mokae said yesterday his organisation would not hesitate to mobilise its membership against tax increases.

National Professional Teachers' Organisation (Naptosa) president Leepile Taunyane said a tax hike would mean a reduction in teachers' salaries. Thousands of teachers in lower salary categories would be unable to cope with this.

SA's economic and financial ills could not be solved by cutting the state salary bill, and Naptosa would insist on the state taking effective steps to marshall other resources for investment to ensure healthy economic growth, Taunyane said.

Other groups opposed to the hike and the 5% salary increase for teachers included the SA Democratic Teachers' Union (Sadtu) and the National Education, Health and Allied Workers' Union.

GERALD REILLY reports that public sector workers would be disappointed with the 5% pay rise from July, especially as in the past three years increases had been limited to between 6% and 16%.

This was said by representatives of the 18 public sector personnel organisations after discussions with De Klerk on Friday.

A Public Servants' Association spokesman said it was appreciated that government faced an enormous economic problem and needed to cut back on government spending. The president had made it clear that state income had to be increased to close the gap between revenue and spending. De Klerk's assurance that retirement annuities would not be taxed was also appreciated.

● Comment: Page 6

8 JAN 1993

(320) CT 18/1/93

Govt slammed for increase in taxes

Own Correspondent

JOHANNESBURG. — Cosatu, the PAC and Azapo warned yesterday that President F W de Klerk's proposed tax increase for this year could place the government on a collision course with the three organisations.

Mr De Klerk's announcement of a 5% pay increase for civil servants and a possible tax hike has been roundly condemned by political parties, trade unions and civil service employee organisations.

Cosatu spokesman Mr Neil Coleman said the increases would be "another case of the man in the street having to pay for the blunders of government", and said the government should instead be taking decisive action against apartheid expenditure, corruption and state expenditure.

PAC secretary-general Mr Benny Alexander said his organisation was outraged by the move.

He said the 5% increase would effectively decrease the income of civil servants in real terms, if measured against the inflation rate.

"The tax increases will erode even the 5% increase. We are especially concerned about the consequences of the announcement in black schools, which may be very hard-hit by teacher strike action.

"The regime has no moral right to increase taxes as it is riddled with corruption scandals and is grossly overspending.

"The question of taxation will be used by the PAC to launch a campaign to discredit an interim government of elitist collaborationists," Mr Alexander said.

Azapo publicity secretary Mr Gomolemo Mokae said yesterday his organisation would not hesitate to mobilise its membership against tax increases.

Tax hike 'designed not to hurt growth'

320 BDM 18/1/93.

GRETA STEYN

PRESIDENT F W de Klerk had signalled tax increases in the March budget would be structured carefully to avoid a blow to business confidence, economists said at the weekend.

De Klerk, noting that tax increases would be unavoidable, said efforts would be made to ensure growth sectors were affected "as little as possible". He was speaking after meeting government service employee representatives on Friday.

Economists said De Klerk's concern with economic growth indicated that the extra tax burden would be spread thinly across VAT, the petrol levy, customs and excise duties and fiscal drag.

There had been speculation that Finance Minister Derek Keys was to reintroduce the minimum tax on companies after representations from the ANC, but this now seemed out of the question.

Senekal Mouton & Kitshoff economist Louis Geldenhuys expected tax increases to be spread over indirect taxes. While a hike in personal taxes was unlikely, there would be no compensation for fiscal drag.

Even reducing the deficit to 6% of GDP — double the accepted norm — would require an extra tax take of R5bn-R6bn. Most of the increase in revenue could come from a hike in VAT to 13% while certain basic foodstuffs were zero-rated.

A further substantial inflow (just over R1bn) could come from adding 10c to the petrol levy, an increase of 6% in the fuel price. An additional R500m could come from raising customs and excise duties.

Economists said a further source of revenue hinted at was taxing a portion of current pensions contributions. But the Life Offices Association (LOA) had asked government to avoid this course of action.

De Klerk said on Friday government had no immediate intention of changing the tax status of state pension fund gratuities. That means government has rejected the LOA's recent call for the equal tax treatment of lump sum payments between the private and the public sectors.

DUMA GQUBULE reports that some economists warned against tax increases while the economy remained in recession.

Old Mutual's Terrence Moll said he was not convinced tax increases were the best route to solving the deficit.

☐ To Page 2

Unions slam De Klerk's tax plan

STAR 19/1/93.

(320)

19/1/93.

By Brendan Templeton

Opposition to President de Klerk's austerity programme is growing, with more organisations coming out against his announcement of tax rises and a limit of 5 percent in wage increases for civil servants.

Moderate trade unions and personnel associations have joined the Congress of South African Trade Unions (Cosatu) in denouncing the plans.

In statements yesterday, Cosatu and the conservative Teachers Federal Council (TFC) slammed De Klerk's announcement made on Friday.

The influential Public Servants Association (PSA) has also expressed dissatisfaction.

Cosatu said the Government needed to urgently review its expenditure and find better ways of collecting taxes from big business rather than targeting the man in the street.

"Inspired leaks from the Government have tried to prepare the public for the fact that they intend to shift the tax burden on to the individual even further by raising taxes such as VAT, PAYE and tax on fuel.

"No amount of preparation will convince our members or millions of working people to accept that this corrupt and inefficient Government is taking these measures in their interests," Cosatu said.

Measures to stamp out corruption; to eliminate apartheid duplication in the civil service; to stop "golden handshakes for civil servants implicated in murder and corruption"; to curb military spending; and to "drastically reduce salaries of the Cabinet, MPs and other apartheid fat cats" were more urgently needed.

"If (De Klerk) had announced these measures, perhaps this time the battered South African public may have believed that the Government meant business," Cosatu said.

TFC chairman Allan Powell said the salary adjustment was "unacceptable and incomprehensible".

Teachers had made "drastic sacrifices" with previous below-inflation wage increases and "radical" retrenchments.

Further action would be determined after consultation with its members, but the TFC would do "all in its power to prevent a confrontation with the authorities", Powell said.

The PSA has warned that even moderate civil servants could be driven to a point where they would have no choice but to take drastic steps.

The SA Association of Municipal Employees said the limit of a 5 percent wage increase placed "great pressure on the freedom" of industrial negotiations for 1993.

The association's president, Hans Deetlefs, said while civil servants were denied the right to negotiate in terms of the Labour Relations Act, the freeze could affect the position of those who had the right.

DP lashes govt over promised tax hikes

CAPE TIMES (320)

Political Correspondent

19/1/93

THE DP yesterday blamed promised tax hikes by President F W de Klerk on government incompetence and corruption.

DP finance spokesman Mr Ken Andrew said the warning of the increases in the March budget "vividly illustrates the inability of the government to manage South Africa's affairs competently".

South Africans have every reason to believe the proposed increases were "simply another form of ad hoc crisis management", he said.

Taxes boycott threatened

(320) CT 22/1/93

Political Correspondent

THE New Unity Movement-aligned Grassy Park Civic Association (GPCA) yesterday threatened to boycott the payment of taxes used to pay for what it said were the "blunders of the Herrenvolk".

GPCA secretary Mr Ivan Fife said his organisation completely rejected the increase in taxes hinted at by President F W de Klerk last week.

He said it was unacceptable that the oppressed be asked to pay indirectly for the "blunders", such as misappropriation of public funds, maladministration and government propaganda.

"We refuse to pay exorbitant taxes which the government wants to use to finance such actions," Mr Fife said.

He said his community already faced problems such as unemployment and lack of food and homes.

Industry 'needs to be consulted'

'No rush' to tax pension contributions

(320)

BDAY 21/1/93.

LINDA ENSOR

CAPE TOWN — Fears that government would rush to start taxing pension contributions in this year's Budget faded after a top Inland Revenue official yesterday indicated government was not planning hasty action.

Inland Revenue's legal drafting director Ian Meiklejohn said it appeared unlikely that material changes would be made to the taxation of retirement funds in the 1993 parliamentary session.

He said the issue was highly sensitive and account would have to be taken of the legitimate expectations of vested rights. Broad consultation with the retirement industry would be necessary first.

There has been a widespread belief in the industry that measures would be hurriedly enacted this year to generate additional revenue and enable government to equalise pensions between the different racial groups in the March Budget.

Suggestions regarding the taxation of retirement funds were made by Finance special adviser Japie Jacobs last year in his report on the flow of funds between financial institutions.

After the release of the report the Financial Services Board asked financial institutions and other bodies to comment by January 5 on five tax scenarios proposed. About 50 submissions were sent to Meiklejohn for recommendation.

While he had not yet studied the proposals, Meiklejohn said there was a fairly widely held view that the tax allowances on retirement fund contributions were too generous. On the other hand, it appeared there was widespread opposition to Jacobs' suggestion that a portion of pension or provident fund contributions by employers be disallowed for tax purposes.

Jacobs suggested a third of employees' pension contributions be taxed and that 20% of employers' contributions be taxed at the company tax rate. Alternatively, the employers' contribution could be taxed at the average rate of pension fund members.

Meiklejohn said the industry felt employer contributions were a salary cost and therefore a legitimate expense which should be allowed. There appeared to be consensus that total retirement fund contributions should be capped, though no agreement had emerged on whether the cap should be a percentage limit, a cap on benefits or on contributions.

The proposal for an absolute rand cap on contributions would be impossible to implement, Meiklejohn said.

He had reservations about the impact of a cap on tax-free contributions, saying it was not yet clear that this would increase the revenue to the fiscus as the disallowed portion of the contribution could be channelled elsewhere.

Bid to organise tax resistance campaign

STAR 22/1/93.

Staff Reporter 320

Fifteen organisations representing political and church groups yesterday agreed in principle to a national tax resistance campaign.

The Johannesburg meeting hosted by Koinonia southern Africa, was motivated by what national co-ordinator Barry Poppleton described as: "Clear corruption and mismanagement of taxpayers' money by Government departments."

The group plans to launch the tax resistance campaign after a meeting at the end of February which will include business, political, trade union and religious organisations, he said.

The campaign plans to address the need for legislative changes in the Income Tax Act, which would enable corporate bodies and individuals to determine how their taxes were spent."

Campaign seeks alternatives to 'squandering' of tax

Staff Reporter 320

About 30 organisations are due to meet in Johannesburg today to discuss a major tax resistance campaign initiated by the church group Koinonia Southern Africa.

Koinonia said in a press statement yesterday that the reason for the proposed campaign was the "extreme corruption and underhand operations of government departments". STAR 21/1/93

The campaign would give taxpayers "an alternative to having their taxes squandered on corrupt structures", the statement said.

Koinonia Southern Africa national co-ordinator Barry Poppleton said the meeting would be held from 9 am to 4.30 pm in Judiths Paarl.

It would be attended by, among others, political parties, church groups and trade unions.

The statement said participants would decide what part of their taxes they objected to — such as the 21 percent of their money which was paid to the security forces — and to funnel that amount into a "peace tax fund".

Credible trustees would administer the fund and would "spend the interest generated on mandated peace and development projects".

For those who found the prospect of defying the tax laws too daunting, the organisation suggested other forms of protest such as paying the monies in small change or including a letter with tax payments objecting to what the money was being spent on.

Call for gratuity tax parity

S7ar 21/1/93.

3.20

By Shirley Woodgate

Pressure is mounting for public service gratuities to be taxed on the same basis as private sector payouts.

This follows President de Klerk's remarks that taxes would have to rise to balance the March Budget, but that there were no immediate plans to change the tax status of lump sum payments from State pension funds as requested by the Life Offices Association (LOA).

At present public servants are not taxed on pension lump sums, but private sector pensions escape tax only on the first R120 000 of the cash payout.

Pressure to bring public servants in line with private sector taxation has been steadily mounting since the release of the Margo Report several years ago.

But one businessman summed up the situation by saying removal of public servants' present tax benefits was an "instant recipe for revolution".

Mr Justice Margo said his commission had recommended parity in the taxation of public and private sector pensions, but with the proviso that vested interests should be protected.

The South African Chamber of Business (Sacob) is preparing a submission on the question of taxation of pension fund contribitions and receipts, said spokesman Dr Ben van Rensburg.

LOA spokesman Jurie Wessels said his organisation had repeatedly submitted that State pension funds should be taxed in line with private pension funds.

Old Mutual general manager Reg Munro labelled the issue "a very sensitive question" and said the principle of unequal taxation was at stake, not the amount of money that the State coffers had lost through privileged taxation enjoyed by public servants.

"The historic practice dates back to when it was accepted that the public sector was paid less than the private sector but that government servants were compensated by job security and a nice pension fund at the end of their working days.

"But when public servants' salaries were increased, it appears someone forgot to fix the pension funds and now it is difficult to sort out the anomaly because one is dealing with vested interests."

All things being equal, it was desirable that pension taxation should be uniform, said Econometric spokesman Tony Twine.

Democratic Party finance spokesman Ken Andrew said there was no reason why civil servants should have an advantage over the private sector when they retired.

Groups to launch tax protest campaign

LLOYD COUTTS

ABOUT 30 organisations will meet in Johannesburg today to discuss a "tax resistance campaign" to protest against government corruption.

The summit, involving churches, trade unions and political parties, will be held under the auspices of the Christian service organisation, Koinonia, which called the gathering in response to corruption and "underhand" operations.

(320)

"Many feel that paying taxes to a government which is clearly not prepared to be accountable to its people amounts to being an accomplice to the actions revealed in recent months," Koinonia said yesterday.

A Koinonia research document proposed a "direct action campaign" which would allow partial payment of taxes or a complete refusal in order to create pressure.

"Peace tax support groups will be formed . . . offering information, personal support and creative group action ideas," the document said.

B/Day 21/1/93

Metpol warns funds for social projects an 'additional tax'

ARG 21/1/93 (320)

MARC HASENFUSS — Business staff

THE insurance industry could not be expected to shoulder the responsibility for funding 'socially desirable' projects, according to Metropolitan Life.

Chairman Willem Pretorius said in his annual review that although investment in low-cost housing, education and training, job creation and primary health care were highly desirable, the insurance industry could not be expected to undertake such investments at other than commercial terms.

He said such investments with a high risk of loss of capital, and/or at subsidised returns would be tantamount to an additional tax on an industry and its policyholders — already carrying more than a fair share of the tax burden.

Mr Pretorius noted the recently formed Investment Development Unit (IDU) could, in time, provide some answers.

"We look forward to the IDU identifying, analysing and presenting to the industry opportunities to invest in socially desirable projects."

He stipulated these projects should have the backing of the communities designed to benefit from them and provide an acceptable risk/return profile to the investors.

On Metropolitan Life's prospects for the year ahead, Mr Pretorius anticipated another difficult year for new life insurance sales.

He also expected an increase in the number of clients finding it difficult to continue paying premiums on their existing policies.

But he stressed that focus on carefully selected niche markets with needs-based products and services should ensure Metropolitan remained strongly competitive.

"We therefore expect, barring unforeseen circumstances, premium income and earnings will both continue to grow at a healthy rate during 1993."

INCOME TAX

FM 22/1/93

Leave pay threat

(320)

The dispute between taxpayers and Revenue on deductions for leave pay could well be resolved this year by an amendment to the Income Tax Act. If it goes through, those (numerous) companies, which have been allowed a tax deduction for money set aside to meet leave pay claims, would have to write back the deductions in eight annual instalments. The amounts involved total hundreds of millions of rands.

Companies in future would be allowed to deduct leave pay only when the money is actually paid to employees, and not when the right to leave pay accrues to them.

Current Revenue practice is confusing, as some Revenue officers are disallowing leave pay accruals which have been claimed as deductions, while others are permitting them. The difference in treatment has arisen from diverging decisions on the deductibility of leave pay accruals in the Transvaal and Natal Income Tax Special Courts.

Revenue in the past has felt hard done by because employers were creating large accruals for leave pay and claiming the deduction — with great benefit to their cash flow. But tax was deducted from remuneration only when the leave pay was actually paid to employees.

Deloitte & Touche tax partner Philip Dieperink says — on the law as it stands — a company should object, in some circumstances, to an assessment based on a disallowance of a leave pay deduction. That is, if the conditions of employment are such that the employee cannot forfeit his leave under any circumstances. This follows the line of the Natal Special Income Tax Court.

Dieperink says if the law is changed to provide for a phased write-back, much uncertainty would be removed. On the other hand, there would be a trade-off of certainty against erosion of the general principles on which tax deductions can be claimed.

If the amendment to provide for an eight-year write-back period does become law this year, investment analysts in particular will have to investigate — on a company-to-company basis — what damage this will do to earnings. ■

The ghost of taxes to come

(320)

W/Mail 22/1 - 28/1/93

THE spectre of tax increases also added to the weekend storm.

While President FW de Klerk said careful note would be taken of "taxpayer rage", he also emphasised that "the government will not accede to demands to grant no increases whatsoever".

The Congress of South African Trade Unions called De Klerk's announcement "an inspired leak designed to prepare the public ... for increases in VAT, Paye, and fuel taxes".

These taxes placed the budget deficit burden on workers and reduced their living standards even further, said the federation. Business taxes were a more effective form of revenue collection.

At a National Economic Forum meeting yesterday, the two major federations in the country, Cosatu and the National Council of Trade Unions, put forward their tax proposals.

They are likely to push hard for the zero-rating of basic foodstuff, medicines and services as well as for no further increases in VAT.

With promises of a barrage of new and increased taxes, the Peace Tax Campaign is likely to gain ground, even if it wins only emotional support.

The campaign entails individuals subtracting a proportion of their income tax and putting into an trust account to be used for development projects they approve of.

But in South Africa where employers are responsible for tax deductions, the protest is more diluted.

According to Barry Poppleton, of Southern Africa Koinonia, this includes letters of protest accompanying returns, arranging lower tax payments ... so one is able to control the amount still due at the end of the year and claiming excessive numbers of dependents.

Mooted as a form of protest against fast and furious corruption revelations at the end of last year, the tax campaign is becoming a popular buzzword.

Yesterday, a wide variety of organisations met to hammer out plans and elect a committee to take the idea forward.

A South African Chamber of Business representative said the campaign was unlikely to succeed because employers would not break the law by acceding to a request to send income tax anywhere other than to the Receiver of Revenue.

binding on non-members. quired in contract law; — cils.

Budget blues on the cards

SI Times (Buss) 24/1/93 (320)

By JEREMY WOODS

VAT INCREASES, higher petrol prices and more expensive beer, wine, spirits and cigarettes are some of the measures expected in the Budget by top Cape Town institutions this week.

"We are expecting the Minister to have to fund a Budget deficit of about R22-billion, which means taxes are going to have to increase," says Mr Johan Louw, chief economist at the Sanlam head office in Cape Town.

He expects VAT increases to 13 percent, but with a wider selection of exemptions on items such as basic foods and electricity, as well as an increase on the fuel levy on petrol of 10c a litre and a range of excise duty increases.

None of this would produce upward pressure on interest rates and Mr Louw is looking for a 1% cut in about March, followed by further cuts later in the year that could reduce interest rates to 15,5% by the year-end.

Investec Asset Management portfolio manager Stephen Mills says: "Our worst fear is that the Budget will boost taxes. We would be very worried about the effect that might have on the stock market."

He says while tax increases are generally expected by the stock market "what is not in the price is how this would impact on corporate earnings".

He feels higher taxes will dampen domestic growth when the economy is at the bottom of its cycle and result in a poor 1993 on the stock market.

"But the crucial question is what is going to happen in 1994 — that's what is occupying most fund managers' minds."

At Syfrets Managed Assets, where Leon Campher oversees some of the most successful growth funds in the unit trust industry, there is little excitement about the possible contents of the Budget or, indeed, the stock market for the rest of the year.

Portfolio manager Matt Brenzel believes that with a R22-billion plus Budget deficit and an economy under severe pressure, there are few options left for the government that have not already been discounted by the stock market.

"Another fiscal lever that no one expects, like a minimum tax on companies, might well upset the market," he says, "but we don't expect a lot to look forward to in the Budget, or the rest of the year."

He feels VAT increases, with the economy in its present state, will "severely impact" on some retail and luxury goods companies and the best that can be hoped for is a neutral budget.

Contractors plan 'new tax' protests

SHARON WOOD 320

CONTRACTORS with close corporations are deciding at a meeting in Johannesburg today on a plan of action to protest against the change in tax legislation affecting them.

The tax change requires them to pay 48% tax at source on a monthly basis rather than at the end of the year, when deductions for travelling expenses and expenditure are taken off the bulk tax payment. B/DAY

The change affects engineers, draughtsmen, tracers and other contract staff with close corporations.

A committee of contractors has been formed and a picket outside the Receiver of Revenue's office is scheduled for February 5. The meeting today will be held at 6pm at Sturrock Park in Milner Park. 25/1/93

A premier contracting agent for the industry, David Heath, said "the Receiver is alienating the man who works for himself", as the legislation took away their incentives. Heath said the pool of floating manpower in the engineering industry would be reduced by the legislation, as people would move out of the market.

Director of Law Application at Inland Revenue John Hanssen said deduction claims were a form of tax dodging and the effect of the tax change "could be that people who set up close corporations on the advice of tax consultants will realise that it doesn't pay to operate on that basis".

He said bona fide contractors would be unaffected as they would be able to obtain exemption certificates.

Bad time to raise taxes — business

BDAY 26/1/93.

(320)

GRETA STEYN

ORGANISED commerce and industry have called on government not to increase taxes, as the timing was not right while the economy remained in recession.

Government was asked formally at an economic forum process committee meeting last week to avoid addressing the deficit problem by raising taxes, sources said.

While the private sector provided government with inputs on the Budget last week, labour representatives have not yet provided economic policymakers with any formal input, although they have signalled their opposition to tax increases.

While the suggestions handed to government at the forum meeting could not be obtained, business representatives spoke out openly against tax increases.

Sacob, in a reference to speculation that the VAT rate would be increased, said yesterday: "While Sacob is not opposed to higher rates of indirect taxes in principle, there is concern at the timing of such an increase. Imposing a higher rate of VAT on a contracting economy is likely to increase the severity of the recession."

Sacob said the move could result in only a minimal increase in VAT collections and a reduction in collections of other taxes, because of the effects of a recession on government revenue.

The organisation also opposed raising the fuel levy and said a petrol price increase at this point in the business cycle might affect the economy more than in previous years. A higher fuel levy would be inflationary and would also result in lower collections in other areas.

Sacob said direct taxes were already too high by international standards and SA could not afford a more uncompetitive tax regime, as this encouraged companies to transfer profits offshore.

The Afrikaanse Handelsinstituut (AHI) is expected to present Finance Minister Derek Keys with a similar view when the organisation meets him today. The AHI expressed opposition to an increase in the VAT rate last year.

Sacob's calculations show that a deficit of about 6% of GDP is possible without increasing taxes, provided government keeps the increase in spending below 7%.

On the basis of prevailing tax rates, and assuming real GDP growth of 1,5% over the fiscal year, government could raise about R8,5bn in additional tax revenue.

The organisation said the only option that could really work in addressing the deficit problem was to cut state expenditure.

Mutual calls for more 'aggressive' taxation

CT 27/1/93 (320)

By MAGGIE ROWLEY
Deputy Business Editor

MORE aggressive taxation of lump sums on retirement is necessary and tax 'leakages' would have to be closed, says Garth Griffin, Old Mutual GM of employee benefits.

Addressing a seminar in Johannesburg yesterday, Griffin said there was no doubt the current system resulted in significant loss of tax revenue and eroded the integrity of the "cash flow" system of taxing retirement provision arrangements.

However, there were three essential pre-conditions to the revision of lump sum taxation:

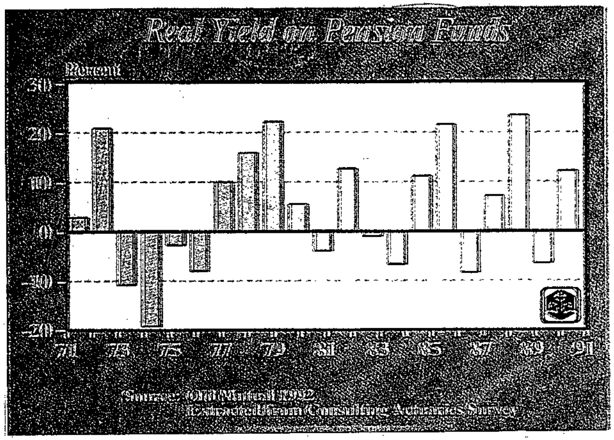
- The existing rights of current fund members had to be defined and protected,
- The taxation of lump sum benefits received from public sector funds had to be brought into line with the private sector,
- The taxation basis applicable to all other lump sum benefits had to be consistent with that adopted for lump sums on retirement. In particular the R1 800 deduction in respect of withdrawal benefits should be removed.

Griffin said the need to accelerate tax revenue from retirement funds had become a "burning issue" within government but the state needed to clarify its reasoning for wanting to change taxation policy in this regard.

Griffin said there could be little doubt that successful retirement provisions systems worldwide relied on either fiscal incentives or compulsion to achieve their aims.

"Unless we are contemplating compulsion we must ensure the continuation of effective fiscal incentives if the progress we have made is not to be forfeited."

In this regard the State had to avoid taxing retirement funds as a source of revenue to finance the disparity in state old age pensions (SOAP).



The cumulative cost of SOAP improvement as calculated by last year's Mouton report would be R2,5bn and Griffin said that it appeared the government believed it could fund this through retirement fund taxation.

In a recent submission to the Financial Services Board which was released yesterday, Old Mutual questioned whether taxing retirement provisions was to raise additional tax revenue, or to eliminate the perceived and real problems with the taxation basis for retirement fund benefits.

Old Mutual, he said, would like to see the current system of retirement provision taxation remain largely unchanged except for an increase in the taxation of lump sum benefits.

Current legislation permitted creative planning on retirement that resulted in large lump sum benefit payments attracting very low rates of tax, invariably below the rate at which the deduction of contributions was allowed. There had also been a significant switch from pension to provident funds for the lump sum benefits.

These anomalies currently being exploited needed to be addressed as they challenged the integrity of the current structure.

Griffin said to reduce tax 'leakages' and ensure the neutrality of the system the state needed to:

- Improve access to SOAP,
- Clarify its thinking on the future of tax-free lump sums,
- Develop clear policy on the desired balance between lump sum and income/annuity type benefits from approved retirement vehicles.

Griffin warned that any move to raise additional revenue from the retirement fund system over and above a tax neutral position would increase the tax burden to the point where it is overtaxed, and therefore the incentive to defer receipt of income would be neutralised.

Old Mutual supports the notion of a single retirement fund vehicle through the merging of the current provident and pension fund vehicles.

The contributions would be fully tax deductible and the individual could choose between lump sum and income payouts at the end of their working career instead of being forced to make the decision at the start.

- Old Mutual Employee Benefits has declared a 15% bonus for all pensioners participating in its pensioner increase product, Pensions Plus, effective from the end of January.

At yesterday's seminar Griffin said the average real yield on pension funds during 1971 to 1980 was 2,3% and between 1981 and 1991, 4,3%. In spite of average yield in the 1980s being higher than the 1970s, the decade saw five years of negative real returns.

For the 1990s, he said, even lower average yields were being forecast.

If the plight of pensioners was not to worsen pension funds would have to more realistically target inflation which could be done if real yields were obtained in the investment market and provision was made in funding levels, he said.

4 BUSINESS DAY, Wednesday, January 27 1993

Old Mutual moots hike in tax on lump sum benefits

B|Day 27/1/93. (320)

GRETA STEYN

OLD MUTUAL yesterday called on government to address the tax leakage through lump sum payments, saying it would support an increase in the taxation of lump sum benefits.

The move should form part of an overhaul of the retirement system that did away with tax arbitrage and allayed the industry's uncertainty over tax increases, Old Mutual GM Garth Griffin said.

Speaking at a seminar on employee benefits, Griffin said it was time government took a standpoint on the relative benefits of lump sums or incomes, and adjust taxation accordingly. He said this was a prerequisite for restructuring the retirement system and doing away with tax arbitrage. He argued that the system should be restructured to "collapse" pension and provident funds together.

In its representation to the Financial Services Board on the issue, Old Mutal said it would support an increase in the taxation of lump sum benefits, either by implementing the Margo commission proposal (the application of the individual's average rate of tax over the three years before receiving the lump sum) or the application of the present tax tables to the lump sum income.

A move to tax lump sums would reduce the incentive to encash benefits. There appeared to be consensus in the industry that the present basis of taxing lump sum benefits needed revision.

"Well considered action will lead to a greater degree of certainty and allay fears of a much wider emotional attack on the overall system."

However, the disparity between public and private sector taxation of pension benefits would have to be addressed before any wider review could be attempted. The continuation of the "very significant" tax free benefits available to members of state and other public sector funds created a distortion that mitigated against rational decisions on the taxation of lump sum benefits.

It was also essential that the existing rights of present fund members be defined and protected.

This was a "contentious issue" and defining existing rights would "necessarily be subjective".

Stals takes positive view on inflation

STAR 27/1/93

By Neil Behrmann

LONDON — Reserve Bank Governor Dr Chris Stals has allayed fears that anticipated tax increases could halt the recent drop in the inflation rate.

At a World Gold Council conference here on central bank asset managment Stals said SA's underlying inflation rate had fallen to seven percent over the past four months.

"Most people compare inflation with twelve months previously, but latest indicators show that it is falling faster than was previously expected," he commented.

Stals said that any VAT increases in the coming budget, would not have an adverse impact on inflationary expectations.

Critics fear that VAT increases will raise inflationary expectations.

Stals contends that in the present recession, VAT increases will be a temporary blip in a downward inflationary trend. Since business conditions are poor, businesses would be mostly unable to maintain higher prices.

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Taxman's sweep nets R1bn

GERALD REILLY

PRETORIA — With government's tax income falling far behind Budget estimates, Inland Revenue is sweeping up every cent it can find in unpaid income tax and VAT.

In nine months the division has raked in more than R1bn in unpaid income tax and penalties.

In a sustained crackdown, auditors and inspectors have tracked down hundreds of tax dodgers and defaulters owing tens of millions of rands to the Treasury.

During the course of last year an average of 14 000 summonses a month were served on late payers and on those who failed to submit returns, as well as for other tax transgressions.

According to Inland Revenue chief director: operation control Chris Dempers, undisclosed taxable income discovered amounted to a massive R2,186bn in the nine months to end-November last year.

Tax and penalties paid on this amount totalled R1,024bn.

(320)

Most offenders were companies.

For the whole of the previous tax year, the tax and penalty figure amounted to R1,293bn.

It was likely that this figure would be exceeded in the current tax year.

Special investigations in the nine months from March to November uncovered unpaid taxes amounting to R218,3m. This, Dempers said, compared with R216m for the whole of the 1991/92 tax year.

Meanwhile, 12% of forms sent to salary earners this year have so far not been returned. BDAY 28/1/93

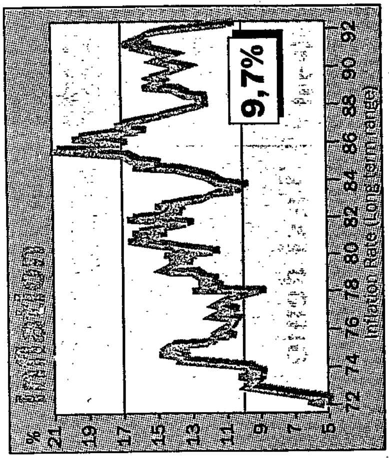
In Johannesburg, 14% have not been returned, while in Pretoria 12% have not yet been returned.

Reserve Bank may cut interest rates

Inflation dips below 10%

By Sven Lünsche

320



The yearly inflation rate in December dropped to 9,6 percent, the first time it has fallen below the 10 percent mark since 1978. STAR 28/1/93

Announcing the good news today, Central Statistical Services (CSS) said the sharp drop was led by a 9 percent decline in vegetable prices in December.

The decline in the inflation rate, which is a measure of increases in consumer prices over 12 months, has fuelled speculation that a further drop in interest and bond rates is imminent.

The senior deputy governor of the Reserve Bank, Dr Jaap Meier, said he was pleasantly surprised at the drop in inflation below 10 percent, which he had only expected in February/March this year.

"We will examine the impact of the latest inflation figure on the bank's monetary policy at our weekly money market meeting this afternoon," Meier said.

Prospects

He said, however, that other aspects of the economy would have to be taken into account before a decision on interest rates was taken.

These included the balance of payments and, more crucially, the prospects of a higher VAT rate and fuel levies to counter the shortfall in tax revenues. Higher taxes would immediately lead to a technical rise in the inflation figures.

Economists have previously stated that a 13 percent VAT rate and a 15 percent increase in the fuel levy could add up to two percentage points to the annual inflation rate.

The fall in inflation to below 10 percent is seen as a remarkable victory for Reserve Bank Governor Dr Chris Stals who has persisted with a tight monetary policy despite calls to ease interest rates to boost a depressed economy.

As recently as June inflation was running at more than 15 percent.

In November it still measured a relatively high 11 percent.

On a monthly basis — between November and December last year — average consumer prices were unchanged while food prices actually declined by 0,1 percent. STAR 28/1/93.

This was in large measure due to an 8,7 percent fall in the price of vegetables as better rains boosted agricultural production. Compared with December 1991, however, vegetable prices were still 30 percent higher.

Other food products showed slight monthly increases in December, although well below the levels recorded in previous months.

The average inflation rate for 1992 was 13,9 percent compared with 15,3 percent for 1991 and 14,4 percent for 1990.

Average food prices last year rose by 25,3 percent, well up on 1991's 19,6 percent, the CSS said.

Receiver is on warpath

(320)

Own Correspondent CT 28/1/93

PRETORIA. — With the goverment's tax income falling far behind budget estimates, Inland Revenue is sweeping up every cent it can find in unpaid income tax and VAT.

In nine months the division has raked in more than R1bn in unpaid income tax and penalties.

In a sustained crackdown, auditors and inspectors have tracked down hundreds of tax dodgers and defaulters owing tens of millions of rands to the treasury.

During last year an average of 14 000 summonses a month were served on late payers, those who failed to submit returns, and for other tax transgressions.

According to Inland Revenue chief director operation control Mr Chris Dempers, undisclosed taxable income discovered amounted to a massive R2,186bn in the nine months to the end of November last year.

Tax and penalties paid on this amount totalled R1,024bn. Most offenders were companies.

For the whole of the previous tax year, the tax and penalty figure amounted to R1,293bn.

Workshops to debate life assurers' tax

BDM 28/1/93

LINDA ENSOR

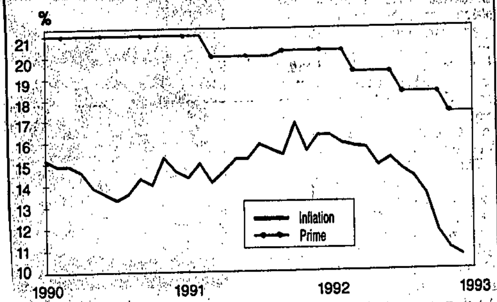
CAPE TOWN — A bone of contention between the life industry and Inland Revenue in the application of the four-fund approach to the taxation of life assurers is the inclusion of capital appreciation of assets in the calculation of allowable expenses.

The problem is likely to be thrashed out at a series of workshops organised by the Life Office's Association and scheduled to take place in Johannesburg and Cape Town next week.

Sanlam senior GM George Rudman said the inclusion of capital appreciation of assets in the policyholders' fund in the calculation of allowable expenses was unprecedented in SA's taxation system.

But Inland Revenue legal drafting director Ian Meiklejohn said it was only a new application of the established principle that expenses allowed for tax deduction purposes should be pro-rated across a business's sources of income.

"My personal view is that it has to be taken into account," Meiklejohn said.



Interest rates have not yet responded to the recent drop in inflation

Tax hikes linked to government spending

By Sven Lünsche STAR 28/1/93 (320)

Government spending in the 1993/4 fiscal year will have to fall by more than three percent in real terms — the guideline set by Finance Minister Derek Keys — if significant tax increases are to be avoided.

Southern Life economist Mike Daly warns in the latest Economic Comment that large increases in interest payments on the national debt will put even more pressure on spending to be curtailed.

"Everything possible should be done to eliminate some of the wastage that occurs in key areas, for example foreign affairs, which includes the independent and self-governing terretories, education and defence," Daly says.

Despite Keys's commitment to lower state spending, Daly expects the Government to raise VAT from 10 to 12 percent (with more zero ratings on basic foodstuffs), increase the fuel levy and provide no relief against fiscal drag in the next Budget.

These measures could boost revenue by at least 15 percent in 1993/4, after a projected five percent rise in the current year.

"An expenditure increase of eight percent in nominal terms could then imply a deficit before borrowing of less than six percent of gross domestic product (GDP), which would be a small improvement on this year's expected eight percent," Daly says.

"A second year of a large defict will be risky and unsettling for the capital market, but provided a coherent plan is put forward for government finances in 1993/4 with the backing of all political groups, the risks may be acceptable," he says.

He adds that a "negotiated and de-ideologised" privatisation programme should be revitalised as soon as possible to finance government fixed investment spending.

Commenting on the impact of deficit reducing measures, Daly says the expected tax increases will weaken the chance to break the range of inflation of 10 to 17 percent this year.

Higher indirect taxes, while having a deflationary effect through reducing consumer spending power, will show up as a technical rise in the consumer price index (CPI).

Without tax hikes the inflation rate could fall to as low as nine percent in the third quarter, says Daly.

He calls on the authorities to further exploit the recent gains on the inflation front by lowering short-term interest rates, which would return the economy to a positive growth rate and thus boost revenue collections.

On current evidence, though, he still expects the Reserve Bank to cut interest rates by at least two percentage points from Bank rate's current level of 14 percent.

Massive tax bill hike hits Bloch

LINDA ENSOR

CAPE TOWN. — A massive hike in the tax bill of Bloch Ltd because of its relocation to SA from Ciskei resulted in the 21,6% increase in its pre-tax profit being converted into a 10% drop in earnings a share in the six months to end-December. (320)

Chairman Bernard Rabinowitz said the increase in taxation had been anticipated at the time of the decision to relocate the business as part of a settlement of a dispute with the Commissioner for Inland Revenue.

Royalties received from the use of Bloch's trademarks by trading companies in the Bloch supermarket group rose 22% to R630 377 (R516 726), earnings a share fell to 2,1c (2,4c) and an interim dividend of 2c (2,2c) was declared. BLOOM

Rabinowitz said Bloch's licensees reported a fairly buoyant Christmas, which signalled an improvement in the economy. 29/1/93.

Royalty income for the full year, he said, was expected to be R1,27m and this would generate profit after tax of about 4,2c per share.

Increase in taxes 'will depress weak economy'

GERALD REILLY (320)

PRETORIA — Tax hikes in the 1993/94 Budget would further depress a weak economy, Northern Transvaal Chamber of Industries president Reuben Rutowitz warned yesterday.

Speaking at the chamber's annual meeting, he also warned against economic manipulation aimed at political advantage. B/DAY 29/1/93.

On the expected huge Budget deficit, he said: "The increasing deficit has been with us for a long time and to try and correct it in one fell swoop would be a grave error." It should be reduced to manageable proportions over a period to avoid placing unneccesary pressure on the economy and pushing the country into depression.

Rutowitz said Finance Minister Derek Keys's statement last year that South Africans were not overtaxed was irresponsible.

South Africans had been impoverished over a long period, particularly in the past 10 years. A factor had been uncontrolled government spending.

The increase in personal taxes between 1981 and 1991 had eroded personal incomes at a rate more than twice that caused by inflation.

Referring to recent disclosures of government corruption and financial mismanagement, Rutowitz said if the amount involved was taken into account it could be asked where the SA economy would have stood had the funds had been well managed.

On the year ahead, Rutowitz said the signs of growth were not encouraging. A better agricultural year was a prerequisite for growth.

He emphasised that to generate confidence in overseas investors and attract capital, three issues had to be tackled urgently: a satisfactory agreement on the future constitution had to be reached, violence had to be curtailed and a stable labour force had to be in place.

Working up to retirement tax

W/Mail 29/1- 4/2/93

29/1-4/2/93.

(320)

Taxing retirement benefits is a sensitive topic —but it is one that will have to be addressed, reports **REG RUMNEY**

THE lump sums pension and provident fund members are entitled to on retirement will have to be taxed more heavily in future, advocates Old Mutual (OM) general manager Garth Griffin.

With other changes this would put the minds of government at ease over "tax leakage" from retirement funds and be a move towards tax neutrality, the ostensible reason the Jacobs Committee last year proposed partly taxing pension fund and retirement annuity contributions.

But the rights pension fund and retirement annuity (RA) fund members now have to favourable tax treatment of the lump sums they can take out on retirement — and arguably one of the good reasons for their joining these funds in the first place — seems safe.

Griffin believes the entitlement to tax-free lump sums under the present arrangement would have to be preserved. "Otherwise the move won't even get to first base."

At the same time equal treatment should be given to lump sum benefits in the private and the public sector.

Speaking at an employee benefits seminar in Johannesburg, Griffin also suggested a fundamental change in retirement funding by doing away with the differences between provident and pension funds.

The big difference now between the two is the way the money is paid out eventually and its tax treatment. With a provident fund, contributions are taxed, but the lump sum payment on retirement is not. With pensions and RAs, contributions are not taxed and two-thirds of the eventual payout have to be taken as a monthly pension payment, which is taxed.

Griffin believes it is more sensible to allow people to defer the decision on whether to have a lump sum at retirement or an income-stream to their retirement date rather than forcing the issue years before they actually retire.

The suggestion that retirement funds be merged is also part of OM's submission to the Financial Services Board (FSB) last month on reviewing tax policy on retirement funds.

At a stroke the merger would put an end to the pension versus provident fund debate that was part of the 1980s confrontational era of labour relations. It would end the pell mell rush away from pension or "defined benefit" funds to provident or "defined contribution" funds, a trend not only motivated, as is popularly supposed, by labour but also by employers keen to take advantage of tax breaks of provident funds.

But first, the state must decide on its pension policy. Does it favour the payment of a lump sum or annuity benefits — the payment of monthly amounts until the beneficiary's death, as with a pension? Or is it neutral?

Griffin also surmises that mining a new seam of tax to pay for the equalisation of state old age pensions is the real reason behind the Jacobs Committee proposals.

He believes Jacobs had no mandate to raise the issue of taxing pension fund contributions. Moreover, the OM submission to the FSB remarks that countries with successful retirement provisions rely on either tax-incentives or compulsion. Compulsion is ruled out, so tax incentives must be retained.

Nonetheless, perceived tax leakage must be plugged.

The OM document notes: "...the anomalies currently being exploited with regard to lump-sum benefits on retirement need to be addressed. They challenge the integrity of the current structure, which cannot be good for its long-term growth and development."

For instance, that up to a third of the pension payout can be taken out in a lump sum which attracts low tax means a loss to the Receiver of Revenue and a gain to the pensioner.

Griffin says any amount above the actual tax-free amount is now taxed at an average rate based on other income during the year the pension fund (or retirement annuity) member gets the lump sum. There is a lot of scope for reducing that average rate. So he supports the recommendation of the Margo Commission that the average rate of tax in the three years before retirement be used.

Griffin's remarks on the "capping" of deductible contributions or benefits in money terms bring to mind the limitations of a "wealth tax".

He believes capping may be politically wise in that it stops the very wealthy getting benefits they do not need, but it won't raise much money.

'Don't tax pensions to death'

By CIARAN RYAN

THE SA Chamber of Business has advised the government not to increase taxes on retirement benefits and to phase out discrimination in the tax treatment of public and private sector lump-sum retirement benefits.

It warns that SA is at or close to the point of diminishing returns in revenue collection.

(320) (800)

Sacob submitted its report to the Financial Services Board after finance special adviser Japie Jacobs recommended taxing one-third of employee pension contributions and 20% of employer contributions at the company tax rate.

S|Times (BUSS)

Resistance

31|1|93

Sacob rejects this because employers would be encouraged to change their remuneration packages to a salary-only basis, leaving it up to employees to plan their retirement funding. It expresses concern at the already low level (10%) of retiring people who are financially independent.

Sacob advises phasing out public sector tax exemption on lump sums from pension and provident funds by taxing all lump-sum benefits equally, allowing for a fixed prescribed tax-free amount.

"Any proposal which adversely affects the taxation of retirement benefits will involve moral issues of good faith and sanctity of contract and, under the prevailing private-sector perceptions of significant economic wastage in areas like the homelands and TBVC states, great resistance can be expected," says the report.

The proposed higher taxes on retirement benefits affect the level of personal and corporate savings, "with profound implications for economic growth, interest rates and public and consumer confidence".

Sacob warns on pension fund tax

CT 1/2/93 (300) (320)

JOHANNESBURG. — The SA Chamber of Business (Sacob) said at the weekend it had made its submissions to the Financial Services Board on the proposed major changes to the tax treatment of employer and employee contributions to pension funds, provident funds, and retirement annuity funds.

It said it had advised government not to increase taxes on retirement benefits and to phase out discrimination in the tax treatment of public and private sector lump-sum retirement benefits.

Sacob said any proposal which adversely affected the taxation of retirement benefits would involve moral issues of good faith and, "under the prevailing private sector perceptions of significant economic wastage in areas like the homelands and TBVC states, great resistance can be expected".

Capital gains tax 'unlikely' in Budget

(320) B/Day 1/2/93.

PETER GALLI

A CAPITAL gains tax was unlikely to be introduced in the next Budget as the administrative expense often did not justify the revenue generated, Coopers Theron du Toit director Jacobus van Wyk said at the weekend.

Speaking at the SA Institute of Valuers conference, he said it was most likely government would use the tax as a bargaining point in the negotiations process.

"A future government is likely to introduce such a tax, even if it is not revenue producing, as the majority of the people will perceive it as fair because it constitutes a redistribution of wealth," he said.

A property tax was also likely to be introduced. To be effective, such a tax would have to be levied at between 2% and 5% of the land value.

"If this tax was levied at 4% of all land values in SA it would generate tax of about R1bn." Finance deputy director-general Gerhard Croeser was looking at a land tax and the possibility of taxing farms, he added.

However, a problem arose on the basis used for valuing various properties. A set rate would disregard the different qualities of land while a market valuation was not always appropriate, said Van Wyk.

"We can expect a new government to focus short-term expenditure on addressing social inequality and simplifying the tax system. A capital gains tax is likely to be introduced at a relatively low rate with a minimum business tax," Van Wyk said.

It was also likely other wealth taxes such as a capital transfer tax would be retained, and a property tax introduced. There could also be a reduction in personal tax rates on the back of an increase in the tax base.

Sacob responds to new pensions tax proposals

BDay. 1/2/93 (320)

SACOB said on Saturday it had made its submissions to the Financial Services Board on the proposed major changes to the tax treatment of employer and employee contributions to pension funds, provident funds, and retirement annuity funds.

It said far-reaching changes had also been proposed in the tax treatment of lump sum retirement benefits by such funds, or by employers, as well as changes in the taxation of pensions and annuities.

Sacob said it was not clear how the proposals contained in the Margo Report would affect the present treatment of contributions to a provident fund, where employer contributions were deductible but member contributions were not.

Sacob said it also did not support the Jacobs proposals, because "with a disparity in the quantum of deductibility between employer and employee contributions — 80% versus 66,66% — they would encourage manipulation between salary remuneration and employer contribtions to retirement funds.

"Restricting an employer's deduction to only 80% of its contribution contradicts the basic deductibility principle of a bona fide business expense. Employers who are denied the full deduction of their contributions may be tempted to change their remuneration packages to a salary-only basis, thereby pushing the retirement planning function down to employee level.

"This would obviously be a regressive step, especially under existing circumstances where individuals in general are not conscious of the need to provide for retirement. There is concern that this scenario will lead to a reduction in the volume of saving for retirement.

"With estimates showing that only 10% of SA's population are financially independent on retirement, there appear to be good grounds for concern," Sacob said.

Although Sacob preferred the status quo to be maintained, it expressed concern regarding the following limitations:

- The present system discriminated between the public and private sectors. Lump sum benefits from government and certain other public sector pension or provident funds were entirely tax free, while tax exemptions were limited in the private sector.
- "The deferment of tax under the EEET scenario — where both employee and employer contributions are tax deductible, funds build up tax free and all benefits are taxed — can be indefinite, whereas with sufficient planning a lump sum of retirement is subjected to an average minimum rate of tax."

Sacob said it did not support the Margo commission's proposal that the total amount of lump sum benefits on retirement should be taxed in full, without any deduction being allowed, as it would be contrary to the widely accepted principle that the state must encourage people to provide for their retirement via tax and other incentives. — Sapa.

Return of the dividend tax?

By ARI JACOBSON

A DIVIDEND tax, at a low level, could be re-introduced in the upcoming budget, says tax expert Ernst & Young's Dave Clegg.

He says that a petrol price levy is inevitable and an increase in the rate of estate duty a possibility.

Clegg, providing his views on the 1993/94 Budget, anticipates "belts to remain tightened until the politicians stop posturing and go about restoring international confidence in this country".

He does not see corporate tax rates moving up or down until a political settlement is concluded, even though the rate is high by international standards.

Clegg maintains fiscal drag, the inflationary effect on taxes, will not be compensated for with an adjustment to the tax brackets, although the maximum rate could be shifted "to say R120 000 from R80 000".

Clegg considers the introduction of a higher VAT rate to be a certainty and adds that "meaningful additional revenues can only be collected with a move to at least 15%".

He explains that an increase in the VAT rate must be accompanied by a zero-rating of further foodstuffs.

"But revenue collections will then be reduced by between R3bn and R4bn and so a rate of 12,5% is required before a net increase can be achieved."

At a 15% VAT rate Clegg estimates that an additional R4bn would be raised.

"Higher VAT on luxury items is unlikely because the problem with 'leakages' — the polite name for fraud — makes such a change counter-productive."

The dividend tax Clegg envisages would be at a low level of about 10% and is a withholding tax levied by the company on the payment of dividends.

"This would be administratively fairly straightforward and would create an immediate cashflow injection for the government."

He adds: "It would be significantly better than the previous double tax system, which dividends suffered up to 1990, while at the same time being politically correct in the current context".

CT 1/2/93 320

Relief for companies, but not for Joe Soap

CT 2/2/93 Own Correspondent (320)

JOHANNESBURG. — Companies could expect a lower nominal tax rate once an interim government was installed, but individuals would not be as lucky, the Momentum Life Quarterly bulletin forecast yesterday.

Predicting possible economic policy over the next three years using a "middle road" scenario, the bulletin said individuals could expect tax rates at least to remain the same between now and 1995.

"The need to reduce the relative size of the deficit, coupled with pressing socio-economic spending priorities, will make a material reduction of personal tax rates very difficult in the 1994 and 1995 Budgets," the bulletin said.

Nominal corporate tax rates were expected to be lowered in March 1994 to spur investment.

Financial futures — closing prices

Govt warned on VAT

Sowetan 2/2/93.

■ 'Tax on spending hurts the poor more than the rich':

(320)

By Themba Molefe
Political Reporter

THE Government must find another way of increasing its revenue and not by raising Value Added Tax (VAT) or by a levy on pension contributions.

This is the view in labour and political circles.

Fears are growing that during the 1993 parliamentary session the Government will increase VAT and put a tax on retirement funds.

Indications are that the Congress of South African Trade Unions (Cosatu), National Council of Trade Unions (Nactu) and major political groups will take protest action if the Government were to make such changes.

A report on the national budget and social security commissioned by Nactu and prepared by the Labour Research Service (LRS) notes that the Government intends raising VAT from the present 10 percent to 12 percent or higher.

"VAT is an indirect tax which is a tax on spending, not income.

"This tax therefore does not distinguish between the rich and the poor in the economy but in fact hurts the poor more than it hurts the rich," the LRS says.

It suggests that before raising VAT the Government should reduce its expenditure and not raise taxes during the recession.

The Government should not shift the tax burden to the poor.

Momentum forecasts cut in company tax rate

(320)

BIDAY 2/2/93

ANDREW KRUMM

COMPANIES could expect a lower nominal tax rate once an interim government was installed, but individuals would not be as lucky, the Momentum Life quarterly bulletin forecast yesterday.

Predicting possible economic policy over the next three years using a "middle road" scenario, the bulletin said individuals could expect tax rates at least to remain the same between now and 1995.

"The need to reduce the relative size of the deficit, coupled with pressing socio-economic spending priorities, will make a material reduction of personal tax rates very difficult in the 1994 and 1995 Budgets," the bulletin said.

In addition, the introduction of some form of redistributive taxes such as capital gains or capital transfer taxes was likely in the same period.

Nominal corporate tax rates, however, were expected to be lowered in March 1994 to spur investment.

The bulletin said one way to cut the deficit — this was forecast to be around R23bn at the end of the 1993/1994 Budget year — was through an arrangement with the IMF.

"The interim government should be able to negotiate a standby facility with the IMF in late 1993," it said. As part of any arrangement, a new government would undertake to reduce its budget deficit over the following fiscal years.

The bulletin also forecast a new government would probably maintain the independent status of the Reserve Bank.

"This will ensure positive real short-term interest rates, and prevent structural inflationary pressures in the SA economy from pushing the inflation rate beyond 15% at any stage during the forecasting period," it said.

The review added that another debt agreement between SA and its creditor banks was probable in 1993, which should allow debt inside the net to be repaid at the same pace as at present.

On the subject of economic growth, the bulletin forecast the economy would recover weakly in late 1993, and grow in 1994 and 1995 — if only at a subdued pace.

Goodall says govt can now save taxpayers millions

GERALD REILLY 320

PRETORIA — Government's intention to phase out own affairs administrations and abolish the President's Council has the potential to save taxpayers tens of millions of rands a year, says DP finance spokesman Brian Goodall.

He stressed this would happen only if staff involved in duplicated and overlapping functions were not squeezed into other overstaffed state departments.

Some could be shifted to provincial administrations to staff the expanded provincial executive committees. And there were some functions which would have to continue even after the demise of own affairs, he said.

But there was still vast scope, Goodall said, for big administrative cost savings if government was serious about rationalisation and "went the whole way".

With the disappearance of own affairs, the need for the four Indian Ministers and a deputy Minister and the five coloured Ministers, a deputy Minister and four Ministerial representatives, would fall away.

Each Minister had a personal staff of between six and 10, including private secretaries, assistant secretaries, an administrative secretary and a liaison officer.

Coloured and Indian Ministers got the same pay deal as white Ministers. This consisted of a basic R155 000 a year, with a non-taxable, reimbursive allowance of R42 948. Deputy Ministersgot R112 989 and a reimbursive allowance of R33 775. BDay 2/2/93

Goodall said the six Ministerial representatives in the House of Assembly would also go. Each had a basic staff of a private secretary and a secretary.

The President's Council had 60 members who were paid a basic R78 000 a year.

AHI warns Keys on tax increases

BD 2/2/93 (320)

DUMA GQUBULE

AN AFRIKAANSE Handelsinstituut (AHI) delegation which met Finance Minister Derek Keys last week has warned sharp tax hikes in the coming Budget could seriously damage inflation and growth prospects for the year.

It added that tax hikes could possibly plunge the economy into its fourth year of declining GDP.

The delegation called for a freeze on government's wage and salary bill to remove the need for sharp increases in tax.

In a statement released yesterday, AHI president George Huysamer said the organisation had "urgently requested government and the civil service to reconsider the prospect of a general 5% salary increase and thus to obviate any substantial tax increases".

The country's economic and fiscal situation rendered any rise in the public sector's wage bill, and the private sector's tax bill, unaffordable.

AHI economist Nick Barnardt, who was a member of the delegation, said the fiscal crisis was threatening to destabilise the economy.

Barnardt said the delegation had recommended a medium-term deficit reduction programme to reduce it to 6% of GDP in the next year.

This would require that government freeze its wage and salary bill to limit spending to below R110bn.

The fiscal crisis and the potential effect of significant tax increases were too serious for government to consider whether such a move was politically feasible, he said.

On the revenue side, the AHI reluctantly conceded that fiscal drag would have to be tolerated, raising an extra R3bn above the R80bn in tax receipts that could be expected in the absence of effective tax increases.

Another R4bn could be raised from a one percentage point increase in VAT, a small hike in the fuel levy and excise duties. The measures would result in revenues of R87bn, a two percentage higher inflation rate and a deficit of about 6% of GDP, which the private sector could absorb.

Barnardt said a 5% increase in government's wage and salary bill would result in government having to raise tax revenues of R92bn, which the economy could not absorb.

Any attempts to do so would have a negative effect on the economy, resulting in GDP growth of -1% or worse for 1993 and an increase in the inflation rate of about 4,5 percentage points.

Tax 'freeze' one of Cosatu's Budget aims

DIRK HARTFORD

COSATU would be willing to help Finance Minister Derek Keys confront his budgetary constraints if his Budget allocated resources directly to finance economic reconstruction, and if government immediately stopped all expenditure on apartheid-related departments. (320)

Cosatu general secretary Jay Naidoo said yesterday the federation wanted a "Budget freeze" with direct and indirect taxation being maintained at the same level as this tax year.

The National Council of Trade Unions is also opposed to any increase in taxes on individuals. BDay 2/2/93

Cosatu wanted all bureaucratic perks and deals purged, Naidoo said. "All civil servants, including the President, should pay tax and the practice of golden handshakes and housing and travel privileges for the state elite should be abolished."

Government corruption would be stopped only by firm financial controls. Cosatu wanted the income and expenditure sides of the Budget brought under one government department, and each government department audited to identify areas of wastage and corruption.

Cosatu and others were discussing the need for an independent tax commission to rationalise government income and expenditure and make it more efficient.

While Naidoo conceded that the deficit could not be ignored, he said priorities should be identified and addressed over time.

Cosatu believed these priorities to be the housing, education, health, job and training needs of ordinary people.

The active involvement of multilateral agencies — such as the Development Bank of SA — would assist in delivering resources to people who needed them.

The restructuring of the public service was also high on Cosatu's agenda.

● See Page 3

Zero-ratings 'will not be extended'

Govt likely to increase VAT to 12%

BDAY. 2/2/93

(320)

MARCIA KLEIN

FINANCE Minister Derek Keys is expected to announce a 12% VAT rate when he presents his Budget next month.

Reliable sources close to government said yesterday fears that VAT would be increased from 10% to 13% — with some predictions as high as 15% — were unfounded.

While VAT would come in below the expected rate, hopes that a broader range of basic goods would be zero-rated would not be met. The sources said certain farming inputs, brown bread and maize meal were the only basic products that would be zero-rated.

An economist said an increase in indirect tax meant poorer people would be spending a greater proportion of their income. If government would not compensate through more zero-rating, it would have to keep the rate increase low.

Fuel, which is subject to a levy, would also be zero-rated. But government was expected to announce a substantial hike in the levy in order to keep the VAT rate as low as 12%.

In last year's Budget, levies on petrol were increased by 8c/l, and on diesel by 6c/l. Economists said a significant rise in the levy would be in line with the policy of raising a greater proportion of revenue through indirect taxes. The petrol levy was expected to increase by about 10c/l.

The increase in VAT and in the fuel levy would increase inflationary pressure, but would help government meet its revenue requirements. There has been a big shortfall this year, and economists have warned the deficit for 1992/93 could be as high as 7,5%-8% of GDP.

Government had initially wanted to introduce VAT at 12%, but pressure from organised labour later had led it to settle on a rate of 10%.

But government will not meet its R21bn target for VAT revenues for the full fiscal year. Central Statistical Service figures show that income from VAT is running at almost 10% below the previous year's revenue from GST. A VAT rate of 12,5%-13% would have been necessary to achieve the budgeted revenue target.

Economists said earlier that apart from VAT and the petrol levy, revenue-generating rate increases would also be spread across customs and excise duties.

The sources said that exported goods and the sale of a business would be zero-rated. Passenger transport services and services in another country would also be zero-rated.

Selected financial services, accommodation, rent, supplies by associations not for gain and educational services would be exempt from VAT.

CT 4/2/93 (320)

Cosatu: Freeze taxes on individuals

Own Correspondent

DURBAN. — Cosatu has challenged the government to freeze tax increases on individuals in the forthcoming budget to ease the financial hardships being endured by millions of citizens.

In an interview here yesterday Cosatu secretary-general Mr Jay Naidoo said the country's economy needed urgent restructuring if peace, justice and political stability were to be attained.

He said more than 150 000 mineworkers had lost their jobs in the past six months and Cosatu's projections were that about 250 000 further mining jobs would be lost by the year 2000.

Mr Naidoo challenged the government to find more effective ways of collecting company taxes and to stop all existing "leaks" in the tax system.

He said future peace and stability depended on a massive economic restructuring programme geared to job creation.

Mr Naidoo said Cosatu has formulated a comprehensive economic restructuring programme to be presented to the government and business representatives at the National Economic Forum.

He said Cosatu's proposals addressed short- and long-term needs, including job creation, housing and trade tariff policies.

Contractors to protest at Receiver's offices

BDay 4/2/93

SHARON WOOD

(320)

PROFESSIONAL and technical contractors with close corporations could form a regulatory board similar to the Estate Agents Board to resolve problems in the industry, says Association of Professional and Technical Contractors (APTC) spokesman David Heath.

The move is aimed at quelling the Receiver of Revenue's concerns about collecting tax from the industry.

The board would ensure that all contractors, who would be obliged to become members of the board, paid their taxes.

APTC members are up in arms about the Receiver of Revenue's decision to tax contractors at the company tax rate at the point of payment. This means close corporations have to pay 48% a month, as opposed to the existing annual payment at the same rate.

Members will voice their anger at a protest meeting in front of the Receiver of Revenue's office tomorrow and will hand over a letter rejecting the tax amendment due to be implemented on March 1.

About 600 contractors decided to go ahead with the protest at a meeting in Johannesburg last week.

Heath said the association was offering an alternative to the Receiver. Contractors would pay a monthly tax but at the lower rate of 16%. The board would streamline the tax payments and take the burden of tax collection off the Receiver.

Heath said government was trying to tap an easy source of revenue but it would be detrimental to the survival of the industry.

Contractors were a floating pool of labour that big industry could rely on when needed. Big industry usually would not employ these contractors on a permanent basis because of difficult economic times, when work fluctuated.

The association had tried to set up a meeting with the commissioner and deputy commissioner of Inland Revenue to discuss the issue but had been turned down.

Sliding towards a banana republic

Weekly Mail Reporter (320) W/Mail 5/2 - 11/2/93.

AS the government's budget deficit threatens to reach crisis proportions, Finance Minister Derek Keys may find he has little room for manoeuvre when he draws up the 1993/94 Budget to be presented next month.

Increases in the Value-Added Tax (VAT) rate, the fuel levy and excise duties appear certain, following President FW de Klerk's comment to public servants last month that there would have to be tax increases in the Budget.

Tax increases could bring Keys into direct conflict with the African National Congress and organised labour, despite the support he has expressed recently for wider public participation in economic decision-making.

The Budget is on the agenda of the National Economic Forum. The ANC has called for more efficient tax-collection methods and has mentioned new taxes — for example, on capital gains, wealth and property. The Congress of South African Trade Unions this week called for a "freeze" on tax rates, and for cuts in government "apartheid" expenditure and restructuring of the civil service.

Keys may not have many options in the short term. The government's deficit has spiralled as the recession has continued and revenue from VAT has lagged way behind expectation. Nedbank chief economist Edward Osborn says VAT collections have been running at up to R500-million a month lower than Budget projections.

The gap between the government's income and expenditure, estimated in the 1992/93 Budget at R15,9-billion, or 4,5 percent of GDP, is likely to turn out close to double that. Most economists expect a figure of around R28-billion, or 8,4 percent of GDP. And this could rise to R30-billion, depending on how the government writes off agricultural debt, says Osborn.

Next month's Budget will be starting from the large deficit already run up, and the deficit will grow exponentially unless action is taken to ensure expenditure grows more slowly than revenue. A widening deficit feeds upon itself since the interest paid on the government's ever-rising debt then contributes to increased government expenditure. Interest costs are already running at more than 16 percent of expenditure.

It's an explosive situation, warns Osborn, and a "banana republic" situation could develop rapidly unless the gap is closed. If a new government inherits the unsatisfactory accounts of the present one, it might find the "Kinshasa option" — printing "funny money" to pay civil servants — the only way to extract itself from its budgetary problems.

The latest Amalgamated Banks of South Africa (Absa) *Quarterly Economic Monitor* outlines two options for the government: to reduce the deficit by curbing government expenditure and increasing taxes, thereby constraining growth; or to curb expenditure without increasing taxes, so that the deficit would remain high but the growth rate could improve marginally.

The Afrikaanse Handelsinstituut (AHI) this week adopted the second Absa alternative, calling on the government not to increase civil servants' pay at all and not to increase taxes sharply, on the grounds that this could exacerbate inflation and prevent growth.

Osborn argues for expenditure cuts, but also sees tax increases as inevitable. The government must do as much as possible on the expenditure side, he says, through such measures as reconstructing ministries. The recent announcement that civil service salaries would rise by only five percent means a big saving in real terms, even though with salary notches the effective increase will be closer to nine to 10 percent, he says.

The government must also re-examine its transfers to the "self-governing" homelands and "independent" TBVC states, over which it must tighten fiscal control.

Osborn adds that a revision of the treaty governing the South African Customs Union (SACU) is essential. The SACU formula works against South Africa, which is making large payouts to Botswana, Lesotho, Swaziland and Namibia, as well as the TBVC states.

One source of increased revenue for the government will be fiscal drag — where individuals who get pay increases to compensate for inflation enter higher tax brackets and find themselves paying a higher proportion of their income in tax.

Lower inflation means that fiscal drag will make less of a contribution, but the AHI has estimated that it will net the government an extra R3-billion in the 1993/94 fiscal year. The AHI expects that a one percent increase in the VAT rate would increase government revenue by a further R4-billion.

Osborn expects VAT to rise to 12 percent or 13 percent. It is unlikely to be raised to 15 percent, as some have predicted, because "this would knock out what wind there is left in the economy", he says.

...ned during protests this week. He is flanked by Nerto officials Peter Rubali, left, and Thulani Khu-

Picture: BRIAN HENDLER

Call for tax concessions on education funding

BIDAY 5/2/93. (320)

ANDREW KRUMM

SOUTHERN Life has called on government to change its outlook on tax concessions for education funding to offset the sharp rise in the cost of private and state education in SA.

Southern Life assistant GM, legal and tax services, Martin Sweet said: "As parents, communities and businesses are being asked to make greater contributions to education, incentives to encourage private-education expenditure should be extended, not reduced."

Amendments to the Income Tax Act over the past two years — such as on bursaries — had removed some incentives for contributions to education. This made it difficult for money to be channelled to education, Sweet said.

"In 1991, the Income Tax Act was amended to remove the exempt status of amounts paid to employees and their relatives as bursaries and scholarships."

Effectively any education benefit paid to an employee became taxable, reducing its value up to 43%. But, after an outcry from the public and other pressure groups, government reintroduced the exemption — on a far more limited scale.

The problem was that the present state of exemptions did not go far enough. "As it stands an employee can get almost unlimited tax-free bursary assistance from an employer. But, the employee's children and other close relatives get only limited tax free assistance — equivalent to a maximum R1 200 a year."

And that was only when the employee earned less than R36 000 a year.

Sweet said when compared to current school and university fees, both the tax-free limits government had set and the category of staff that qualified for tax-free educational assistance were ludicrous.

Sweet said public education facilities were likely to be stretched to the limit as schools came under pressure to make up the skills backlog created by black education, KATHRYN STRACHAN reports.

He said the Independent Schools Council of SA had forecast that fees would have doubled at many private and state-assisted schools by the middle of the decade, once inflation and the new education system had an effect on running costs.

"At St John's College in Johannesburg, annual tuition fees for day scholars could jump from the current R7 000 to over R14 000," he said, "And at Michaelhouse in Natal, boarder fees could rocket from the current R19 000 to a stunning R38 000 a year by the time a new boy reaches matric five years from now."

CREATIVE ACCOUNTING

Delayed tax eases cash expenditure

CHRIS HEMUS (320) ARCG 6/12/93

THE taxation expense on most companies' income statements does not represent actual tax payable for the year.

Often a deferred taxation charge or credit is included in the taxation expense. Tampering with deferred taxation, as a result of timing differences, is a tempting technique for the creative accountant.

Timing differences arise when items of income and expenditure occur in different periods in financial statements and tax computation. The most common timing difference relates to depreciation.

Taxation legislation allows the Receiver of Revenue to grant wear and tear allowances on capital assets.

Wear and tear is calculated at different rates according to the type of asset being used by a company. These rates may differ significantly from depreciation rates used by companies and this gives rise to a timing difference between accounting income and taxable income.

Where future capital expenditure is expected to be incurred, the anticipated tax liability does not become payable, or crystallise, because new timing differences replace the previous timing differences.

The deferred taxation balance, therefore, increases continually when capital expenditure levels are maintained.

Generally Accepted Accounting Practice (AC 102) allows that deferred taxation need be provided only on timing differences to the extent that a liability is expected to crystalise within three years. This is assessed by estimating future capital expenditure levels — essentially a judgmental issue.

The creative accountant thrives on judgmental issues. AC 102 requires the future estimates of timing differences to be based on reasonable assumptions and budgets.

It is a simple matter to massage and direct these estimates towards producing the desired result. Certain versions, characterised as "more realistic" or more prudent could be argued in support of whatever deferred tax charge was required in a particular year.

The deferred tax charge affects current earnings and earnings a share — a key ratio for the creative accountant.

In addition, the deferred tax charge has no cashflow impact as the tax is paid only in future years. Deferred taxation, therefore, can provide an ideal vehicle for income smoothing as profits may be stored in good years and released in leaner years.

■ **CHRIS HEMUS is a senior lecturer at the University of Cape Town.**

PERSONAL FINANCIAL PLANNING

How to ease the looming tax hikes

S Times (Buss) 7/2/93. (320)

A Business Times Survey

ONCE again, inevitably, another tax year draws to a close. With the flurry of Christmas and the annual summer holidays a thing of the past, it is time for all South Africans to reflect on their personal financial affairs. SEAN VAN ZYL surveys issues that each and every one of us should consider annually.

FINANCIAL pressure on government, largely due to the growing budget deficit which is likely to be between R25-bn to R30-bn this year, is expected to result in increased taxes, both direct and indirect, for fiscal 1993/94, financial planners say.

Indirect tax increases would probably involve a hike in fuel prices and the VAT rate, while direct personal taxes are expected to be raised through "bracket creep".

Old Mutual senior legal analyst Peter Stephan says the easiest and least visible means of increasing personal income tax is to leave the tax tables as they are and let bracket creep do the rest.

Inflationary adjustments in salaries over the past year will, in many cases, have pushed taxpayers into higher tax brackets resulting in government collecting additional revenue while the public becomes poorer: "Ideally the tax tables should be adjusted each year by the inflation rate.

"However, by leaving them the same, government can get in a larger amount of additional tax in a less visible way."

Stephan notes that middle income earners — taxpayers earning between R40 000 to R80 000 a year — are hit hardest by bracket creep. Roughly 70% of all income tax is paid by these individuals.

"The result of taxpayers being caught between continued high levels of taxation and inflation is that they are getting poorer each year. They are able to save less of their disposable incomes — some 10% up to 1980 which has since fallen to about 2,5%."

In these circumstances, Stephan emphasises the need for taxpayers to properly prepare their affairs and ensure that they are not paying more tax than they have to.

He adds that a reputable tax or financial adviser should be consulted to confirm that all exemptions and deductions allowed within the law have been utilised: "Tax laws are complicated and continually change, making regular meetings with your tax consultant advisable."

He suggests, however, that taxpayers should consider the following points when completing their tax returns:

- Make sure you do not include any capital gains as income, often taxpayers lump everything together as income.
- Make sure you claim all exemptions to which you are entitled — most forms of dividend income are not taxable while the first R2 000 of a taxpayer's investment income from interest is also exempt from tax.
- If you receive any alimony or maintenance from your ex-spouse, effective after March 21 1962, these payments are tax-free.
- Lump-sum gratuities paid by an employer on termination of services may be exempt up to R30 000 in certain instances.
- Make sure you claim all deductions, such as contributions to a pension fund and retirement annuities (within a certain maximum), certain medical expenses and education donations and costs of study at home which are business related.

Self-employed individuals can also claim numerous operating costs — rent, salaries, insurance, travelling and entertainment expenses to name a few.

Stephan says there are various options through which employers can provide a more tax-efficient plan for employees. Car schemes, travel allowances, non-contributory provident funds and medical schemes should be fully investigated, he adds.

A number of companies also offer deferred compensation plans to their employers, although normally to the upper ranks, which essentially allows the employer to pay a certain amount into a fund in lieu of salary increases.

This amount can then be paid to the employee tax-free, within a certain limit, on retirement of service.

The other obvious way to reduce tax would be to increase deductions, such as contributions to retirement schemes, to the maximum permissible.

Liberty Life assistant GM, consultancy services, Gavin Came believes that retirement annuities are largely overlooked in financial planning: "RAs accounted for only 13% of the life industry's business in 1992 — in 1990, out of the 35-million people in SA, only 7-million were members of any kind of retirement fund."

Taking the tax incentives into account, Came says RAs are the ideal vehicle for long-term savings. An individual can currently deduct up to 15% of non-pensionable taxable income or R3 500 less pension fund contributions a year (subject to a minimum of R1 750) for additional retirement funding. Married woman can now also claim certain retirement deductions in addition to her husband's own deductions.

Furthermore, Came adds that an employee could ask his employer to include his RA deductions when calculating his monthly income tax: "There is an immediate cash flow advantage for an employee who asks his employer to take into account his contributions to RA funds."

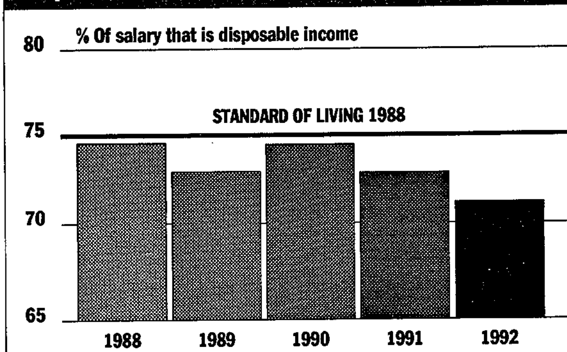
Normally RA deductions would be claimed back from the Receiver at the end of the tax year, thus the taxpayer suffers the loss of his money for up to 12 months, depending on when the RA was initiated.

Southern Life senior legal advisor, Leon Jordaan, feels that timing is extremely important: "It is to the member's advantage if he can time his retirement from the RA fund to fall into a tax year when his taxable income from ordinary sources is likely to be lower than other years."

He notes that investments to an RA can be made in either a lump sum or on a monthly basis. In this sense, a taxpayer would have up to the end of February before the beginning of the new tax year to utilise his full maximum deduction to a RA.

Although taxpayers should utilise the tax benefits available to the fullest, Nedcor Bank GM, personal financial planning, Garry McCreesh cautions that most items have restrictions, "these strictures must be examined to ensure that they do not impact badly against the investor's personal objectives."

THE EFFECTS OF BRACKET CREEP (FISCAL DRAG) ON DISPOSABLE INCOME



ASSUMPTIONS: Married person, two dependant children, taxable income in 1988: R46000, increase in income 15% per annum (in line with inflation). The above decrease in disposable income is purely due to fiscal drag.

SOURCE: OLD MUTUAL

R850m for defunct rulers

320

S/Times 7/2/93.

TAXPAYERS will have to fork out an estimated R850-million in golden handshakes and pensions when the tricameral system is abandoned to make way for a non-racial government.

This figure has been calculated by Democratic Party pensions expert Brian Goodall using the same formula employed by actuaries in the private sector.

Only days after the start of the present session of Parliament, the former Minister of Defence, General Magnus Malan, announced his retirement.

By NORMAN WEST
Political Reporter

By his own admission, he is one of the first casualties of the government's plans to dump the Own Affairs Ministers' Councils.

In his new civilian life Mr Malan will have no need of a job. He will retire a wealthy man with a handsome gratuity and two bulging pension packages.

He will receive a tax-free gratuity of R400 000 plus a parliamentary pension of R200 000 a year paid out of the State Revenue Fund. In addition he will get an army pension (details of which could not be obtained) but which is entirely separate and will be paid out of the Defence Pension Fund.

His take-home pay as a retired SADF general and ex-cabinet minister will be no less than R16 000 a month.

At the same time, in the House of Delegates the chairman of the Ministers' Council, Dr JN Reddy, has lost his position after a successful motion by the NP faction in the House calling on President de Klerk to reconstitute the Ministers' Council "on the basis of power-sharing".

This means that Mr Reddy, four of his ministers and a deputy minister lose their positions of power — but they, too, need have no financial concern as they will be taken care of by the Parliamentary Pension Fund.

Mr Reddy, for example, should he decide to follow the example of Mr Malan and retire from Parliament, will also receive a pension of R200 000 and a gratuity of R400 000. Although he has been in Parliament only since 1984, his service in the South African Indian Council is also recognised.

In his opening address to Parliament, President de Klerk announced that the all-appointed 60-member President's Council had served its purpose and would be phased out.

These men and women, many of whom have never fought an election, are expected to be granted bonus pensionable service years so as not to prejudice them financially because of the PC's early demise this year, Mr Goodall said.

The tricameral Parliament is now in its ninth year, which means that those politicians who joined the Parliamentary Pension Fund at its inception all qualify for pensions.

Mr Goodall pointed out that:

- An MP with seven-and-a-half years' service will get a pension of R59 000 a year and a gratuity of R118 000. This is the minimum period of service an MP must have to qualify for pension. The average salary of an MP is about R118 000.
- If an MP has 15 years' service his pension would be equal to his salary and he would, in addition, receive a gratuity which would be twice his salary — ie. R236 000.
- If an MP is a "holder of office" — viz. a minister, a deputy minister, a whip, leader of the opposition, he or she does not need any qualifying period, even if the MP has had only six months' service — the reason why there is such feverish jockeying for these lucrative positions when the administration in a House is about to be reshuffled.
- A "holder of office" — like a minister with, say, five years' service — would receive approximately R6 500 a month for life plus a tax-free gratuity of R157 000.

Mr Goodall has worked out that if a person in the private sector were to receive the same amount in the form of a gratuity, that private citizen would have had to fork out R97 000 to the taxman.

Anger at new close corporation tax law

BDM 8/2/93 (248) (320)

DIRK HARTFORD

THE 500 demonstrators outside the Johannesburg Receiver of Revenue's office were in militant mood.

This was no ordinary mob of political hotheads. There was no toyi-toying going on. However, the angry group did throw fists into the air and whoop and clap as passing cars hooted in solidarity.

A closer look revealed the gathering consisted of some rather well-dressed professional people, standing in orderly ranks along Rissik Street, brandishing placards with eloquent and witty messages.

"Contractors work harder and do their best and pay their taxes on request, but Derek Keys does as he pleases and thinks he can further squeeze us...," read one.

The demonstrators — all members of the Association of Professional and Technical Contractors — were embarking on mass action to try and force Finance Minister Derek Keys to rescind a law compelling contractors with their own close corporations to pay 48% PAYE at source.

Association chairman Mark Hampson said Keys had "sneaked in the new law" in December when everyone was on holiday. Efforts by the association to meet officials of the Finance Department and the Johannesburg Receiver of Revenue since then had been fruitless, he said.

If the demonstration did not bring a response, the association was going to take Keys to the Supreme Court on the issue, Hampson said.

The association said the new tax directive could lead to the collapse of the 8 000 professionals operating on a contract basis in the engineering industry. Hampson said it also had implications for others — like freelance journalists, computer operators and contractors — who operated their own close corporations.

IMF advisers facing VAT quandary

STAR 9/2/93. (320)

By Sven Lünsche

The International Monetary Fund's (IMF) VAT mission now in South Africa is likely to advise the government against exempting basic food items from a higher VAT rate.

It is widely speculated that Finance Minister Derek Keys will exempt basic food stuffs from VAT when he announces a rise in the rate from 10 to 12 or 13 percent in next month's Budget.

A team of five VAT experts from the IMF arrived in SA last week to monitor the implementation of VAT and advise on further steps to legislate the tax.

According to a Department of Finance official, the IMF mission will share with the government their international experience on VAT as well as advise on aspects such as multiple ratings and exemptions.

When former Finance Minister Barend du Plessis sought the advice of the IMF before implementing VAT, organisations such as Cosatu accused him of having bowed to IMF advice not to exempt or zero-rate basic foodstuffs and electricity and water services.

It was only after a prolonged and vociferous campaign by Vatcom, an umbrella body for a number of political groups and trade unions including Cosatu and the ANC, that the government agreed to exempt maize and other basic goods temporarily.

At the time Vatcom warned the IMF not to "meddle" in South Africa's financial affairs.

A similar dilemma faces SA this time around as Keys, eager to achieve political consensus for his Budget proposals, is believed to have agreed to exempt basic food items in order to receive a smooth passage for a rise in VAT.

The IMF position is still that, ideally, only one rate of VAT should be applied to most goods and services and the mission is likely to convey this to government officials.

In the meantime economists have warned that an increase in VAT to 12 rather than 13 percent could in the longer-term prove inflationary and cause a tighter monetary policy.

In its latest release Econometrix says the Reserve Bank could raise rather than drop interest rates if the state's deficit before borrowing was not reduced significantly.

"If VAT is not increased and other taxes are not raised to reduce the deficit, and if large capital outflows continue, then monetary policy might actually have to be tightened even if inflation remains low.

"Even though a smaller VAT increase would mean a smaller short-term rise in inflation, it would entail a higher Budget deficit, a bigger public debt and associated interest bill and hence higher potential inflation in the longer term," Econometrix says.

● Thomas Cook International has taken a major stake in Vatclaim International, a Rennies Group subsidiary established to help SA companies in Europe to claim back VAT.

According to a statement the cash injection by Thomas Cook will allow Vatclaim to extend its services to other parts of the world. In Europe and the UK alone potential claims could total R50 million a year, Vatclaim says.

Increase in taxes is a 'death blow'

Sowetan 9/2/93

By Mzimkulu Malunga

■ R30 billion State deficit forecast for 1992-93:

(320)

AN INCREASE in taxes at this stage could be the death blow to the economy, says South African Chamber of Business economic policy director Dr Ben van Rensburg.

Although business is aware of the constraints Finance Minister Derek Keys is operating within, it still feels increases will extend the recession.

In view of the huge Government deficit, forecast at around R30 billion in the 1992-93 tax year, the Government has indicated it plans to increase taxes to reduce the debt.

"The Government needs to look carefully at its expenditure, particularly in respect of its efficiency, before raising taxes," Van Rensburg said.

"Given the state of the economy, the forthcoming Budget on March 17 will be crucial to determine whether the recovery is delayed or not.

"The only scope for an increase in taxes could be indirect taxation, such as duties on fuel, alcohol as well as VAT."

New tax to 'swell govt coffers'

320 CT 16/2/93

Own Correspondent

JOHANNESBURG. — The introduction of a capital transfer tax to swell depleted government coffers is on the cards, say tax experts.

They pointed out last night that the government had accepted the Margo Commission's recommendation that estate duties and the donations tax be replaced by a capital transfer tax.

While unlikely this year, this was the government's ultimate goal, they said.

An indication of this was that estate duty rates are expected to increase from 15% to 20% in the budget because of the low level of current revenue collections.

The move was seen as a step towards overhauling tax on capital transfers, with the government expected eventually to replace estate duties and the donations tax with a capital transfer tax.

An Inland Revenue spokesman said estate duty revenue had fallen from R185m in 1985 to about R70m at present.

Institute of Life and Pension Advisors tax spokesman, Mr Abri Meiring and Anglo American group tax consultant Marius van Blerk said it would make sense to increase the estate duty rate to 20% as an interim measure.

Paper largely as a result of an item in the hon the State President's Opening Address to Parliament this year when he said that the Government was prepared to make far-reaching proposals to strengthen the National Peace Accord, and that they were working for an urgent meeting of the signatories.

We were expecting to hear something about these far-reaching proposals. The items that have been enumerated by the hon the Deputy Minister really have to do with recommendations by Mr Justice Goldstone and other recommendations that are already points of discussion throughout the National Peace Accord. The hon the Deputy Minister quite rightly said that the National Peace Accord was a product of the people. We are all working together, but we would look forward to the suggestions that the hon the State President had in mind, because it is obviously very urgent that, in our forward planning, we know what the NP and the hon the State President are going to say.

I would like to turn for a moment to the speech from the CP on this matter. The condemnation that has come from that party is really quite reprehensible and disgraceful. [Interjections.] I would suggest that all the thousands of people that are trying to make peace in South Africa at the moment should be supported. I will tell that hon member that the police themselves are very grateful indeed for the assistance that they are giving them in bringing about a peaceful situation.

However, let me hold out an olive branch to that hon member and invite him to come to some of our meetings to see what operations we undertake. We would like him to come and see what we are doing in the Wits-Vaal area, how we are defusing situations of violence day by day, and how those dedicated people, who are largely working for nothing to bring about peace in South Africa, are day after day doing a fine job. [Time expired.]

Mr W U NEL: Mr Speaker, I can only endorse what my hon colleague said here. It is about time that the CP joined us and actually tried to make peace rather than criticising on the side.

I also want to endorse what he said about the comments made by the hon the Deputy Minister. I share his disappointment, because we certainly did not hear any far-reaching proposals, as we envisaged when we listened to the speech of the hon the State President earlier.

I want to come back to some of the shortcomings of the accord and the structures. One of the main problems, of course, is that one needs some mechanism to convict people or at least bind them into compliance with that which they have undertaken to do. Of course, because the local structures cannot be judgmental, and the regional dispute resolution structures cannot be judgmental, we need a complaints procedure. That, as the hon the Deputy Minister has pointed out, is essentially something that needs to grow from within, but we need to look at it urgently. [Time expired.]

The DEPUTY MINISTER OF JUSTICE: Mr Speaker, I thank the hon member for Mooi River again for his contribution. I absolutely agree with him. The fact is we have had five instances in the past few months of parties being found guilty of contraventions the Peace Accord. They were asked to distance themselves from these contraventions, and they refused to do so. Something will have to be done about that. [Interjections.]

I also wish to thank the hon member for Bryanston for his contribution. I am sure he will appreciate the fact that it would be wholly inappropriate for us to come with detailed proposals at this stage in view of the fact that this is a matter for negotiation in the forums that are available.

*I cannot conclude this debate without thanking each of those 6 500 people intimately involved in this Peace Accord for the work they are doing without payment. I only want to say that these peace institutions remained in place in spite of a collapse in negotiations at national level. The people in South Africa must know that there cannot be peace at grassroots level if there is no peace at the highest level.

Debate concluded.

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

*1. Mr J J Walsh—Defence. [Question standing over.]

*2. Mr J J Walsh—Transport. [Withdrawn.]

*3. Mr D H M Gibson—Justice. [Question standing over.]

VAT: exemption of basic foodstuffs

*4. Mr D H M GIBSON asked the Minister of Finance: 320

(1) Whether his Department has made calculations regarding the possible impact on the budget of basic foodstuffs being exempted from value-added tax (VAT); if not, why not; if so, (a) what amount is it estimated will be involved and (b) in respect of what fiscal year have such calculations been made;

(2) whether he will make a statement on the matter? B9E

†The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

(1) Yes, various calculations were made for the purposes of discussion with various parties who had sought concessions through the zero rating of additional foodstuffs.

(a) As no decision has yet been taken on this matter it is not possible to provide an amount.

(b) The calculations were made in respect of the current year.

(2) No. A statement at this juncture would be inappropriate.

Mr D H M GIBSON: Mr Speaker, arising from the hon the Deputy Minister's reply I would like to ask him whether he is aware of the fact that although the inflation rate has shown a welcome drop to 9,6% per annum, food inflation is still reckoned to be 14% per annum. Ordinary consumers, most especially the unemployed, pensioners and all those on fixed incomes, are finding it increasingly difficult to make ends meet. They are also finding it increasingly difficult to believe that the Government cares about them or has any plans to help them. If the Government does have plans to help them, what are those plans?

†The DEPUTY MINISTER: Mr Speaker, the hon member for Yeoville's supplementary question has nothing to do with the original question.

Mr R M BURROWS: Mr Speaker, further arising from the answer of the hon the Deputy Minister to part (1) (a) of the question, am I to understand that they have worked out a figure and they are not prepared to reveal that figure?

The DEPUTY MINISTER: Mr Speaker, the hon member must go and read my answer.

†Adv S C JACOBS: Mr Speaker, further arising out of the hon the Deputy-Minister's reply, could he just give the House of Assembly an indication—I am not expecting amounts from the hon the Deputy Minister—of whether his department has also made calculations with regard to the exemption of medicine, and if so, whether he will make a statement about that at a later stage?

†The DEPUTY MINISTER: Mr Speaker, this has nothing to do with the original question either.

Abortions reported/procured

*5. Dr Z J DE BEER asked ~~the~~ Minister of National Health: 2257

How many legal abortions were (a) reported for 1992 and (b) procured in terms of section 3 (1) (d) of the Abortion and Sterilization Act, 1975 (Act No 2 of 1975), in that year? B10E

†The MINISTER FOR ADMINISTRATION AND TOURISM (for the Minister of National Health):

(a) 1992 (1 January to 31 October): 1 027 and

(b) 1992 (1 January to 31 October): 50 (4,9% of total).

†Dr W J SNYMAN: Mr Speaker, arising from the hon the Minister's reply, can he tell us how the various population groups are represented in the figures he quoted?

†The MINISTER: Mr Speaker, if the hon member puts that question in writing, I am sure the hon the Minister of Health will attend to it.

*6. Mr R M Burrows—Finance. [Question standing over.]

President Clinton: RSA leaders ~~invited to~~ inauguration 3047

*7. Mr H D K VAN DER MERWE asked the Minister of Foreign Affairs:†

(1) Whether he received an invitation to attend the inauguration of the new American President on 20 January 1993; if so, what are the relevant details;

(2) whether he or his Department was informed of invitations to any other South African leaders to attend that function; if so,

(3) whether he will disclose the names of

cont--

1993

Demand stimulated by VAT speculation

BIDAY 10/2/93. (320)

PETER GALLI

RESIDENTIAL estate agents are divided on whether there is a "beat VAT" rush into the property market ahead of the expected increase in the rate to 12% or 13%.

If present legislation remains unchanged, any increase in VAT would not affect the existing home market, as VAT is not applicable to home resales between private individuals.

"The effect of the increase will be on newly built homes sold by a contractor or developer and would arise as labour costs, overheads, finance and the builder's profit now attracts VAT as do related services such as agents' commissions," said NBS Devco Transvaal regional director Tom van der Merwe.

The company had detected more demand and greater interest in the market for its products and many hesitant buyers had been prompted into firm action.

It was calculated that VAT at 10% added up to 3% of the cost of a medium priced house and up to 5% for a lower priced house when it was originally introduced, he said.

"A R100 000 house would have gone up in price by about R3 000. Now, if VAT rises another 3%, the net expected effect would be to push the price of the same R100 000 house by another 1,5%," Van der Merwe said.

However, Pam Golding Properties Transvaal director Ronald Ennik did not expect the expected hike to have any effect on the property market, which was reflecting a more bullish undertone.

"We did not see a pre-VAT surge in the residential market when it was originally introduced and I do not expect to see one now. The taxi war last week has had a slightly dampening effect on the market, but the Bank rate cut is helping buoy the market," he says.

Camdons MD Scott McRae expected a "rush of buyers" but said as yet there had been no visible signs of it.

While the group continued to field a number of inquiries, there had been no real increase in the tempo of sales. The political situation and the taxi war resulted in less prospective buyers visiting show homes on Sunday, but this was expected to be only a short-term trend.

"There is no question that there will be a rush of buyers, but this will probably only start at the end of the month. While some of this is related to VAT, there is a mild upturn in the residential market and some buyers have been waiting for a drop in the bond rate," he said.

Seeff Residential Properties MD Bearnard O'Riain said any increase in VAT would have little effect on the market as it coincided with the upswing in the market.

"There is renewed interest in new developments at the right price and these are selling at an unprecedented rate. We offered 50 townhouse units in Observatory at the weekend ranging from R85 000 to R219 000 and all were sold by lunch time," he said.

About 20% of the buyers were investors who put a small deposit down and either rented the property out or resold it at a profit prior to completion, while 50% were first-time buyers, he said.

had the better for them. A minimum stan- Sapa.

Power to shut schools

CAPE TOWN — A Bill which will enable the white own affairs Education Minister to close down Model C schools was published yesterday.

The Education Affairs Amendment Bill says a state-aided school may be shut down "if the Minister considers it necessary", and after consultation with its governing body. (352)

An Education Department spokesman said drafters of the legislation had considered specifying in the Bill the circumstances in which the Minister could close a school.

"But if you mention one thing and you don't mention another, there may be problems," he said. "The Minister won't close the school unless there's a valid reason for it."

One scenario in which a school might be shut down was if its numbers dropped too low, he said. BIDAY 10/2/93.

There would be no guarantee that a school which had been closed would be converted to a state school for all races or retained for other educational purposes. — Sapa.

Direct tax increases 'not the answer'

GERALD REILLY

PRETORIA — Tax hikes in the March Budget would damage the economy and stretch the recession into 1994, economists said yesterday.

Absa economist Adam Jacobs said no Finance Minister in the past 50 years had been confronted by the tortuous dilemma facing Derek Keys. (320)

The need to increase government income was obvious. But trying to achieve this by raising the tax burden on companies and individuals would accelerate the economic decline.

Individuals would be particularly hard hit by a tax hike. BIDAY 10/2/93.

An indirect discretionary tax route might be the way to go. What was needed was a restructuring of the system to encourage savings and investment, without necessarily raising direct tax. Without this and foreign investment, an economic recovery would be out of reach.

AHI economist Nick Barnardt said: "We have warned government of very serious implications for the economy if taxes are raised. However we would be misleading our business constituency if we failed to indicate that a moderate, cautious increase seemed inevitable." Government would have to focus on decreasing expenditure. But there was no escaping the conclusion that at the end of the day a tax hike could stretch the recession into 1994.

Stellenbosch University Bureau for Economic Research economist Nils de Jager said if the stategy adopted amounted to an increase, it would further strain the economy unless balanced by cuts in state spending. Without this, consumer confidence would take a dive, disposable incomes would shrink further and hopes of a recovery in 1993 would probably vanish.

De Jager said a bureau survey showed that last year disposable incomes declined 2,5% — a major reason for the economy's inability to move out of recession.

Deregulation hites SAA

NEWS IN BRIEF

C/DAY 1/2/93 (320)

No decision on VAT

GOVERNMENT still has not made any decision about the scrapping of VAT on basic foodstuffs, Deputy Finance Minister Theo Alant said in Parliament yesterday. The issue was one of the causes of last year's nationwide tax boycott.

Alant refused to elaborate on what plans his department had to assist the poor.

Top earners' tax expected to rise

B/DAY 11/2/93. (320)

GREETA STEYN

GOVERNMENT is expected to raise top income earners' marginal tax rate from 43% to 44% in next month's Budget as part of an overhaul of the personal income tax system.

However, the level of income at which the top marginal tax rate is paid is expected to be shifted upwards from the present level of R80 000. Relief from fiscal drag is likely to be given to low and middle income earners. It is also likely that government will further simplify the tax structure with fewer and wider income bands.

Finance deputy director-general Estian Calitz declined to confirm or deny speculation, but said the next Budget would, as in previous years, address the issue of fiscal drag and personal income taxes. He said: "In deciding how to deal with personal income taxes, there are two factors that have to be taken into account: firstly, macroeconomic conditions and the state's need for revenue, and secondly, the principle of progressive taxation." In terms of the principle, those who have the ability to pay should pay the most tax.

Calitz said simplification of tax bands should not be done in a way that lessened the progressive nature of the tax. If tax bands were simplified without moving the top income tax bracket up, the system would become less progressive.

Economists said yesterday an increase

□ To Page 2

Tax

B/DAY 11/2/93. (320)

□ From Page 1

in top income earners' taxes was to be expected to finance tax relief for low income earners. Senekal, Mouton & Kitshoff economist Louis Geldenhuys said: "Indirect taxes like VAT hit low income earners the hardest, and it would make sense to balance an increase in VAT with income tax relief. But given the state's revenue problems, it will probably have to raise the top marginal tax rate if it wants to do something about fiscal drag at the bottom end of the scale."

Rand Merchant Bank economist Rudolf Gouws said raising the tax rate would be a disincentive. "Tax relief for lower income earners to alleviate the effects of a higher VAT rate would be a sound move, but it would be unfortunate if it was accompanied by a rise in the top marginal income tax rate."

The rich may be taxed more

320 CT 11/2/92

Own Correspondent

JOHANNESBURG. — The government is expected to raise top income earners' marginal tax rate from 43% to 44% in next month's Budget as part of an overhaul of the personal income tax system.

However, the level of income at which the top marginal tax rate is paid is expected to be raised from the present R80 000. Relief from fiscal drag is likely to be given to low- and middle- income earners. It is also likely that the government will simplify the tax structure with fewer and wider income bands.

Finance deputy director-general Mr Estian Calitz declined to confirm speculation, but said the Budget would address fiscal drag and personal taxes.

Economists said yesterday an increase in top income earners' taxes was to be expected to finance tax relief for low income earners.

Rand Merchant Bank economist Mr Rudolf Gouws said higher tax would be a disincentive.

● **Govt undecided on food tax — Page 3**

Govt undecided on food tax

By BARRY STREEK
Political Staff

(320) CT 11/2/93

THE government still has not made any decision about the scrapping of VAT on basic foodstuffs, despite this being one of the causes of last year's nationwide tax stayaway.

No decision had yet been taken on the matter, the Deputy Minister of Finance, Dr Theo Alant, said yesterday.

He said in reply to a question tabled in Parliament by Mr Douglas Gibson (DP, Bezuidenhout) that his department had made various calculations about the possible impact on the budget of basic foodstuffs being exempted from VAT.

This had been done "for the purposes of discussion with various parties who had sought concessions through the zero rating of additional foodstuffs".

Dr Alant said as no decision had been taken, it was not possible to estimate what amount was involved.

He also refused to make a statement on the matter because "a decision at this juncture would be inappropriate", and refused to give any further details.

FM 12/2/93 (320)

TAX TREATIES

Lightening the load

SA's growing acceptance in the world financial community has led to the initialling of two double-tax treaties, with Taiwan and Poland.

Ernst & Young international tax partner Ray Eskinazi says double-tax treaties aim to encourage trade and investment by relieving importers, exporters and investors of onerous tax obligations thrown up when two nations each levy tax on the same income.

He says little is known about the Taiwanese treaty, initialled in December, because the text is not yet available. But he believes it contains these points:

☐ The withholding tax on dividends (non-resident shareholders' tax) will not exceed 5% if the shareholder is a company that owns 10% or more of the capital of the company paying the dividend. Otherwise, the withholding tax is 15%; and

☐ Withholding taxes on royalties and all other income are cut to 10%.

The Polish treaty, initialled in October, provides that:

☐ The withholding tax on dividends (15% in the case of SA) is reduced to 5% of the gross dividend, provided the recipient holds at least 25% of the capital of the paying company.

In all other cases, the tax is 15%;

☐ The withholding tax on interest (SA does not tax interest paid to non-residents) is reduced to 10%;

☐ The tax on royalties (now 14,4% in SA) is reduced to 10% of the gross amount; and

☐ To eliminate the possiblity of double tax, SA will give a credit for Polish taxes paid and Poland will grant "exemption with progression" for income earned in SA.

This means that though the income will not be taxed in Poland, it may be taken into account in determining the rate at which Poland will tax other income.

Both treaties must still be ratified. ■

DAVID LERMER

IN MY OPINION

SA's little-known tax advantages

FM 12/2/93

(320)

David Lermer is senior international tax consultant at Coopers Theron du Toit. Before relocating to SA a year ago, he worked in the London office of Coopers & Lybrand, where he specialised in UK and international tax.

Few overseas investors realise that SA taxes neither residents nor nonresidents on income earned outside SA, unlike many developed countries that tax residents on their worldwide income. In addition, dividends are exempt from normal taxation and there is no tax on capital gains.

SA's tax system has the basic characteristics to attract foreign investment in the form of international holding companies. Other countries have had to create these characteristics with special privileges and tax exemptions.

Attracting the holding companies of multinational groups is big business, and the Netherlands, Luxembourg, Belgium and Gilbraltar are leaders in this field. SA, with its large domestic market, is often referred to as the powerhouse of Africa and it can become an investment stepping stone to the rest of Africa. With proper structuring, offshore income can often generate little or no global tax and result in real cash savings for the foreign investor in SA.

But there are several obstacles to overcome:

☐ Foreign perceptions of SA must improve;

☐ Capital gains tax and tax on dividends should be avoided or, if introduced, a special tax regime should be created similar to the relief available to holding companies in the Netherlands, Luxembourg, Belgium and Gibraltar;

☐ Tax incentives for expatriate executives should be introduced. This suggestion is not made without a little regret, since another positive aspect of our tax system is that, in general, it does not distinguish between residents and nonresidents. But the economic reality is that the country lacks the executives and managers needed to lead and sustain growth during the Nineties.

Belgium, the Netherlands and Gibraltar have lowered taxes on relocated executives and people who have management or special skills. If developed countries see a need to attract skilled labour and foreign investment by providing a favourable tax regime for foreign executives and management, so should SA, especially during its transition.

The high level of personal tax is a disincentive to foreign businesses wishing to relocate key staff here since, invariably, a salary equalisation calculation is required. This means that the employer incurs the extra cost of guaranteeing a similar take-home pay to what the employee had overseas. This additional cost can render a project commercially unattractive; and

☐ SA needs to negotiate more tax treaties with other countries. The Netherlands has about 50 treaties compared with SA's 19 — including treaties with the TBVC states (see preceding report).

From the perspective of a holding company, the lack of treaties means dividends withholding tax, on repatriation of profits from the holding company, can be high.

In SA, Non-Resident Shareholders' Tax is 15%, but this is not seen as a big obstacle. While more tax treaties are being negotiated, an overseas investor often can structure his affairs to use SA's treaty network and reduce the rate of Non-Resident Shareholders' Tax to 5% and possibly lower.

An alternative route would be to follow Gibraltar's lead — it has no tax treaties. It applies no withholding tax on dividends to EC parent companies and a 1% withholding tax on dividends to non-EC parent companies.

During treaty negotiations, which can take years to complete, an interim measure could be introduced reducing Non-Resident Shareholders' Tax on dividends to parent companies to 5% or lower.

While SA's tax code can serve to attract investors, exchange controls certainly discourage investment. Foreign investors need to believe that their investment is secure and that should they wish to disinvest, they would be allowed to repatriate funds (including capital amounts) to their home country. In general, our exchange control system already allows this and it is foreign perceptions that need to be changed.

In Ireland, exchange-control authorities give undertakings on repatriation before an overseas investor commits any amount.

It is understood that as part of the negotiation for the transfer of Hong Kong to China in 1997, the Chinese authorities have guaranteed the *status quo* for the business community in Hong Kong, including the free movement of income and capital into and out of the colony.

Certificates containing an exemption from the requirement to repatriate all overseas earnings could be approved for holding companies investing in the country, thus putting SA on the same footing as many other countries.

Perhaps more important would be government's statement — and its effect on foreign perception — that a foreign investor granted a certificate would be free to move capital brought into SA and profits of a capital or income nature, without exchange control intervention.

This statement would need a wide spectrum of political support to be credible in the eyes of a foreign investor. The *status quo* regarding the currency medium of a transaction, in financial or commercial rands, would not be affected and would continue to depend on the nature of the transaction, provided that the holding company would be allowed to invest overseas in the same medium in which the funds were introduced or generated in SA.

The relief inherent in SA's tax system is one of the world's best-kept secrets. It's time to sell it to the world.

BUSINESS Nactu says State must find other sources of revenue

Labour vehemently opposed to VAT hike

Sowetan 12/2/93.

(320)

By Mzimkulu Malunga

■ LAST STRAW Cut spending on the TBVC states and self-governing territories:

AS THE BUDGET DATE APPROACHES AND debates on tax increases hot up, labour believes the Government has to prioritise cutting unnecessary expenditure instead of effecting tax hikes to raise revenues.

On March 17 Finance Minister Derek Keys will be in the spotlight when he presents the national Budget.

A report released by the National Council of Trade Unions advocates alternative means of boosting revenues as opposed to increasing indirect taxes such as VAT — which hit the poor hardest.

Central to Nactu's argument is the belief that the Government is using the taxpayers' money against the taxpayers themselves.

"Revelations of covert operations being funded with the taxpayers' money or of the consistent corruption and maladministration in the State-funded bantustans are a frequent occurrence," argues the report.

The Government contributed over R12 billion to the TBVC states and self-governing territories during the 1992-93 financial year.

Cutting spending on defence and the tricameral parliament — both of which consume a substantial share of the budget — could put the State on a much healthier financial footing.

The deficit for the current financial year is hovering at R30 billion — about nine percent of the national income.

The report also highlights unnecessary tax exemptions and focuses on pension funds.

"The pension fund exemption is a particularly regressive one and the rich benefit more from this system than the poor. In fact, the unemployed and low-wage earners get nothing at all," says the report.

The total scrapping of pension fund tax exemptions or a drastic reduction could contribute towards solving the Government's financial crisis.

Increasing VAT while the economy is in a recession will not only have a negative effect on consumer spending but will deliver the death blow to industry and commerce.

The collapse of industrial and commercial sectors will lead to further retrenchments as the consumer demand dampens.

Increasing tax substantially on property owners on any additional fixed properties they may possess, such as second homes, is one alternative measure the Government can explore.

Also, the implementation of agricultural land tax could contribute a great deal to the national coffers.

On agricultural land tax the report argues: "These properties have in the past been heavily subsidised by the Government for political reasons. Now would be a good time for the recipients of this unfair advantage to start paying back."

Finance Minister Derek Keys

Revenues collected here can be used for the development of small-scale farmers.

Star 13/2/93

Register now to avoid PAYE

(320)

THE aim is to bring into the PAYE net those who found a way out of it by becoming 'independent' contractors, writes DES PARKER.

New rules apply from March 1

LABOUR brokers who want to avoid paying PAYE on their earnings do not have much longer to apply to the Receiver of Revenue for exemption.

A tax directive compelling companies employing independent contract workers, many of them specialists in the construction field, to deduct tax at 48 percent on monthly payments to the contractors comes into effect on March 1.

Dayalan Naicker, tax partner with Deloitte & Touche in Durban, says there is a turnaround time of about two weeks between the time an application goes to the Receiver and receipt of a reply.

Penalise

After a "white-collar" demonstration against the directive outside the Receiver's office in Johannesburg last week, Naicker said the tax move was intended to bring into the PAYE net those who had found a way out of it by becoming "independent" contractors.

"It is not the intention of the Receiver to penalise the entrepreneur running a business from home who sells his services to independent third parties.

"Rather, it is intended to curb the growing occurrence of people opting out of the employee-employer contract by contracting their services on a labour-broker basis. For all intents and purposes, they are in the position of regular employees, sometimes even receiving pension and medical aid benefits, but avoid PAYE payments and instead become provisional taxpayers."

Many of them were professionals, such as engineers and draughtsmen, who formed close corporations (CCs) and companies and contracted their labour out, usually for fixed, renewable terms.

Naicker said that under the new rules, the contractors would be able to claim the PAYE paid as a deduction from the tax liability of their companies or CCs.

Brokers could end up paying more tax. In any case, their cash flow would be affected because they would face deductions monthly instead of provisional payments twice a year.

He cited the case of a contractor receiving R100 000 a year. Previously, the contractor would have drawn it all from the CC, absolving the business from paying tax, and would have claimed deductions on income tax of costs incurred in the CC.

From March 1, after PAYE, he would be left with R52 000. The CC would declare this as remuneration and deduct it as an expense, paying tax on the R48 000 balance at the company tax rate of 48 percent. This would mean a further R23 000 in tax, leaving R28 960.

"Alternatively, he could declare the full R100 000 as the taxable income of the CC, although it would pay him only R52 000 in cash after the employer company had deducted PAYE. The full R100 000 would be claimed by the CC as remuneration paid to the member (the contractor) as a tax-deductible expense, leaving the CC with no tax liability.

Freelancers

"The CC would then owe the member some R48 000, which it would claim from the Receiver as overpaid tax. But the member would be forced to wait until his annual tax return had been assessed to receive a refund, leaving him out of pocket and with a cashflow problem."

The tax directive also affects such diverse professionals as freelance journalists and executives employed by management companies contracting out the services of senior people, a device often used in listed holding companies.

Management companies have incurred two taxes which only a few years ago did not exist — regional services levies and VAT on their fees.

INCOME TAX FM 12/2/93 (108) (320)

Bop fee problems

The Bophuthatswana Commissioner for Inland Revenue has issued an important practice note clarifying the scope of nonresident tax on fees (NRTF) — a withholding tax payable on all fees earned by any nonresident "agency" providing services in Bophuthatswana.

The amending legislation was promulgated as long ago as July 23 1992 and backdated

FM 12/2/93 (108) (320)

to March 1 1991. It caused considerable confusion among nonresident taxpayers, which is why the practice note was issued.

Coopers Theron du Toit tax partner Koos van der Merwe says the purpose of NRTF was to control tax evasion on fees earned in Bophuthatswana by subcontractors or professionals from SA or other neighbouring states. In the past, the fee income was often not declared there — and probably not declared anywhere else either.

NRTF is normally payable within 14 days of accrual to the agency, at a rate of 40% for companies and 25% for others (individuals or partnerships).

NRTF is not payable if the agency can prove that it is registered as a taxpayer in Bophuthatswana. But it will apply to payments of director's fees to an unregistered nonresident director. The legislation also provides for certain exemptions for payments made by hotel and casino businesses. NRTF paid by agencies which subsequently render tax returns in Bophuthatswana are treated as payments of provisional tax.

Van der Merwe says the following issues have been clarified by the practice note:

- ☐ As no NRTF is payable on fees earned by a registered Bophuthatswana taxpayer, agencies which expect to earn fees from Bophuthatswana should register in advance;
- ☐ The implementation date is set as January 1 1993, overruling the statutory amendment;
- ☐ NRTF will apply only to fees earned from a Bophuthatswana source or deemed source in terms of the income tax and double tax agreements with neighbouring states;
- ☐ Foreign governments or their (undefined) agencies which do not pay tax in their own countries will not be liable for NRTF; and
- ☐ The requirement that a company registered in Bophuthatswana must have its head office there to escape NRTF is waived. ■

Severe tax

Star 13/2/93

blow next month

(320)

MAGNUS HEYSTEK
Finance Editor

A HUGE tax shock is in store for hundreds of thousands of people who receive income from retirement annuities. Those who will be hardest hit will be pensioners. From the beginning of next month, recipients of "A" income will have to submit tax returns to the Receiver of Revenue and will be assessed in terms of the PAYE system and not SITE.

In addition, their RA income will be lumped together and added to any other income, substantially increasing aggregate taxable income.

This move is a result of an effort by the Inland Revenue authorities to clamp down on revenue-splitting by personal taxpayers. The ability to split the income from a number of retirement annuities has been one of RAs' major attractions.

It is also seen as an effort by Inland Revenue to increase its cash flow in a depressed economy. Tax increases could be as high as 390 percent.

This is a double blow to pensioners already experiencing declining incomes, as interest paid on fixed investments has dropped substantially in the past 12 months.

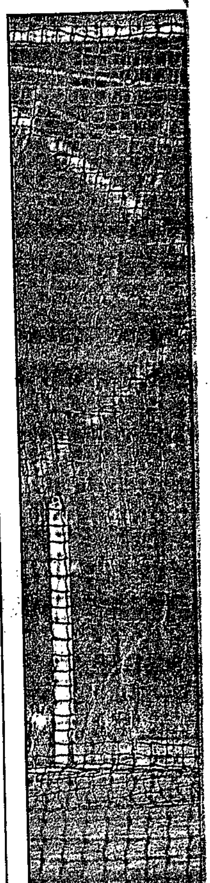
● **See Your Money: Page 14**

At present each payment from an annuity is subject to SITE. As most are below R50 000 a year, the recipient is subject to SITE only. In addition, the SITE is calculated independently on each payment by the companies or funds making the payment.

Most people tend to have several annuities which means several payments are received.

Average rates of tax on these payments tend to be low, but when all the payments are lumped together this will mean a sharp increase.

In terms of an amend-



WANDERERS WORK-OUT: Hard at work in the nets yesterday the West Indian cricketers tried to iron out the kinks in their technique which led to their defeat by South Africa on Wednesday. For almost as long as South

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In terms of an amendment to the Income Tax Bill, which has gone virtually unnoticed so far, all RA income will be subject to PAYE.

SITE (Standard Income Tax on Employees) applies to people earning less than R50 000 a year and, once SITE has been applied, no additional taxes are levied.

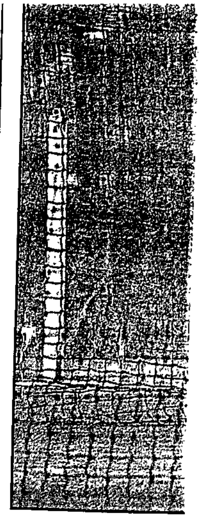
An example

In addition, people taxed under the SITE system do not have to submit returns.

Take this case of a pensioner who receives a pension of R40 000 a year and a retirement annuity of R30 000 a year (any amount will do for the purpose of this example as long as each item is less than the SITE limit of R50 000 a year). It can be assumed most pensioners and people receiving income from RAs earn less than these amounts.

Assuming a pensioner is married and over 65, the SITE on a pension of R40 000 would be R3 875; that on the RA income R1 075 — a total of R4 950.

From March 1, the taxpayer will be assessed on his total income of R70 000 for the year. The tax on this will be R15 775, an increase in tax of R10 825 or 219 percent.



WANDERERS WORK-OUT: Hard at work in the nets yesterday the West Indian cricketers tried to iron out the kinks in their technique which led to their defeat by South Africa on Wednesday. For almost as long as South

Storı

JACQUES PA

IN THE face of further denials by Transport Minister Piet Welgemoed that there was massive corruption in his department, the senior official who uncovered irregularities last night insisted that the abuses could be worse than those found in the now-defunct Department of Development Aid.

Former Assistant Chief Auditor Jaap Serfontein said: "I investigated the department for three months and discovered evidence of massive corruption, squandering of state money, bad financial control and maladministration.

"I believe the amount of money involved may even be more than at the Department of Development Aid."

The storm broke fol-

Guilty

ALLEGED Norwood ra
Petrus Geldenhuys (26) (

Duty tax blamed for jobs loss rise

(320)

NMG 13/2/93

BRUCE CAMERON
Business Staff

GOVERNMENT import taxes on primary products were undermining local businesses and stimulating unemployment, Cape Town luggage and bag manufacturer Vittorio Levy said this week.

Mr Levy said his factory was struggling to compete with imported products from the East because of the import duty of 27 percent on his basic primary product — nylon material.

Mr Levy said many luggage manufacturers in South Africa were reducing staff and importing cheaper products from the East and reselling them on the local market because of the costs of local manufacture.

The finished products were cheaper in spite of the 40 percent duty and 15 percent surcharge on them because of lower quality, cheaper labour costs and high tax in South Africa.

"I am quite happy to compete with the imported products, but we need the duty removed on our primary material."

Mr Levy said he had taken up the issue with the Department of Industry and Trade with little response.

Mr Levy said a removal of the duty also would enable him and other manufacturers to compete on the export market.

Scheme for export zones to get exemption from VAT

Bton S Times (Buss) 14/2/93.

By CIARAN RYAN

THE government proposes exempting export processing zones (EPZs) from VAT, customs duties and export levies, according to a draft proposal released this week.

EPZ users will be subject to South African laws and all output must be exported from the South African customs area to qualify for EPZ benefits. No tax holidays are planned, as is common in many successful EPZs around the world.

The finance and operation of the EPZs will be left to the private sector. All EPZs must be located within 50km of an airport or international port and approval must be obtained from an EPZ Board.

Normal South African corporate tax rates apply, drawing into question the ability of the proposed EPZs to attract local and, particularly, foreign capital in competition with countries offering generous tax breaks, such as Mauritius, Argentina and Mexico.

The compensation is that EPZ companies qualify for General Export Incentive Scheme (Geis) benefits, ranging from 2% to 19,5% of export value, the Regional Industrial Development Programme (grants equal to 10,5% of operational assets in the first two years and a profit-based incentive for three years) and the Export Marketing Assistance Schemes — all of which are currently available to South African businesses.

Only newly incorporated companies may establish in EPZs, eliminating the possibility of existing firms relocating to take advantage of the benefits.

Non-residents must invest through the financial rand in compliance with Reserve Bank regulations. Dividends, royalties and interest may be remitted in commercial rands.

The obligation to buy and sell assets through the financial rand is a frequently cited reason for SA's inability to attract foreign capital.

Weak

Low interest loans from the Industrial Development Corporation and financing from the Small Business Development Corporation are also offered as incentives.

The draft proposal on EPZs is unlikely to attract a stampede of investors.

With the exception of exemption on customs duties on imports, export levies and VAT on imports of plant, equipment, raw materials and components — and the implied relaxation of restrictive regulations where this is accepted by local authorities, business and organised labour — the proposal has little new to offer investors and is particularly weak on incentives.

Plant and machinery qualify for 20% depreciation over five years, buildings for 5%, wear and tear on office equipment 10% and motor vehicles 20%. Scientific research qualifies for a 25% deduction, according to the draft proposal.

Department/Organizational components	Nett increase (+)/ Decrease (−) 1.1.92 to 30.11.92
Transport	+786
Water Affairs and Forestry	+1 255
Provincial Administration of the Cape of Good Hope	−3 793
Provincial Administration of Natal	+2 498
Provincial Administration of the Orange Free State	+2 332
Provincial Administration of the Transvaal	+1 011
TOTAL	−2 946

Notes:

1. Statistics are at this stage only available for the period 1 January 1992 to 30 November 1992. The information as indicated, reflects the *nett result* of the total posts created or abolished in civil departments during the above-mentioned period. Information in respect of services departments is not readily available.
2. The nett decrease in posts amounts to 0,53%.
3. In certain cases the decrease/increase of posts reflects the transfer of a function from one institution to another.

Port Elizabeth/Uitenhage/Despatch: prisoners

35. Mr E W TRENT asked the Minister of Correctional Services:

How many (a) sentenced and (b) unsentenced (i) White, (ii) Coloured, (iii) Black and (iv) Asian persons were held in each of the prisons in the Port Elizabeth/Uitenhage/Despatch metropolitan area as at 31 December 1992? B72E

The MINISTER OF CORRECTIONAL SERVICES:

(a) and (b) (i) (ii) (iii) and (iv)

Port Elizabeth male prison

	White	*Coloured*	*Black*	*Asian*
Sentenced	65	162	263	1
Unsentenced	6	18	11	—

Port Elizabeth female prison

	White	*Coloured*	*Black*	*Asian*
Sentenced	3	13	49	—
Unsentenced	—	12	25	—

St Albans maximum prison

	White	*Coloured*	*Black*	*Asian*
Sentenced	—	598	542	2
Unsentenced	—	—	—	—

St Albans medium A prison

	White	*Coloured*	*Black*	*Asian*
Sentenced	3	56	77	—
Unsentenced	22	199	605	2

St Albans medium B prison

	White	*Coloured*	*Black*	*Asian*
Sentenced	29	377	721	—
Unsentenced	—	—	—	—

HOUSE OF ASSEMBLY

QUESTIONS 320

†Indicates translated version.

For written reply:

General Affairs:

Income tax: taxpayers/amount

7. Mr K M ANDREW asked the Minister of Finance:

What was the (a) number of individual taxpayers in each income category, (b) tax assessed in each income category expressed as a percentage of total tax assessed, and (c) total amount of tax assessed in each income category, in respect of the 1991–92 tax year? B13E

The MINISTER OF FINANCE:

(a), (b) and (c) See attached schedule.

1991/92 Tax Year

Taxable Income Group	Number of Individuals	% of Total	Tax R'000	% of Total
Loss	105 537	11,44%	16 645 390	0,15%
0 – 5 000	27 700	3,00%	1 745 487	0,02%
5 000 – 10 000	33 766	3,66%	7 567 831	0,07%
10 000 – 15 000	40 256	4,36%	18 343 084	0,16%
15 000 – 20 000	42 455	4,60%	45 799 008	0,40%
20 000 – 25 000	41 885	4,54%	80 061 942	0,70%
25 000 – 30 000	39 323	4,26%	124 854 150	1,10%
30 000 – 35 000	36 211	3,92%	167 725 134	1,47%
35 000 – 40 000	35 657	3,86%	224 549 290	1,97%
40 000 – 45 000	37 985	4,12%	309 330 420	2,72%
45 000 – 50 000	47 343	5,13%	477 424 721	4,20%
50 000 – 60 000	136 670	14,81%	1 762 905 596	15,50%
60 000 – 70 000	102 669	11,13%	1 717 385 402	15,10%
70 000 – 80 000	66 323	7,19%	1 375 696 772	12,09%
80 000 – 90 000	41 314	4,48%	1 027 166 269	9,03%
90 000 – 100 000	25 486	2,76%	740 257 571	6,51%
100 000 – 150 000	44 518	4,82%	1 721 717 372	15,14%
150 000 – 200 000	9 447	1,02%	568 111 724	4,99%
200 000 – 250 000	3 678	0,40%	297 437 380	2,61%
250 000 – 300 000	1 676	0,18%	170 425 769	1,50%
300 000 – 350 000	923	0,10%	111 463 566	0,98%
350 000 – 400 000	557	0,06%	79 268 067	0,70%
400 000 – 450 000	323	0,04%	52 349 716	0,46%
450 000 – 500 000	245	0,03%	45 599 133	0,40%
500 000 +	753	0,08%	231 284 431	2,03%
Totals	922 700	100,00%	11 375 115 225	100,00%

Information in respect of 56,03% of the total registered taxpayers is reflected in this schedule.

Statistics with regard to taxpayers who earn less than the applicable standard income tax on employees (SITE) limit, are not available and are thus not included in the above figures.

Proposal to tax pension funds axed

(326)

CT 16/2/93

Own Correspondents

JOHANNESBURG. — The Jacobs committee had dropped the proposal to tax pension funds, Finance special adviser Japie Jacobs said yesterday.

He told an AIC/Euromoney banking industry conference in Johannesburg the proposal, which was widely criticised, had been a highly emotional and sensitive issue and had proved to be extremely difficult to implement. "It may help to put the minds of some people at rest if I mention that the proposal that part of the employee's and employer's contribution to a pension fund be non-deductible for tax purposes is dead, if it ever lived."

Life assurers had expected government to limit tax breaks on pension contributions for top income earners in the Budget. However, Jacobs' statement seemed to indicate the idea had been put on the backburner.

Life Offices Association spokesman Jurie Wessels said it had become clear government could not limit tax breaks on pension contributions without overhauling the entire system. "Nothing can be done before the public and private sector's pensions taxation have been placed on an equal footing."

President F W de Klerk said earlier this month the status quo on public servants' taxation would remain in place.

Jacobs said the four-fund approach for taxation of the long-term insurance industry and the abolition of the sixth schedule were generally accepted but banks felt the reduction in the investment period from 10 to five years was likely to cause greater competition for them in this area.

He said the Melamet committee had been appointed to advise on the implemention of the Jacobs committee recommendations and its report should reach government by the end of March. This would allow appropriate legislation to be passed during the current parliamentary session.

Supervision of agents

Jacobs also dealt with the supervision of agents and principals in the financial market. He said supervisors could not protect the public against losses caused by the failures of financial institutions.

In the case of an agent, he said, the risk of the investment rested entirely with the investor and not the agent. "It is up to the investor to ensure that his savings have been invested prudently and profitably."

Star 16/2/93

Plan killed to tax pension fund contributions

(320)

By Sven Lünsche

The Jacobs Committee has shelved its controversial proposal to tax a portion of employer and employee pension contributions.

Dr Japie Jacobs, chairman of the committee, told a banking industry conference yesterday the tax proposals had met widespread resistance from interested parties.

"It may help to put the minds of some people at rest if I mention that the proposal that part of the employee's and employer's contribution to a pension fund be non-deductible for tax purposes is dead," he said.

However, the committee's other key recommendations — the creation of one regulatory body for the financial services industry and replacing the Sixth Schedule — could be legalised before the end of the year.

In terms of the committee's proposals, employees would have had to pay tax on one-third of their pension fund contributions and employers on 20 percent of their contribution at the company tax rate of 48 percent.

The proposals were widely criticised and were also in apparent contradiction with the key findings of the Mouton Committee on the retirement industry, which called on the state to support retirement provision actively through laws and other means.

Commenting on response to the other issues of his report, Jacobs

Dr Japie Jacobs . . . putting people's minds at rest.

said the Melamet Committee, appointed to investigate the implementation of the Jacobs proposals, should reach the Government by the end of March.

"This means there is scope for appropriate legislation to be passed by Parliament during the current session."

Jacobs said a financial regulation policy board could be established soon to co-ordinate the supervisory functions of the two supervisory offices for the financial services industry — the Financial Services Board and the Registrar of Deposit-Taking Institutions.

While this had met with resistance from some banks, it could be an interim step to the eventual merger of the two offices.

The Government was also likely to reject bank proposals that they engage in business similar to that conducted by insurers through their own divisional structures rather than subsidiaries, as suggested by Jacobs.

"While this is their choice, they must be aware of the fact that different classes of business need to be registered and supervised in terms of different Acts."

However, the key proposals, to level the playing field from a tax point of view between banks and insurers, were generally accepted by both industries.

These included the "four-front" approach to the tax base of life insurers, which will allow them to run four separate funds for tax purposes, and replacing the sixth schedule of the Income Tax Act.

The latter has paved the way for insurers to issue tax-exempt investments with no life cover and an investment period that has been brought down from 10 to five years.

At the same conference, the former deputy chief executive of Absa, Piet Liebenberg, said he did not expect the regulatory authorities to allow further large scale concentration of the banking industry.

He expected further rationalisation within the industry only by means of takeovers between smaller and medium-sized banks and internal streamlining.

Liebenberg also predicted that merchant banks could soon become active brokers on the JSE, while bigger banks looked set to take a stake in member firms on the stockmarket.

Pensions tax plan gets the chop

320

SVEN LÜNSCHE

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[redacted]

Keys calls for fiscal checks in constitution

320

CT 17/2/93

From GRETA STEYN

JOHANNESBURG. — Finance Minister Derek Keys yesterday placed economics on the political agenda by calling on constitutional negotiators to build fiscal responsibility into a new constitution.

He told the Frankel, Pollak, Vinderine investment conference SA should include a clause in the constitution preventing the use of borrowings to finance current expenditure. There should be no borrowing for current expenditure at a regional level. "It should be written into the constitution that regions should be self-financing other than on capital expenditure."

ANC spokesman Tito Mboweni rejected the idea of building financial limits into the constitution. "We agree that there should be formal limits, but the constitution should not be used for that aim."

Keys said the whole "government machine" needed to be redesigned to free up resources. "We cannot do what needs to be done simply by being frugal." A better designed structure should come about as a result of political negotiations.

Keys also said the deficit in next month's Budget would be tackled "in a responsible manner and with conviction", but not in a way that slowed down progress towards an economic environment that favoured growth and risk-taking and provided rewards for those who did.

However, speaking at the same conference, Reserve Bank Governor Chris Stals called for "austerity measures" in the Budget to help "bring inflation to its knees".

He called on businesses to constrain price increases and for labour to support average wage and salary rises with corresponding increases in productivity.

The fight against inflation was not to make paupers of people, but to give the millions of unemployed a chance to earn a decent living in a stable financial environment. He rejected the notion of a trade-off between inflation and economic growth.

He also rejected calls to depreciate the rand exchange rate, saying this would make it difficult to pursue existing money supply objectives and would require an upward adjustment of interest rate levels.

On the financial rand, he said one of the key elements in phasing out the unit would be getting rid of the foreign debt standstill.

The finrand had become increasingly volatile as it was now also a speculative currency.

Spotlight on productive capacity

JOHANNESBURG. — SA could finance its own economic growth by investing in productive capacity, rather than relying solely on international funding, the Finance Minister's special adviser Japie Jacobs said at the conference.

Jacobs said many contended that the erosion of capital and ebbing business confidence were responsible for SA's poor economic performance.

However, over the past decade the economy's productive capacity had stagnated and if growth was to be generated, it was imperative that structural and not simply cyclical problems be addressed, he said.

The supply side of the economy needed to be strengthened and human resources enhanced so as to increase labour productivity.

Jacobs warned that before undertaking structural adjustment it was crucial that there was strict fiscal discipline, a goal already embarked upon by the authorities.

(1) Whether any land in the De Hoop nature reserve has been set aside for military purposes; if so, (a) what is the total extent of the land involved and (b) what will become of the rest of the nature reserve;

(2) whether any portion of the land so set aside has been expropriated; if so, (a) for what purposes, (b) at what cost and (c) what is the extent of the land involved;

(3) whether any area in this nature reserve is being or will be used for military purposes; if so, what are the relevant details? B3E

The MINISTER OF DEFENCE:

(1) Yes.

(a) Approximately 18 000 hectares of the De Hoop Nature Reserve as it is known today of which only sections are used for military purposes. This ground, however, was not part of the De Hoop Nature Reserve. It was a rural area owned privately and used mostly as holiday estates, none of which were registered as private nature reserves. Only after expropriation were the properties added to the De Hoop Nature Reserve.

(b) It is managed as a proclaimed nature reserve.

(2) Yes.

(a) Military purposes.

(b) About R10 million.

(c) 18 000 hectares.

(3) Yes. Parts of the area of 18 000 hectares which was added to the original nature reserve, will be used for armament development which is compatible with principles of environmental conservation. Inside the original De Hoop Reserve a 0,02 hectare site is being used as a calibration point.

General Law Amendment Act, 1992: coming into operation

*3. Mr D H M GIBSON asked the Minister of Justice:

(1) Whether section 8 of the General Law Amendment Act, 1992 (Act No 139 of 1992), has come into operation; if not, why not; if so, when;

(2) whether it has been brought to his attention that South African political organisations that are not registered as political parties are allegedly collecting money in foreign countries to be used for political purposes in South Africa;

(3) whether he will make a statement on the matter? B8E

The MINISTER OF JUSTICE:

(1) Yes, on 1 January 1993.

(2) Yes.

(3) A statement is not necessary.

Tax deductions: payments/donations to educational institutions

*6. Mr R M BURROWS asked the Minister of Finance:

(1) Whether, with reference to his reply to Question No 124 on 27 March 1992, he or his Department has as yet found a solution in regard to the deductibility of moneys paid by individual taxpayers for educational purposes at school or college level; if not, why not; if so, what are the relevant details;

(2) what is the current tax policy regarding individuals and/or companies making donations to (a) tertiary institutions, (b) pre-primary schools, (c) primary schools and (d) secondary schools? B18E

The MINISTER OF FINANCE:

(1) It is not the intention to grant any tax relief in respect of school fees. On equity grounds there can be no justification for a tax deduction that would be of benefit to wealthy persons but would afford little or no benefit to the more needy. Furthermore, total Government expenditure on education, expressed as a percentage of both the budget and the gross domestic product, is already markedly higher than that of countries at the same stage of development, and an increased contribution cannot therefore be justified, taking into account the manifold claims on the Exchequer.

(2) It is still not policy to allow donations to pre-primary or primary schools as a tax deductible item. The interdepartmental committee referred to in my predecessor's reply No 124 of 27 March 1992 was instructed to seek solutions to two problems currently being experienced in the application of section 18A of the Income Tax Act, namely:

(a) The system is being abused on an increasing scale, in that certain schools are partly converting their school fees into tax deductible donations.

(b) Under the SITE system, persons earning less than R50 000 per annum do not render tax returns and are thus unable to claim a deduction.

The committee concluded that these problems cannot be satisfactorily resolved. The committee recommended in principle that individual donations to secondary schools also should not be tax deductible. I am accordingly obliged to consider this recommendation and possible alternatives.

Judges: Freemasonry Movement/Afrikaner Broederbond

*8. Mr H D K VAN DER MERWE asked the Minister of Justice:†

(1) Whether his Department has made a survey in order to establish whether any judges are members of the (a) Freemasonry Movement and (b) Afrikaner Broederbond; if so, when;

(2) whether there are any judges who are members of these organisations; if so, how many, in each case;

(3) whether he will make a statement on the matter? B24E

†The MINISTER OF JUSTICE:

(1) No. I would like to draw the hon member's attention to the fact that already during 1965 a judicial commission of inquiry into secret organisations was instituted. The commission found that none of the said organisations rendered itself guilty of any form of treason or intrigue or of attempts to obtain for itself domination, or of harmful or unlawful influencing of the administration of justice.

In the light of the fact that to my knowledge no information exists which suggests the contrary, there was no need for an investigation into the involvement of judges with one of these organisations.

(2) and (3) fall away.

†Mr H D K VAN DER MERWE: Mr Speaker, the hon the Minister did not reply to my question, but arising out of his reply I should now like to ask him directly. Would the hon the Minister ask Mr Justice Goldstone, for example, whether is a member of one or both of these organisations?

†The MINISTER: Mr Speaker, I have put my policy viewpoint very clearly. There was an investigation into the particular organisations and in the absence of any indication to the contrary, namely that such organisations are damaging to the judiciary and/or conduct hostilities, I do not deem it necessary to put such a question to the judge.

†Mr H D K VAN DER MERWE: Mr Speaker, further arising out of the hon the Minister's reply, I should like to ask him whether he is aware that a certain judge resigned from a confidential organisation because—this is the impression we gained—he regarded it as unethical to be a member of such an organisation while also being a judge.

†The MINISTER: Mr Speaker, if a judge has resigned, giving certain subjective reasons, I cannot pass judgment on whether he should have remained there. It is his privilege to decide whether he wants to remain there or not, just as the hon member, Mr H D K van der Merwe, I gather, resigned from one secret organisation and joined another. It is done on the same basis. It is a matter of one's conscience and where one stands with respect ot one's own personal experiences or feelings of guilt, one or the other. [Interjections.]

cont →

News in brief

Plea for VAT exemption

3) Gen (320)

THE Transvaal Agricultural Union (TAU) has asked Finance Minister Mr Derek Keys to exempt certain basic foodstuffs from Value Added Tax (VAT).

In a statement yesterday TAU president Mr Dries Bruwer said essential foodstuffs, such as meat and dairy as well as grain products, should not be subjected to VAT. Apart from the fact that VAT placed an additional burden on consumers, it also increased pressure on the producer because VAT decreased the buying power of consumers.

Sowetan 17/2/93

Keys asked to exempt foodstuffs from VAT

(320) ST 17/2/93

PRETORIA. — The Transvaal Agricultural Union has asked Finance Minister Mr Derek Keys to exempt certain basic foodstuffs from Value-Added Tax.

TAU president Mr Dries Bruwer said essential foodstuffs such as meat and dairy products, as well as grain products, should not be subjected to VAT.

Apart from placing an extra burden on consumers, VAT increased pressure on the producer as it decreased the buying power of consumers.

Mr Bruwer said this meant the producer indirectly had to the extra cost, which was impossible owing to the agricultural sector's financial position.

He said the request was made as it was in the interest of all South Africans to obtain food at affordable prices. — Sapa brown bread. It was part of its commit- phasis is not on playing policeman."

No VAT on food — TAU

810A1 17/2/93

GERALD REILLY

PRETORIA — The Transvaal Agricultural Union (TAU) has made an urgent appeal to Finance Minister Derek Keys to free certain basic foods from VAT.

In a statement yesterday, TAU president Dries Bruwer said the TAU's general council believed this would be in the interests of the vast majority of the population. 820

It was vital that basic foods be maintained at affordable prices.

Essential foods such as meat and dairy products, as well as staple grain products, should be relieved of the price-boosting influence of VAT.

Aside from the fact that VAT on these foods would place a heavy additional burden on consumers, it would also place producers under further pressure because buying power would be reduced and demand would shrink.

Housewives' League immediate past president Lyn Morris said if basic foods were not zero-rated it would be a blow to lower income groups as well as producers.

"However, to be realistic government needs to boost its income and — provided it is not squandered — it is difficult under current conditions to argue for VAT concessions."

Inbreeding cited for high number of heart attacks

KATHRYN STRACHAN

SA HAS the world's highest incidence of a genetic cholesterol disease — and medical experts claim it is caused by inbreeding in some communities.

SA also had the second highest number of fatal heart attacks worldwide, with high cholesterol levels being one of the major causes, Logos Pharmaceuticals spokesman Alyson Prowse said yesterday.

She said heart attacks were the primary cause of early death in SA, killing 31 people a day. Most of these deaths could be prevented.

Statistics showed that one in three men and one in four women would develop heart disease before they reached the age of 60.

"According to medical experts, the three groups most affected are the Jewish, Afrikaner and Asian communities most given to intermarriage," said Prowse.

"These groups suffer from a condition known as familial hypercholesterolaemia, and there are frequent early deaths from heart attacks — often striking people in their early teens and 20s."

Prowse said in order to reduce the incidence of coronary heart disease, a concerted effort to reduce cholesterol levels was needed. Other controllable risk factors were blood pressure and smoking.

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AD120294

Estate duty set to rise as revenue falls

BDM 18/2/93. (320)

THE estate duty rate was expected to increase from 15% to 20% in the Budget because of the low level of current revenue collections, tax experts said yesterday.

The move was seen as a step towards overhauling tax on capital transfers, with government expected eventually to replace estate duties and the donations tax with a capital transfer tax.

An Inland Revenue spokesman said estate duty revenue had fallen from R185m in 1985 to about R70m at present. Increasing the exemption limit to R1m and granting a rebate to the first spouse had had a "dramatic effect on collections". Although the revenue collected from capital transfers was very small in comparison to the total revenue, "every million helped".

Government had accepted the Margo commission's recommendation that estate duties and the donations tax be replaced by a capital transfer tax. While unlikely this year, this was government's ultimate goal, the spokesman said.

KELVIN BROWN

Since interim measures had been introduced in 1988 government had researched a capital transfer tax and had submitted discussion documents to the tax advisory committee.

Institute of Life and Pension Advisors tax spokesman Abri Meiring said it would make sense to increase the estate duty rate to 20% as an interim measure. Some form of wealth tax could be introduced in 1994, Meiring said. This could be in the form of a capital gains tax, a capital transfer tax or a land tax. A capital transfer tax was the most likely because it would be very easy to administer.

Anglo American group tax consultant and SA fiscal think tank chairman Marius van Blerk said the estate duty and donations tax needed to be given more teeth. It would make sense to increase the rate to 20% and to merge the donations tax and estate duties into a single capital transfer tax.

STAR 18/2/93

No relief for fees

Tax relief would not be granted for school fees, as a tax deduction that benefited the wealthy but not the needy could not be justified, Minister of Finance Derek Keys said yesterday.

320

FINANCIAL SERVICES

Sighs of relief

~~200~~ 320

FM 19/2/93.

An acceptance by Japie Jacobs, special adviser to the Finance Minister, that his controversial pension tax reforms cannot fly has been welcomed by the life offices. Yet some assurers, Old Mutual among them, while disliking the Jacobs proposals, agree that taxation of retirement funds could be modified to accelerate government cash flow. Old Mutual GM Garth Griffin is one who believes some changes could be justified.

Others believe the pensions furore took the industry's eyes away from the main thrust of Jacobs's report. "It's a pity there's been so much comment about a four-page section when the other 140-odd pages show excellent insight into how financial services overall should be regulated," says Southern Life assistant GM Tony Davey.

Jacobs tried to develop an "holistic" approach to regulating all financial services. Some institutions likely to be affected were called to a meeting in Pretoria last week but no details of the discussion have emerged. ■

Higher tax only option, says expert

320

STAR 20/2/93

FINANCE STAFF

A DRASTIC cut in Government expenditure was vital, Sanlam chief economist Johan Louw said in Cape Town yesterday. Writing in Sanlam's latest economic survey, Louw said: "On top of that, Finance Minister Derek Keys will have virtually no option but to increase taxes in his first Budget.

"The alternative is an unacceptably large deficit in Government finances, even after expenditure has been reduced," he said.

At the same time Keys had to be careful not to seriously dampen general economic activity, "so the increases are expected to be mild".

Sanlam expected the following change to taxes to be made:

- VAT: An increase from the present 10 percent to 13 percent. However, a larger range of basic foods and services would be exempt from VAT — alternatively, the rate might be increased to 12 percent without further exemptions.
- Fuel levy: An increase of about 10c a litre.
- Higher excise duties.
- Corporation tax: No change.

Louw said these proposals would result in a revenue increase for the State of about 16 percent. This would mean a deficit before lending in the order of R22 billion, or 6 percent of GDP.

The deficit before borrowing for the 1992/93 financial year was likely to be about R30 billion, or 9 percent of GDP. A deficit of R16 billion was budgeted.

DEREK KEYS: Must be careful not to dampen economic activity.

Regarding the economy, Louw expected no noteworthy recovery before late in 1993.

He said favourable developments such as the lower inflation rate and lower interest rates had been overshadowed by the negative influences.

These included the continuing violence and unstable political situation, poor export opportunities due to limited foreign growth, the low gold price, lower domestic spending due to the impoverishment of consumers, and disappointing fixed investment.

The drought also remained a factor and the Budget was expected to have a mildly dampening effect on general economic activity.

"At this stage a real economic growth rate of about 0,5 percent is expected for 1993, compared with an estimated rate of minus 2 percent for 1992, minus 0,4 for 1991 and minus 0,5 for 1990," Louw said.

Foreigners get interest tax free

320

THE Minister of Finance Derek Keys has announced that non-residents will be exempt from tax on interest received and accrued before June 1992.

On June 3 1992 Keys exempted from tax the interest receipts and accruals of individuals not ordinarily resident in SA. CT 23/2/93

Non-residents have since expressed concern about the fact that the Commissioner for Inland Revenue maintains the authority to act on untaxed interest received or accrued before June 1992.

PLAN PROPERLY to earn the most from RA contributions

Big Benefits: Retirement annuities can be planned in various ways in order to gain maximum tax relief.

RAs save tax, secure future

(320)

STmn 25/12/93.

The introduction of retirement annuity funds in 1960 afforded self-employed people the opportunity to effect individual pension plans while enjoying tax relief on their contributions.

Currently the deductibility of current contributions to a retirement annuity fund is limited to the greatest of: 15 percent of income derived from non-retirement-funding employment; or R3 500 less any deductible pension fund contributions; or R1 750.

Where the taxpayer is a married woman the amounts of R3 500 and R1 750 in the formula will be R1 750 and R875 respectively.

Qualify

Any contributions which do not qualify for deduction from the taxpayer's income for that year may be carried forward to current contributions in the next year of assessment. This applies when a member continues to contribute more to his retirement annuity fund than is deductible, which should be recorded and taken into consideration to increase the tax-free portion of the lump sum benefits received on death or retirement.

A taxpayer may make a single premium contribution to a retirement annuity fund that could be deductible. He may also vary his contributions each year by effecting a series of single premium retirement annuity funds after having calculated his maximum deduction in respect of each year.

In addition, reinstatement contributions of up to R1 800 to a retirement annuity fund are deductible (R900 in the case of a married woman).

Any portion of a reinstatement contribution which has been disallowed because it exceeds the amount of the deduction allowable in one year may be carried forward and considered as a contribution to the next year.

Retha Roux, manager of the tax division at Deloitte & Touche, explains this complicated subject: "Employees who are lucky enough to be members of a non-contributory pension scheme may obtain a tax planning advantage by contributing a full R3 500 annually to a retirement annuity fund.

"This would be fully deductible for tax purposes. In this way, executives of the company could enjoy membership of both a pension fund and a retirement annuity fund, have the full cost of the pension fund deducted in the company each of them would also be permitted to claim R3 500 annually in respect of retirement annuity fund contributions.

"Where a husband remains taxable on certain types of income derived by his wife, she has a choice whether to claim her contributions as a deduction against her income or to permit her husband to claim the deduction. Where the husband claims a deduction, the limits applicable to him and not those applicable to the married woman, will apply."

In years of assessment ending on or before February 28 1991 the Commissioner for Inland Revenue adopted the practice of allowing a husband to deduct contributions made by his wife up to the maximum determined by his taxable income if his wife had no taxable income or insufficient taxable income from which to deduct her own contributions. This practice was discontinued in March 1991.

"As a reuslt of recent changes in legislation, a married woman who has made contributions now has the option either to claim the deduction herself, or to have the option deemed to have been made by her husband for tax purposes."

The option is only available if the wife became a member of the retirement annuity fund before March 1992. This concession will, however, only apply until February 28 1997. "Unfortunately is not clear whether a member includes a contributing member as well as a paid-up member," Roux said.

Taxing question of retirement

STAR 25/2/93 (320)

When looking at the retirement planning scenario, it is virtually impossible to separate the tax from other considerations.

Accepting the need for retirement provisions as an unassailable fact because so few people can retire and maintain their standard of living, it is really the individual's tax preferences which will determine the type of product that he or she chooses to supplement the existing retirement provisions.

Virtually all products offered by Norwich Life can fulfil the role of a retirement provision — a pension, provident or benefit fund in the cause of employer-driven schemes, or a retirement annuity or a straight-forward endowment policy.

Other products that may be considered range from deferred compensation schemes and annuities to an investment in unit trusts.

In the case of pension and provident funds, the build-up in the fund is not taxed in the hands of the life assurer while contributions made by the employer are deductible for tax purposes. The same applies where an individual makes contributions to a retirement annuity fund. This results in the return, or investment yield on these schemes being marginally higher than that on other types of investment.

Chris van der Walt, Norwich Life manager of legal services says: "The returns achieved by Norwich Life on these funds have consistently outperformed the rate of inflation, providing the investor with a real rate of return.

"It should be borne in mind by the investor that the proceeds of pension and provident funds as well as retirement annuities are subject to tax at the individual's average rate, once the prescribed tax free limits are exceeded, whilst endowment policies and the capital growth on unit trusts are not taxed in the individual's hands.

"The role of the financial advisor is therefore to advise the client on the best mix of all these products ..."

With the cost of health care ever increasing, it is essential that retirement planning should also involve provision for health care after retirement, as one major operation after retirement can effectively ruin the most carefully made plans.

Norwich Life has specifically designed the Nu-Med Benefit Fund (for employers) and the New-Med range of health care products (for the individual). They not only cater for a major medical disaster while still in full-time employment, but also after retirement.

In addition to the individual purchasing cover for such a disaster, a substantial cash value is also accumulated which can be used to pay further premiums after retirement or which may be accessed tax free in the event of a medical disaster.

People who are concerned about the rising cost of medical expenses as well as employers who will qualify for tax deductions on contributions made to the benefit fund will find this product particularly attractive.

LABOUR BROKERS

FM 26/2/93

(320)

Much ado

The public outcry over the new ~~labour~~ broker requirements in the Paye system is out of all proportion to the effects of the changes. If a CC is being run honestly, a taxpayer forced back into the Paye net will lose no more than a timing benefit in paying tax on earnings.

The benefit was achieved despite differences in the top marginal rates of tax for individuals (43%) and CCs (48%). This is because the CC can produce zero profit, by paying (tax deductible) directors' fees out of gross earnings. As directors' fees paid by private companies and CCs are taxed only on provisional and not monthly Paye, the timing benefit is usually substantial.

The new requirements that Paye be deducted at 48% from the CC's earnings have put an end to this benefit, unless it can get an exemption certificate from Revenue.

There are two reasons for Revenue's move.

One is that taxpayers can be tempted to spend all their gross (ie pre-tax) income and may be without funds when the time comes

FM 26/2/93 (320)

to pay provisional tax. ~~This~~ problem persuaded inland revenue departments worldwide to adopy Paye systems.

The second reason is that there is another dimension to the use of CCs to receive earnings. To reduce the costs of small entrepreneurs, CCs need not have auditors. This concession makes it easy for an unscrupulous taxpayer, receiving remuneration through a CC, to channel personal expenditure through its books and claim deductions. This is a form of evasion which hard-pressed assessors find hard to police. The practice has cost Revenue vast sums in recent years.

Worse still, there is a category of artisans and technicians — mostly temporary residents doing contract work in SA — who have managed to avoid tax altogether, by channelling their earnings through a CC, drawing the money out and leaving the country without paying provisional tax.

The remaining (honest) taxpayers have to foot the bill for those who fail to pay. ■

Overhaul of tax system proposed

STAR 26/2/93

Consumer Reporter

The Congress of South African Trade Unions (Cosatu) has made several proposals it says will restore the legitimacy and credibility of the budgeting process. 320

Cosatu said in a media release yesterday that it would submit these proposals for discussion at the Co-ordinating Committee on VAT (VCC) Budget summit on Monday. (77)

Its proposals include:

- The appointment of a tax commission to review the entire tax system to make it more equitable and efficient, and to relieve the tax burden on the poor.
- The appointment of an audit commission to supervise all government spending programmes, to investigate mismanagement, waste and corruption and to make recommendations on how to avoid them in future.

● VAT body seeks summit - Page 13

VAT body seeks Budget summit

STAR 26/2/93 (320)

Consumer Reporter

The Co-ordinating Committee on VAT (VCC) has called for an urgent Budget summit between trade unions, political organisations, business and church groups.

The VCC wishes to discuss the March 17 Budget and the "lack of progress" in persuading the Government to zero-rate basic foods and services.

VCC chairman Bernie Fanaroff said yesterday that the summit would look at the "legitimacy and credibility" of the Budget in the light of high food prices, and the Government's failure to improve poverty relief programmes and to exempt basic foods and services from VAT.

Fanaroff said although the VCC believed that progress towards reaching an agreement with the Government had been made last year on zero-rating basic foods, nothing had been done since then.

Although the VCC would be meeting other Ministers and relevant corporations soon to discuss zero-rating of basic services, medicines and medical services, it was clear this would not be accommodated in the Budget.

Fanaroff said the VCC would not support an overall increase in the VAT rate.

INLAND REVENUE FM 26/2/93

Transition blues

(320)

There has been a sharp increase in the number of Revenue staff opting for early retirement — 126, up from 52 in 1991 and 36 in 1990 — though resignations have diminished because of poor job prospects in the private sector. Inland Revenue chief director Teubes Prinsloo says the early retirements of 1992 (from a total complement of 8 359 at the end of last month) were mostly of junior employees, but included six deputy directors. The 126 also includes early retirements because of ill-health.

Rumour has it in the accounting profession that many Revenue staffers — certainly at the Johannesburg office — have been anxious to take early retirement for fear of what the future might hold under a new government which might want to practise some form of affirmative action. Market forces are already causing a net influx of black staff, a healthy and overdue development provided it is not based on artificial preferment.

Commonsense would dictate that the hour is ripe to implement the idea of an independent charter for employment at Inland Revenue (*FM* January 17 1992). This would enable Revenue to reconstruct its salary structure and other conditions of employment to attract highly qualified professionals from the private sector — a move which would pay off in increased levels of tax collection.

This argument is proved by the extra collections brought in by the "army worms" —

FM 26/2/93 (320)

young accountants working at Inland Revenue in lieu of military service.

The move could also provide for recruitment strictly on the basis of merit and remove the service from political pressure for affirmative action based on ethnic affiliation without proper regard for merit. Considering the desperate need of this and any future administration for revenue (a priority far overriding patronage), this proposal should enjoy the support of all mainstream political parties ■

Protests planned against tax hikes

Keys to meet Cosatu for Budget talks

BDay 26/2/93

(320)

DIRK HARTFORD
and LLOYD COUTTS

FINANCE Minister Derek Keys has called an urgent meeting with Cosatu today to discuss the Budget as disclosures of government corruption fuel the labour movement's opposition to increased VAT, PAYE or petrol tax.

Cosatu is believed to be preparing a series of actions at the offices of the Receiver of Revenue around the country to highlight its demands to end government corruption and for a Budget directed at creating jobs and providing housing and education.

A spokesman for Keys was not able to comment on the meeting.

A Cosatu spokesman confirmed Keys was due to meet union leaders in the second week of March, but had asked for the meeting today. He would not comment "at this stage" on Cosatu's planned actions around the Budget.

However, a Cosatu source said high-profile Cosatu leaders were planning occupations of Receiver offices during the week before the Budget announcement. And lunchtime demonstrations, meetings and rallies — planned for March 16 — were being discussed in Cosatu structures.

He said Cosatu was particularly irked by the role of the IMF, which it believed was pressing government not to zero-rate basic foodstuffs. "The IMF gives us one impression and then goes to government with another agenda," he said.

Cosatu was opposed to any allocations to the "bantustans, tricameral Parliament and secret operations" and wants to stop all golden handshakes, he said.

Meanwhile, the Co-ordinating Committee on VAT has called a meeting of a wide range of organisations to discuss the Budget. It said yesterday Cosatu, the ANC, the PAC, small business organisations and churches, among others, would meet in Johannesburg because of "the continuing crisis of poverty and the crisis of legitimacy and credibility of the Budget".

The meeting would discuss the lack of progress in the zero-rating of food and basic services, continuing high food prices and government's failure to improve the poverty relief programme.

The committee said it had made it clear to government that it would not support any overall increase in the VAT rate and that money to pay for zero-rating should come from an end to wasteful government spending and corruption.

Although the committee would soon be meeting Ministers and relevant corporations to discuss zero-rating of basic services, medicine and medical services, it was clear that these would not be accommodated in the Budget.

It said the key issue at the meeting was likely to be the disclosures of "gross mismanagement, waste and corruption in government spending".

Proposals included the establishment of a tax commission to review the tax system with a view to making it more equitable and efficient, and an audit commission to supervise all government spending programmes.

Interest you earn is tax free

Sowetan

26/2/93

■ Unit trusts are a grey area:

WHEN an investor reaps the profits of his savings in unit trusts, the actual growth of the funds are not taxable. (320)

All dividends and the first R2 000 of the entire interest income earned are tax free.

"The increase in value on units in a unit trust can be compared to that on a house," says Cilliers Smith, a senior marketing manager at Sanlam Unit Trusts.

"When a house is sold and the capital appreciation is realised, the profit is not taxed."

Since unit trusts are regarded as medium to long term investment mechanisms, they are generally regarded as tax efficient.

Profits accruing from the sale

According to Smith, the Income Tax Act does not make specific provisions in respect of the profit accruing from the sale of units.

He says unit trusts are a grey area as far as tax is concerned.

He says an investor could be exempted from paying tax if he can prove to the taxman that his intentions are of a long-term nature.

VAT Budget alarm

Sowetan 11 3 93 (3.20)

■ **Committee won't support increase in VAT:**

By Ike Motsapi

THE Co-ordinating Committee on value added tax will hold an urgent meeting today to discuss the Government's Budget to be presented to Parliament on March 17.

The meeting, which will be attended by representatives from the Congress of South African Trade Unions, National Council of Trade Unions, African National Congress, Pan Africanist Congress, small business organisations, churches and many other bodies, will start at 9am at the Johannesburger Hotel in Johannesburg.

Key speakers will be Mr Jay Naidoo, general secretary of the Congress of SA Trade Unions, and Mrs Ina Perlman, executive director of Operation Hunger.

Dr Bennie Fanaroff, chairman of the co-ordinating committee, said the meeting was necessary because the committee was concerned about continuing poverty and the Value Added Tax on food and basic services.

Public has lost faith in taxes, says Sacob

BDay 26/12/93

GAVIN DU VENAGE

WIDESPREAD corruption uncovered in government departments had undermined the sense of "value for money" the public expected for their tax contributions, Sacob president Spencer Sterling said yesterday.

He said strong action had to be taken to restore the public's faith in the worth of their tax contributions, and called for stricter control measures and prosecution of those suspected of fraud.

Sacob was "deeply concerned" that many of the recommendations submitted in a joint Sacob/Afrikaanse Handelsinstitut report three years ago had been ignored.

(320)

Copies of the ~~report on~~ institutional budgetry procedure had been handed to relevant government departments, but many of the recommendations had never been put into use, Sterling said.

Tax increases predicted

STAR 27/2/93. (320)

FINANCE STAFF

THE Budget next month will hold important signals for business on the direction of inflation, says Econometrix director Dr Azar Jammine. To deal with the huge deficit, Finance Minister Derek Keys's plan would probably be made up of a mix of borrowing more money, cutting Government expenditure and increasing taxes, Jammine told businessmen in Johannesburg this week.

He said VAT would probably go up to 12 percent and personal taxes would also be raised, particularly on the top earners, as a quid pro quo to persuade organised labour of the need to increase VAT. It was important to raise taxes to fight inflation in the long term. If Keys were to borrow more money to finance the deficit, expected to be R30 billion, without raising taxes, the country risked falling into a debt trap.

As debt continued to mount, it would eventually reach a stage where the Government could not raise taxes fast enough to pay the interest on the debt. In an attempt to get out of this fix, more money would have to be printed, leading to soaring inflation. However, Jammine expected that inflation would remain at its current levels of around 10 percent for the next two years because monetary supply had stabilised.

Businesses should build their financial strategy with a keen eye on inflation rate movements, he cautioned. If inflation was going to rise, businesses should then invest in equities and build up stock levels to become non-liquid.

If inflation were to drop further, managers should invest in gilts and property and avoid building up stock. Because of the expected lacklustre economic performance, Jammine advised business managers to keep stock levels low and be wary of investing in equities because returns were unlikely to be sparkling.

PAC, Govt to meet in Gaborone today

Sowetan 1/3/93.

■ **Crucial issue of Apla high on agenda:**

By Themba Molefe
Political Reporter

THE Pan Africanist Congress and the Government meet in Gaborone today in a face-to-face encounter which includes the Azanian People's Liberation Army (Apla) high command and South Africa's securocrats.

The PAC's armed struggle will be at the top of the agenda, both sides have confirmed, with the Government describing Apla's insurgence as "terrorist".

The one-day meeting precedes a multiparty planning conference in Johannesburg on Friday which already hangs in the balance after attempts to woo both the PAC and the Azanian People's Organisation floundered last week.

This follows the African National Congress's unsuccessful attempt at shuttle diplomacy which tried to get a commitment from both Azapo and the PAC.

Azapo has indicated it would not be at Friday's talks which it sees as an attempt to revive Codesa. The organisation wants a united front of the ANC, PAC and itself before facing the Government.

The Government's team at today's meeting with the PAC will be led by Law and Order Minister Mr Hernus Kriel, whose delegation will comprise Deputy Minister of Justice and of Defence Mr Danie Schutte and Deputy Minister of Constitutional Development Mr Fanus Schoeman.

The SAP, SADF and National Intelligence Service will be represented by their most senior generals while Apla chief commander Mr Sabelo Phama and Apla political commissar Mr Romero Daniels will lead their delegation from Tanzania.

PAC secretary-general Mr Benny Alexander will be joined by foreign affairs secretary Mr Gora Ebrahim, political affairs secretary Mr Jaki Seroke, legal affairs secretary Mr Willie Seriti and national organiser Mr Maxwell Nemadzivhanani.

The reason for the talks being held outside South Africa was to facilitate the attendance of Apla chiefs.

VAT Budget alarm

Sowetan 1/3/93

■ **Committee won't support increase in VAT:**

(320)

By Ike Motsapi

THE Co-ordinating Committee on value added tax will hold an urgent meeting today to discuss the Government's Budget to be presented to Parliament on March 17.

The meeting, which will be attended by representatives from the Congress of South African Trade Unions, National Council of Trade Unions, African National Congress, Pan Africanist Congress, small business organisations, churches and many other bodies, will start at 9am at the Johannesburger Hotel in Johannesburg.

Key speakers will be Mr Jay Naidoo, general secretary of the Congress of SA Trade Unions, and Mrs Ina Perlman, executive director of Operation Hunger.

Dr Bennie Fanaroff, chairman of the co-ordinating committee, said the meeting was necessary because the committee was concerned about continuing poverty and the Value Added Tax on food and basic services.

News in brief

Girlfriend gang-raped

FOUR men — two of them armed with knives and one with a firearm — tied up a man and raped his 29-year-old girlfriend when they parked at The Wilds near Hillbrow, Johannesburg, at the weekend.

Police spokesman Warrant Officer Andy Pieke said Hillbrow police were investigating. He appealed to couples not to park in deserted places and to lock their car doors if they did.

Mercenary soldiers

REPORTS from both factions involved in the civil war in Angola are that former SA Defence Force members have turned mercenary and are fighting for Unita and that country's government forces — at a price.

The Ministry of Defence has reportedly released the names of at least four soldiers of fortune who have left the country to fight in Angola's renewed civil war.

That country was plunged into civil war again after Unita leader Dr Jonas Savimbi refused to accept the outcome of elections in Angola last October.

Defence Minister Mr Gene Louw warned that any members of South Africa's permanent or citizen force who became mercenaries were violating the country's laws.

Sowetan 1/3/93.

VAT committee will tell Keys to probe corruption

BDM 2/3/93.

(320)

LLOYD COUTTS

THE Co-ordinating Committee on VAT will go into talks with Finance Minister Derek Keys on March 9 demanding inquiries into taxation and corruption, an emergency relief scheme and a fund to implement a public works programme.

Cosatu proposals aimed at addressing poverty, waste and corruption were backed by a wide range of organisations at a summit in Johannesburg yesterday, called in anticipation of Keys's Budget speech on March 17.

Yesterday's meeting agreed to call for zero-rating basic foodstuffs, establishment of an emergency feeding scheme, implementation of public works programmes and equalisation of pensions.

It also agreed to call for an independent audit commission to investigate mismanagement and corruption by government, and an independent tax commission aimed at achieving an equitable, effective and efficient distribution of tax.

The Cosatu proposals called for commissions to report to the transitional executive council by September 1993.

Cosatu proposals for the stabilisation of basic food prices, transparency on how petrol tax is used and an end to "golden handshakes" and buy-backs on state pensions were accepted.

Committee spokesman Bernie Fanaroff said the ANC delegation to the summit had registered its opposition to increases in VAT or taxes as a means to make up a budget deficit.

Fanaroff said 3-3,52% of the 10% VAT levy was going to fund corruption, if estimates of R5bn lost through corruption were correct.

The summit was attended by government economic adviser Japie Jacobs who had emphasised government's need to address the question of growth and deficit.

"The only way we can interpret that is to mean we're going to be paying more," Fanaroff said.

The committee will meet Health Minister Rina Venter on March 4, Eskom on March 9 and the Food Logistics Forum on March 29.

Sapa reports the committee has also recommended that government should "assist small business "in respect of the effects of VAT", and that there should be parity in state pensions.

Fanaroff said VAT had not decreased retail prices nor increased capital investment as the government had promised.

Court told of 'R4,5m deal for tax break'

SUSAN RUSSELL

FORMER Allied MD Kevin de Villiers denied in the Rand Supreme Court yesterday that he had signed a R4,5m sponsorship contract so the banking group could obtain tax benefits it was not entitled to.

The agreement, arising out of Allied's sponsorship of SA yachtsman John Martin, was concluded by De Villiers and marketing company Tytherley Investments in September 1990, before the merger that formed Absa the following year.

Tytherley Investments, represented by MD Peter Mancer, is suing Absa for R1,5m — part payment of the R4,5m contract.

Absa is defending the action, claiming the agreement was never meant to be a binding contract. (320)

The banking group alleges the contract was a device created to enable Allied unlawfully to claim deductions under the Income Tax Act, which allowed exporters added tax benefits on marketing expenditure abroad. BDAY 2/3/93

De Villiers said he had not been involved in the first leg of the John Martin sponsor-

☐ To Page 2

Tax break BDAY 2/3/93.

(320) ☐ From Page 1

ship. His involvement began with the second stage in early 1990 when he had concluded two contracts with Mancer and his company. Mancer had then approached him and offered the Allied exclusive European television rights to the 1991 BOC yacht race for R4,5m.

De Villiers said he had told Mancer that if the bank took up the R4,5m offer, the two existing contracts, worth R2,1m, had to be done for free.

He said he had also negotiated with Mancer a protracted period for payment of the R4,5m.

He had been aware the company could qualify for tax deductions on marketing expenditure abroad and had understood that for every R1m spent, the Allied would effectively pay R250 000.

De Villiers had not believed he would get the agreement past the Allied board without clearance from the Receiver of Revenue that the deal would qualify for a deduction.

He and Mancer had attended what De Villiers described as a "reconnaissance" meeting.

"I wasn't a tax expert, but to my mind the rules weren't always very clear and a lot depended on how the Receiver interpreted them. If he was well disposed he couldn't break the rules, but he could interpret them favourably. My feeling was that the Receiver was well disposed."

The Receiver had subsequently confirmed that the acquisition of European TV rights would qualify for a deduction. Under cross-examination it was put to De Villiers by Absa counsel M Tslentis, SC, that by acquiring the two earlier contracts worth R2,1m for free, Allied had in fact bought the TV rights for R2,4m.

"That's one interpretation," De Villiers replied.

"It is not an interpretation, Mr de Villiers," Tslentis said, "it's a commercial reality."

De Villiers repeated that this was an interpretation and as far as he was concerned he had entered into a R4,5m contract and obtained the other two contracts for free.

Evidence continues today.

Probe State graft call by VCC people (320)

■ **Corruption 'responsible for one third of VAT':** Sowetan 2/3/93.

THE VAT Coordinating Committee (VCC) yesterday called for an independent audit commission to investigate mismanagement and corruption by the Government.

VCC spokesman Dr Bernie Fannaroff said Government mismanagement and corruption were responsible for an estimated one third of the 10 percent Value Added Tax.

The VCC also adopted a proposal for the establishment of a tax commission "to achieve an equitable, effective and efficient distribution of tax".

The commission should aim to relieve the unequal burden of tax presently placed on the poor, said Fannaroff.

Both commissions were proposed by the Congress of SA Trade Unions. — *Sapa.*

Apologise over VAT, Govt urged

Star 2/3/93

(320)

By Zingisa Mkhuma
Consumer Reporter

The Government should apologise to the public for turning value added tax into a revenue-collecting machine, VAT Co-ordinating Committee (VCC) spokesman Dr Bernie Fanaroff said yesterday.

Fanaroff, who was speaking at a Budget summit in Johannesburg, said the main purpose of VAT was to bring down production costs and increase capital investment, but the Government had turned it into a revenue-collecting machine.

The summit was held to discuss the March 17 Budget and the "lack of progress" in persuading the Government to zero-rate basic foods and some services.

Fanaroff, however, said an agreement on zero-rating could still be reached with the Government after further talks.

He added that the cost of Government corruption and mismanagement was equivalent to 3 percentage points of the 10 percent of VAT.

The summit was attended by delegates from the ANC, PAC, Cosatu, Nactu, church groups and small-business organisations.

VCC and Cosatu delegates will meet Finance Minister Derek Keys on March 9. Cosatu's proposals, which were adopted at the summit, will then be tabled.

The proposals include the zero-rating of basic foods, electricity, water, medicine and medical services; assistance for small business in respect of the effects of VAT; the urgent establishment of an emergency feeding scheme; and the immediate equalisation of pensions.

Other proposals are the disclosure of how tax on petrol is used, the stabilisation of basic food prices, and that expenditure on areas of corruption and waste be cut.

Call for VAT investigation

320

JOHANNESBURG. — The VAT Co-ordinating Committee (VCC) yesterday called for an independent audit commission to investigate government mismanagement and corruption.

VCC spokesman Dr Bernie Fannaroff said government mismanagement and corruption were responsible for an estimated one third of the 10% VAT.

CT 2/3/93

The VCC also proposed the establishment of a tax commission "to achieve an equitable, effective and efficient distribution of tax". — Sapa

Hints of tax increases

Budget will be unpopular, warns Jacobs

BIDAM 3/3/93 320

LINDA ENSOR

CAPE TOWN — This Budget could well go down as the most unpopular in living memory, Finance special adviser Japie Jacobs said yesterday.

Hinting strongly of the inevitability of tax increases, he said the effect of the Budget would be deflationary. Unemployment levels were expected to rise.

He told Sanlam financial advisers it was a pity the first Budget presented by Finance Minister Derek Keys would be in such difficult circumstances. "We are very, very reluctant in a period of recession ... even stagnation, to increase taxes but we cannot finance services at prevailing standards. We will have to adjust and reduce government consumption expenditure gradually in order to make more resources available for productive investment. Our long-term goal is to bring individual and corporate tax rates down but conditions are not right to do this now."

Jacobs stressed the Budget would tackle structural economic problems. The most important of these were the Budget deficit of about 9% of GDP and government dissaving (currently 7% of GDP).

"The impact of the Budget cannot be stimulatory. It will reduce dissaving but its overall impact on the economy will be somewhat deflationary."

The effect of economic restructuring would inevitably be that the economy would go down for two years and unemployment would probably increase. To compensate, government would consider public works and job-creating programmes in circumstances where an early economic turnaround was not likely.

Jacobs said he had held discussions with World Bank economists this week, and they felt confident about the economy as long as fundamental problems were addressed correctly. Referring to the new US economic package, he said increasing taxes was unpopular but necessary to put the Budget on the proper basis.

Jacobs said pension fund taxation would not be touched on in the Budget, but he would not comment on speculation regarding a tax on dividends, on state pension funds or on a further decrease in marketable securities tax.

He said the long-term economic model assumed an average annual economic growth rate of 3,6% over the next five years, reaching 4,5% by 1997. It was hoped by 1997 to absorb the annual increase in the labour force of about 400 000.

General savings would have to increase from the 17% of GDP to 26% — implying a growth of nine percentage points in GDP, equal to about R25bn. A further aim was to increase fixed investment to 22% of GDP (7% state and 15% private sector).

● See Pages 3 and 10

Sacob cautions on tax increases

BDAY 3/3/93 (320)

LINDA ENSOR

CAPE TOWN — Tax increases in the Budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob director-general Raymond Parsons said at a news briefing yesterday.

He noted in order to place the economy on a more productive basis, the tax burden should not increase and urged government to accept that the best way to address the Budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession. Sacob believed a VAT increase would place more pressure on disposable incomes and have inflationary consequences.

While Sacob estimated an increase in VAT rate to 13% would raise an additional R3,5bn and increases in fuel and other indirect taxes could add about R1bn, increased taxes would reduce collections in other areas.

Parsons said one of the major tasks of the upcoming Budget was to guard against "overkill" as wrong decisions could easily push the precarious economy further into recession.

Finance Minister Derek Keys was faced with a difficult balancing act.

"On the one hand he needs to give attention to the structural issues, and on the other he is faced with demands for additional government consumption expenditure set against a narrow tax base that has little, if anything, to give."

Parsons believed government had little option but to try and reduce its spending in real terms further, and might have to accept a deficit higher than 6% if it was unable to do so.

To achieve a deficit before borrowing of 6% of GDP — assuming there were no tax increases, GDP grew 1%, an average inflation rate of 9,5% and about R8bn in additional tax revenue — government expenditure would have to be cut by 9,4% in real terms. This appeared unlikely.

The two other alternatives proposed were for no tax increases and a 3% real cut in government spending which would bring the deficit down to 7,8% of GDP or for R5bn in additional tax and a 3% cut in real spending in which case the deficit would fall to 6,5% of GDP.

The worst combination would be higher direct and indirect taxes and a cut in government spending.

Parsons said the business community would judge the Budget on the basis of two criteria, namely the extent to which it helped rebuild business and consumer confidence and the extent to which it recognised present realities but also provided a clear indication of the direction to be pursued in future.

Parsons stressed of equal importance to the Budget were political developments and he urged that when multiparty political negotiations resumed, they should include an economic dimension.

Ackerman in 'last-gasp' plea on VAT-free foods

GERALD REILLY 320

PRETORIA — Food Logistics Forum joint chairman Raymond Ackerman yesterday made a "last gasp" plea to Finance Minister Derek Keys on behalf of the forum to free more basic food items from VAT.

Ackerman said the forum had repeatedly stressed to government the crucial need for unloading the tax from essential foods.

Obviously if this were agreed to some other source would have to be bled to compensate for lost revenue. "But so be it. Unemployment and poverty and resulting hunger are spreading in this country and the least a compassionate government can do is to cheapen basic foods," Ackerman said.

Economists said yesterday government was likely to give way for two sound reasons — humanitarian and political. BDAY 3/3/93

Ackerman stressed to scrap VAT on basic foods would be a goodwill gesture which would greatly improve the environment for negotiations.

Earlier in the week the Co-ordinating Committee on VAT called for a zero rating of basic foods and the establishment of an emergency feeding scheme.

Econometrix director Azar Jammine said the likelihood of a variable VAT system being imposed was strong.

This would allow a freeing of a range of basic foods from VAT but would necessitate an increase of as much as 15% in items not classified as luxuries.

NEWS FEATURE *Swords drawn to fight Government after revelations of wasting money*

VAT Budget blues may turn to blows

Sowetan 3/3/93

By Mzimkulu Malunga

UNPOPULAR TAX Finance Minister is in a tight corner over tax: 320

TENSION IS MOUNTING AS Finance Minister Derek Keys prepares for his Budget on March 17.

During a budget summit held in Johannesburg this week, political organisations ranging from the ANC, PAC, small business groups, the trade union movement as well as a number of non-Governmental organisations, unanimously decided to reject the forthcoming Budget.

The centre of the dispute is the Government's attempt to mobilise public opinion to raise taxes particularly the unpopular Value-Added Tax.

Widening the gap between the viewpoint of the Government and organisations like the VAT Co-ordinating Committee (VCC), is the massive mismanagement of public funds by the Pretoria administration.

Rumour denied

There is a rumour that a number of organisations, including the VCC, which opposed the implementation of VAT in 1991, had accepted the Government's proposal to increase VAT to about 13 percent during the current Budget.

But in the light of revelations of widespread Government corruption, where ministers are paid millions from taxpayers' money to stay in their homes, these groups felt there was no justification for tax hikes.

Cosatu's representative, Neil Coleman, told *Sowetan* that at no point had the VCC agreed to an increase in the rate at which VAT is levied.

Even during previous contact with Keys, the VCC reiterated its opposition to any form of tax hikes. "We made it clear to Keys that any tax increases would be unacceptable," says Coleman.

The Government' corruption scandals have not only sparked anger among those who attended the Budget summit yesterday but the business community as well.

Last week the influential South African Chamber of Business (Sacob) expressed its concern about the revelations and called for vigorous action to restore public confidence in the Government and how their money is spent.

Of its business confidence index for January, Sacob voiced its anguish over the skyrocketing Government debt, which is expected to increase to around R30 billion during the 1993 Budget.

There are internal consultations of the VCC on the types of action to be taken "around Budget day".

The organisation says basic foodstuffs as well as water, electricity, medicine and medical services have to be exempted from VAT altogether.

Small business people should be assisted to cope with the effects VAT has on their enterprises, argues the VCC.

Intensification of a properly structured poverty relief programme in the form of feeding schemes is needed as a matter of urgency. The VCC will meet Health Minister Rina Venter on March 29 to discuss the issue.

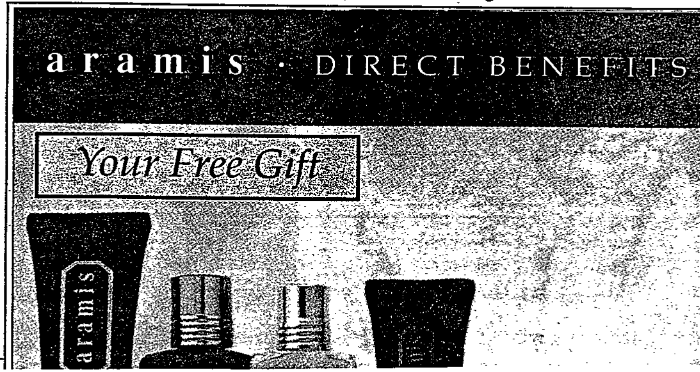
The VCC says there is a need to establish a fund for a major reconstruction programme, which would not only focus on relief projects but on job creation as well.

"We do not believe the current Government has the political will to implement this programme but we say it has the public's money, therefore they have to establish such a fund," he says.

The administration of such a fund should be jointly handled by broadbased organisations such as the National Economic Forum, the Drought Relief Forum and the National Housing Forum.

Equalisation of State pensions must also be placed high on the agenda.

Derek Keys ... tension mounting.



Budget faces 'death trap'

Sowetan 3/3/93.

320

By Ismail Lagardien
Political Correspondent

■ MOLOTOV COCKTAIL Higher taxes without cuts in spending will be explosive:

SOUTH AFRICA'S ECONOMY WAS in "the danger zone" and the country could land in "a death trap" if the next Budget did not address rampant State spending, Sacob said yesterday.

SA Chamber of Business executive director Mr Raymond Parsons said in Cape Town the Government should start reducing its own spending and increase growth so that the deficit could be reduced.

It is estimated that South Africa's deficit will be at least nine percent — three time higher than the internationally acceptable level — when the Budget is tabled in Parliament on March 17.

Describing a potential catastrophe, Parsons said the economy needed "corrective action" and warned that if the Budget introduced higher fuel prices, higher direct tax and VAT and no reduction in State spending it would be an "economic molotov cocktail".

He explained that Sacob felt that any tax increases — including VAT — should be avoided or, if at all possible, be kept to the absolute minimum.

"The economy is in the intensive care unit and this Budget will determine whether it goes into the recovery room or into the mortuary," Parsons said.

300 000 jobless at

Court told of

A taxing question — how can Keys avoid a lynching?

BDAY 3/3/93. GRETA STEYN (320)

NOTHING focuses the mind so much as the knowledge that you'll be hanged in the morning. With that comment, Finance Minister Derek Keys has made it clear the Budget will draw criticism from all quarters. But Keys might escape a lynching if he manages to structure tax increases imaginatively.

It takes a brave man to announce tax increases to a hostile public. A seemingly interminable tale of corruption and an already high level of taxes have caused business and labour to unite in strong opposition to plans to raise more revenue.

The main focus of criticism from business quarters has been the fear that higher taxes will knock economic growth. But growth is not the only objective Keys has to bear in mind; the labour movement keeps reminding him of the importance of an equitable distribution of the tax burden. There is often a trade-off between equity and efficiency, between economic justice and long-term growth. A tax structure which promotes an efficient allocation of resources is not necessarily just. And in the SA context the often conflicting aims of equity and efficiency need to be weighed carefully.

Orthodox economic wisdom holds that indirect taxes are more efficient. However, an indirect tax such as VAT hits lower income groups hardest and favours efficiency at the expense of equity. In SA, with its skewed income distribution, such an imbalance is potentially explosive.

There is little doubt that the VAT rate will increase in the Budget, but what is not yet clear is the rate and structure of the tax. An IMF mission to SA put pressure on Keys to keep the tax "pure" because it fits in with the fund's concept of economic efficiency. The fund's argument is that the poverty safety net should be improved to respond to poverty with direct assistance, rather than tamper with the VAT system. However, even government acknowledges that the poverty safety net has been an utter failure.

If government is to soften the blow of an increase in a regressive tax such as VAT it will at least have to zero-rate basic foodstuffs. There is still a strong possibility that the rate will be raised to 13% with zero-rating of foodstuffs, in spite of signs that 12% without zero-rating was more likely. Hopefully, Keys will be strong enough to withstand pressure from the IMF, whose insistence on ignoring political conflict and treating economics as a "pure science" has led to trouble in many parts of the developing world.

Higher customs and excise duties are also expected in the Budget; these will also hit poorer sections of the community harder. Keys will be able to sell an increase in the VAT rate and in "sin" taxes far more easily if he can demonstrate that the rich will carry a substantial part of the burden of increased taxes.

There is intense speculation that top income earners face a higher marginal tax rate — an increase from 43% to 44%. While this would fly in the face of promises made by Keys's predecessor Barend du Plessis, Keys has emphasised that he has no obligation to deliver on Du Plessis' promises. Relief from fiscal drag for low income earners is a strong possibility too. This is also the group that will complain the most about a higher VAT rate.

Government is expected to raise estate duties and close loopholes as a precursor to introducing a capital transfer tax. Although little revenue would be raised, the move is a symbolic step towards an equitable distribution of the tax burden.

There has also been speculation that top income earners might be taxed on a portion of their current pension contributions. Talk is that it would be a symbolic move rather than a revenue-raising exercise. Following the furore caused by the Jacobs committee's proposal on that score, government has already indicated no major changes are in the offing for pensions taxation.

Talk in the pensions industry is that any pensions tax changes have been put on hold because of the unequal tax treatment of public and private sector pensions. Equal treatment is widely seen as a prerequisite to any changes and the present battle between the Public Servants' Association and the state has seen government promise to stick to the status quo for the time being.

But pensions industry sources say an overhaul of lump sum taxation, including equalising public and private sector pensions, could yield up to R300m in revenue.

The figure would be more than enough to allow government to abolish the Marketable Securities Tax (MST), regularly cited as a reason for the low volumes on the JSE. Would abolishing a tax on trade in equities be politically acceptable? Only if Keys managed to convince his audience that scrapping MST is intended to facilitate unbundling of big conglomerates, reducing the concentration of economic power. He might also balance the move with a tax on dividends. While that would be a strange move for a former businessman, it might be motivated by the need to show that those who have the ability to pay are being taxed.

Many orthodox economists would argue that raising the tax rates of top income earners would be a disincentive to the people most needed in the economy. Former British Chancellor of the Exchequer Nigel Lawson in 1988 explained his decision to drop the top marginal tax rate as follows: "Excessive rates of income tax destroy enterprise, encourage avoidance and drive talent to more hospitable shores. Far from raising additional revenue, over time they actually raise less."

The argument brings to mind the famous diagram first drawn on a serviette in a Los Angeles restaurant. The Laffer curve showed that, at already high rates of taxation, a further increase in tax rates would lead to a fall in revenue.

But the bulging US deficit has all but consigned the Laffer curve to the rubbish bin, along with leftovers of other 1980s excesses. The failure of the "supply-side" economics Laffer underpinned has forced US President Bill Clinton to announce tax increases that would hit the rich.

No doubt the Clinton tax increases have come at a convenient time for Keys, who will need every bit of ammunition he can get. But the debate in Britain seems to be going the other way and there are many who would see similarities between Britain and SA.

One of seven "wise men" who reported to the UK Treasury on the issue, Cambridge professor Wynne Godley, said it would be perverse in the extreme to respond to exceptionally low private spending by fiscal restriction. Financial Times writer Samuel Brittan commented: "Simple horror at the size of prospective UK budget deficits is not a sufficient reason for adopting restrictive fiscal policies this year."

He argued that the view that the deficit was potentially explosive and had to be curbed soon would be reasonable — if the economy were operating at the normal rate of capacity utilisation, and growing at its trend rate.

The SA economy is operating below capacity and has not grown for some years, while inflation is on a downward trend. There are definite similarities with the British situation. However, there are also major differences between SA and Britain that make simple comparisons impossible. SA inflation could turn around again quite easily, a scarcity of capital means the public sector "crowds out" the private sector and spending demands are enormous.

Nevertheless, there is strong resistance to tax increases at a time when there is little sign yet that the economy has moved out of recession. Keys will have to do some fancy footwork to avoid a lynching.

Sacob warns Govt against 'overkill' on VAT and tax

Star 3/3/93

By Sven Lünsche

The SA Chamber of Commerce (Sacob) has come out strongly against a rise in the VAT rate in the forthcoming Budget.

In a briefing to parliamentary correspondents in Cape Town yesterday Sacob Director-General Raymond Parsons said: "It would be unwise to increase VAT at this time and we urge that any increase that may have to be introduced is kept as low as possible."

However, Parson admitted that some tax increases could be unavoidable given the precarious state of the fiscal deficit.

Sacob was particularly concerned at the timing of a VAT rate hike.

"Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in collections and reduced collections from other taxes.

"It could also re-politicise VAT just when the system had been accepted by both consumers and businesses," Parsons added.

Target

In nominal terms he estimated that lifting VAT from 10 to 13 percent (assuming that further exemptions are limited) could raise R3,5 billion with a further R1 billion coming from other tax adjustments.

Against a backdrop of declining disposable incomes, increased taxes would undoubtedly reduce collections below the targeted R4,5 billion.

Sacob admitted, however, that in the absence of tax increases a meaningful reduction in the government's deficit before borrowings was virtually impossible.

Without tax increases, Parsons estimated that — assuming GDP growth of one percent and average inflation of 9,5 percent — the state will raise an additional R8 billion in fiscal 1993/3 from existing taxes.

"To achieve a deficit before borrowing of not more than six percent of GDP, this implies that government would have to contain spending to around R105 billion — a reduction of 9,4 percent in real terms."

Given that even Finance Minister Derek Keys' commitment to a real spending cut of three percent has drawn widespread scepticism, Parsons admitted that this was an impossible task.

"Some increases in taxes might therefore be contemplated," he said.

Preferably though Keys should try and reduce spending still further and may have to accept a deficit higher than six percent.

"The deficit is also a structural problem that has developed over a number of years.

Time frame

"It is therefore inappropriate to try to correct this problem in a single Budget and we recommend that a broad commitment is made to reduce the deficit to internationally acceptable level over three years," Parsons said.

He also warned that the Budget generally had to guard against "overkill" given the precarious nature of the economy.

"The Budget should aim at rebuilding consumer and business confidence, recognise present economic realities and provide a clear indication of the direction to be pursued in the future."

Sacob also used the opportunity to revise some of its economic forecasts for 1993.

The Chamber now expects GDP to increase by a mere 0,5 percent, gross domestic expenditure to fall by 0,3 percent and inflation to reach nine percent by year-end (see table).

SACOB FORECASTS FOR 1993

	1991	1992	1993
Private Consumption Expenditure (%)	0,2	-3,5	-0,5
Govt Consumption Expenditure (%)	5,7	-2,0	-3,0
Gross Domestic Fixed Investment (%)	-8,4	-12,0	-2,5
Investories	–		+
GROSS DOMESTIC EXPENDITURE (%)	-0,4	-2,8	-0,3
Exports (%)	1,2	2,0	1,8
Imports (%)	2,5	1,0	-0,5
GROSS DOMESTIC PRODUCT (%)	-0,6	-2,1	0,5
Inflation (% at Year-end)	16,3	9,6	9,0
Prime Overdraft Rate (Year-end)	20,25	17,25	15,25

(320)

Star 3/3/93

Don't up VAT says big business

Organised business opposes a rise in the VAT rate. The SA Chamber of Business said in Cape Town yesterday it would be unwise to increase VAT when the economy was still slowing down.

Finance Minister Derek Keys is expected to raise VAT from 10 to 13 percent in this month's Budget. (320)

● Report — Page 14

AK 47 rifles seized

*10. Mr A J LEON asked the Minister of Law and Order:

(a) How many AK 47 rifles have been (i) seized in the course of police action and (ii) voluntarily surrendered to the South African Police for reward since 1 January 1992 and (b) in respect of what date is this information furnished? B253E

The MINISTER OF LAW AND ORDER:

(a) (i) 505

(ii) None.

(b) 1 January 1992 until 31 December 1992.

Pickard Commission: prosecutions instituted

*11. Mr P G SOAL asked the Minister of Regional and Land Affairs:

(1) Whether any prosecutions have been instituted as a result of the findings of the Commission of Inquiry into the Department of Development Aid and the South African Development Trust Corporation, Limited (Pickard Commission); if not, why not; if so, (a) how many and (b) with what results;

(2) whether he will make a statement on the matter? B254E

The MINISTER OF REGIONAL AND LAND AFFAIRS:

(1) Yes

(a) Two; and

(b) prosecutions not yet finalised.

(2) Yes. Five dossiers have in the meantime been handed to the Attorneys-General, who decided to prosecute two former employees of the Department of Development Aid, who are implicated in all the dossiers. Depending on the outcome of these prosecutions, further prosecutions of the other persons also mentioned in the dossiers will result. At this stage these persons cannot all be prosecuted simultaneously as this would amount to a misjoinder.

SADF: generals

*12. Lt-Gen R H D ROGERS asked the Minister of Law and Order:

(a) How many generals, by rank, are there in the South African Police and (b) in respect of what date is this information furnished? B255E

The MINISTER OF LAW AND ORDER:

(a) General 1
Lieutenant-General 10
Major-General 36

(b) 23 February 1993.

Bramley: post office

*13. Mr P G SOAL asked the Minister of Posts and Telecommunications:

Whether, with reference to the reply to Question No 6 on 18 March 1992, any progress has been made in regard to the construction of the post office and postmen's depot in Bramley, Johannesburg; if not, why not; if so, what progress? B256E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

(i) No. Additional adjacent hired accommodation has been obtained and the existing post office and postmen's depot has been expanded. As the enlarged accommodation will meet our needs for many years the erection of a company building has not been necessary. Against the background of the existing strategic plan the total service point infrastructure is at present being investigated in order to ensure the orderly economic placing of post office service points.

(ii) The more spacious accommodation which was occupied on 15 December 1992 allowed us to provide 350 additional private post boxes and four additional counter service points.

Tax exemption of interest income: taxpayers older than 65 years 320

*14. Mr K M ANDREW asked the Minister of Finance:

What amount of tax revenue was forfeited in the tax years 1990-91 and 1991-92, respectively, as a result of the tax exemption of interest income in respect of individual taxpayers over the age of 65? B257E

The MINISTER OF FINANCE: 320

Tax loss due to interest exemption granted to persons above the age of 65:

Tax year	*Tax loss*
	Rm
1990-91	62,61
1991-92	50,96

Data in respect of the 1990-91 tax year represents 85,27% of all registered taxpayers.

Data in respect of the 1991-92 tax year represents 57,83% of all registered taxpayers.

Occupational safety organization: alleged malpractices

*15. Mr R V CARLISLE asked the Minister of Manpower:

(1) Whether he will appoint a committee of inquiry into the affairs of a certain occupational safety organization, the name of which has been furnished to the Minister's Department for the purpose of his reply, with particular regard to alleged (a) instances of unauthorized overseas travel and purchases of computer software not tendered for and (b) conflicting interest of senior management members; if not, why not; if so, (i) when and (ii) what is the name of this organization;

(2) whether he will make a statement on the matter? B258E

The MINISTER OF MANPOWER:

(1) (i) (a) and (b)

No. This is a private company registered as an association not for gain in terms of section 21 of the Companies Act, 1973 over which the Minister of Manpower has no jurisdiction and therefore the matter has already been referred to the Ombudsman on 11 January 1993 by the Minister of Manpower. The Board of Directors of this institution was also requested in writing by the Workmen's Compensation Commissioner on 22 January 1993 to investigate the allegations of alleged irregularities.

(ii) The National Occupational Safety Association.

(2) If necessary.

Claremont police station: staff establishment

*16. Mr R V CARLISLE asked the Minister of Law and Order:

(1) Whether he will furnish information on the staff establishment of the Claremont police station; if not, why not; if so, what is the (a) approved and (b) present staff establishment of this police station;

(2) whether he will make a statement on the policing of this police station area? B259E

The MINISTER OF LAW AND ORDER:

(1) No, it is not in the interest of the members at the relevant police station, and policing in general, to furnish information of this nature. I am, however, prepared to inform the honourable member personally and confidentially in this regard.

(a) and (b) Fall away.

(2) No.

*17. Mr M J Ellis—National Health.—[Withdrawn.]

Medical aid schemes: false claims

*18. Mr M J ELLIS asked the Minister of National Health:

(1) Whether information has been made available to her in respect of fraudulent or false claims submitted to medical aid schemes; if so, what are the relevant details;

(2) whether she intends submitting such fraudulent or false claims to the appropriate statutory bodies for review and possible disciplinary action; if not, why not; if so, when;

cont —>

Tax increases will not be 'staggering'

CT 4/3/93 (320)

By AUDREY D'ANGELO
Business Editor

ALTHOUGH Finance Minister Derek Keys will have no choice but to raise taxes in the budget the increases will not be as "staggering" as some people fear, Rand Merchant Bank director and chief economist Rudolf Gouws said in Cape Town yesterday.

He pointed out, at a seminar organised by the Association of Corporate Treasurers of SA, that this country is already "way out of line" in the severity of personal and company taxation.

Although the nominal marginal tax rate for individuals, at 43%, is slightly lower than the international average of 44% it takes effect at a far lower level than in other countries.

Gouws said only Germany and Japan had higher nominal company tax rates than SA. And the loss of allowances had meant a steep rise in effective rates of company taxation.

"We are way out of line in effective rates of company tax and therefore the incentive for foreign companies to invest in SA is very poor."

Pointing out that SA was now entering a fifth year of recession, Gouws said that normally "raising taxes and cutting (government) expenditure is the last thing you should do in a recession."

But the size of the government's deficit before borrowing meant that Keys would have no alternative.

"I think he's going to finesse it — something in the middle," Gouws forecast. "That is the best thing he can do.

"I don't think we are going to get quite the staggering tax increases some people are expecting. Nevertheless a tax increase is something we can't avoid."

Gouws said Keys would also be unable to take drastic action to restructure the economy before the transition period to a government of national unity was over.

At this stage "his hands are tied." This was one of the reasons it was crucial for the political process to be speeded up.

But both Gouws and Willie Breytenbach, professor of political science at the University of Stellenbosch, said that they were more hopeful of the future, because the major players seemed to be reaching concensus.

However, Breytenbach warned that expectations were higher than the economy could afford and this meant a real danger of populist economic policies leading to high inflation.

He said fears that the ANC would nationalise property were unfounded. And the ANC accepted federalism except that they refused to use the word — they called it "regionalism".

The Western Cape was President F W De Klerk's power base and demographic factors meant the National Party would continue to control it at least until the year 2 000. Whites and coloured people were in the majority in the province.

And the total number of white, coloured and Asian voters in SA would be higher than their percentage of the population suggested, because a higher percentage of the black population was under 18.

De Klerk had the support of the bourgeoisie, business and the bureaucrats. The bureaucrats did not like what he was doing but they knew he was the only one who would look after their interests.

The fact that the Western Cape would remain "white-friendly" was the reason property values had held up so well — particularly in the Stellenbosch area, where houses had been priced out of the reach of young academics.

Breytenbach forecast that the ANC would split into the 'haves', including the union members, and the 'have nots.'

It was increasingly being perceived as a Xhosa-speaking black African party.

It had the majority of black support — although Natal would be dominated by Inkatha. But it was losing support to the PAC, which was growing.

tor Danie Hougn yesterday

as much labour as technically possi-

tion.

BDAY 4/3/93

R520m Post Office loss

BUSINESS Day incorrectly reported yesterday the Post Office suffered a loss of R30m more than budgeted for. In fact, the utility incurred a loss of R520m, compared to an expected R570m loss. Business Day regrets the error.

Japan steel exports up

JAPAN's steel exports in January rose 3,9% from the same month a year ago to 1,24-million tons, marking the ninth consecutive month of year-on-year gain, the Japan Iron and Steel Federation reported in Tokyo yesterday. A spokesman said sharp increases in exports to China helped offset plunging exports to the US in the wake of anti-dumping duties on carbon steel imports.

REPORTS: Sapa, Business Day Reporters, AP-DJ.

China spends R9m on office block

BDAY 4/3/93.

TRACY SCHNEIDER

THE Great Wall Group, a trading company founded by the mainland Chinese government, has bought a R9m office block in Bedfordview to start its business venture in SA.

The office will be opened officially at a function this evening..

China's trade with SA previously was conducted discreetly through Hong Kong until political changes in SA prompted it to introduce direct trading links last year.

Exhibitions are now planned in both countries, starting in Johannesburg in April with a trade expo organised by the China Council for the Promotion of International Trade.

The Great Wall Group will be involved in an exhibition in SA in September, when 100 corporations will display a variety of goods including textile, industrial, chemical and hardware products. SA businessmen will be invited to exhibit in Beijing in March 1994.

"We came here with the express purpose of facilitating trade and economic co-operation with SA," said the group's business manager Qingguo Jiang. "Apart from the Bedfordview offices, we have R2m in other assets and are looking into other real estate opportunities and joint investments with local businessmen. We also are hoping to invest in factory and manufacturing plants."

And China and SA Trading GM Chenxiong Liu said: "About 200 Chinese businessmen will come to SA to meet their counterparts and discuss business."

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'Tax hike will slow economy'

BDAY 4/3/93.

(320)

GERALD REILLY

PRETORIA — The tax hike to be imposed in the March 17 Budget will slow down an almost static economy further and stagnation will continue into 1994, economists say.

Stellenbosch Bureau for Economic Research economist Nils de Jager said yesterday consumer confidence was at a low ebb anyway and would be depressed further as disposable incomes shrank.

Sales would decline further, spare industrial capacity, now at about 20%, was likely to increase, as would unemployment and crime.

The conventional Keynesian medicine for a rundown economy, De Jager said, was to increase state spending directed at creating jobs and to reduce taxation. However, in government's present Catch 22 situation, this was impossible.

It could be said taxation was being raised to pay interest on government's massive debt which had reached 9% or nearly R30bn.

Interest on the debt was the largest single Budget item, even exceeding the education vote.

De Jager said the debt problem had been aggravated by government writing off R3,6bn in drought aid in the coming financial year instead of over three years as first intended.

But, De Jager added, perhaps the most worrying consequence of higher taxation was the impetus it would give to greater unemployment.

Absa senior economist Adam Jacobs said tax hikes would contract the economy further and could result in government's tax take from companies and individuals actually decreasing in spite of the hikes.

"We are caught in a vicious circle with company profits and taxpayers' incomes threatened by declining consumer demand and growing unemployment," he said.

Jacobs said another serious consequence would be a further shrinking of personal savings.

De Klerk rejects mine loss claim

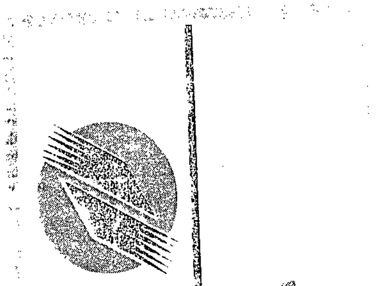
BDAY 4/3/93

CAPE TOWN — Government was not liable for losses suffered by SA company Swissborough Diamond Mines, President F W de Klerk said in Parliament yesterday.

Replying to a question by Llewellyn Landers (LP Durban Suburbs), he said government had told Swissborough director Josias van Zyl there were no acceptable grounds for the appointment of an independent inquiry into the alleged confiscation of the company's interests when the Lesotho government revoked its mining leases as part of the Lesotho highlands water scheme.

Van Zyl had been told to direct any claims to the Lesotho authorities. The Swissborough issue is pending before the Lesotho high court.

The question had been why government had not intervened after SA nationals had suffered a R1bn loss. De Klerk said it had to establish if the loss had been suffered, and then if intervention was required. — Sapa.



Chamber call for wage restraints

MARIANNE MERTEN

THE Northern Transvaal Chamber of Industries had urged that wage restraints be included in Finance Minister Derek Keys' model for economic restructuring, it said in a statement yesterday. BDAY 4/3/93.

The Keys model, due to be published next week, is thought to address economic restructuring to promote the productivity of resources.

Wages had risen over the past three years despite negative growth to such an extent that it had increased the unit cost of production, a chamber spokesman said.

Wage increases had created a structural economic problem which could not be addressed by only looking at wage restraints, but other factors such as export incentives and government control needed to be examined.

TAX ON ANNUITIES

320

Unless the life assurance industry comes up with a practical alternative, retirement annuities are to be taxed on the Paye basis and not on Site, from the start of this month.

In 1988, in its continuing search for ways to reduce its administrative burden, Revenue placed annuities, receivable from RA policies, into the Site net. Under this system, the life company from which the retiree bought an annuity, made a final tax deduction according to a sliding scale (see table). This relieved the taxpayer of the obligation to submit a tax return and automatically routed the amount owing to Revenue.

However, the system gave taxpayers the opportunity to reduce tax, by purchasing several annuities from different life offices, thereby splitting their income. Revenue became concerned about the loss, actual and potential.

So it amended the Income Tax Act (in the 1992 Amendment Act) to place annuity income derived from RAs on to the Paye basis.

Old Mutual's Abri Meiring, chairman of the LOA taxation committee, says the life industry has been told that if it can devise and manage an administrative structure to detect splitting of annuity income, Revenue would be willing to continue with the Site system.

Proposals along these lines are soon to be considered by LOA member offices.

Gavin Came, of consultancy services at Liberty Life, says the problem of revenue losses through annuity splitting must be seen in perspective. Firstly, he believes annuity splitting never occurred on a large scale.

He says an individual shopping around for an annuity will generally be much more concerned with achieving the best level of benefits he can attain for his personal needs than with minimising his tax rate. So he will select a single annuity, instead of splitting his retirement credit to minimise tax.

Secondly, and more important, most RA policies are purchased by people who have shown good sense in retirement planning, notably professionals. By and large, these taxpayers also enjoy substantial incomes. So, when they take an annuity, they will usually have accumulated other income-earning assets.

They will, therefore, have to aggregate their income from all sources, some of which may have been taxed on a Paye basis, and file a tax return reflecting total income, regardless of what they do with their annuities. (The Site deductions of tax on the annuities would, of course, comprise a tax credit.)

Martin Kourie, of Momentum Life, concedes the difficulty of policing the Site system to prevent splitting. But he feels the switch to Paye will prejudice taxpayers who also receive pension or employment income, which would have been taxed on a Site-only basis but for the existence of RA income. This class of taxpayer will incur a large additional tax liability without being guilty of income-splitting. The example reflects an additional tax liability of R21 000. ■

AN ADDED BURDEN

Income sources	R	Tax as SITE-only payer	Tax payable under PAYE
Pension	40 000	3 875	
Retirement annuity I	30 000	1 075	26 425
Retirement annuity II	25 000	25	
Interest	2 000		
		4 975	26 425

The example involves no RA splitting.
It allows for the loss of duplicated rebates on the SITE basis.
The calculation is for a married taxpayer over 65.

Source: Momentum Life

Income tax loopholes to be drawn tight soon

B/Day. 5/3/93. (320)

GRETA STEYN

LOOPHOLES in the Income Tax Act that could have cost the fiscus hundreds of millions of rand would be closed during the current session of Parliament, Inland Revenue spokesman Trevor van Heerden said yesterday.

One loophole meant companies could claim double deductions for certain expenditures or allowances — notably repairs, legal expenses, entertainment, and employee contributions to pension, provident funds and housing. When this first came to light, the Income Tax Act was changed to prevent these claims with effect from 1 January last year.

However, Van Heerden said certain tax consultants were advising clients to claim a double deduction of expenditures for the years before the amendment became effective. Inland Revenue had been inundated with demands to reopen assessments to claim refunds.

Van Heerden said an ~~unreported~~ case which found in favour of double deduction was used as a precedent to make a case for reopening assessments. It was therefore decided to make the amendment retroactive, thereby ruling out any possibility of double deduction.

The tax changewould mean final assessments (older than three years) would not be reopened to disallow double deductions where they had already taken place.

Revenue system revamp sought

COSATU wants an independent tax commission established — including "civil society" representatives — to draw up a more effective and equitable tax system for the "transitional executive council" by September.

DIRK HARTFORD 320

It expects the commission recommendations to be included in the 1994 Budget. Cosatu's proposals for a tax commission are supported by the DP and the VAT Co-ordinating Committee. General-secretary Jay Naidoo said Cosatu also supported a proposal of the business delegation to the national economic forum for an independent and comprehensive audit of all government departments.

Naidoo said Cosatu was not negotiating on this year's Budget with government. But it welcomed Finance Minister Derek Keys's "open approach". VAT, which had done nothing to stimulate the economy, was merely a revenue instrument for a government guilty of the most monstrous corruption and waste.

It was completely unacceptable for government to increase VAT — hitting poor people hardest — while corruption, golden handshakes and perks among civil servants continued. He warned of Budget demonstrations, but doubted there would be industrial action.

10 MAR 1993

Photocopy pp 1-2; 5-10; 18; 33-35;

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

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22 FEBRUARY 1993

MEDIA RELEASE

by

MR DEREK KEYS, (320)

MINISTER OF FINANCE AND OF TRADE AND INDUSTRY

ON INTEREST EARNED IN SOUTH AFRICA BY NON-RESIDENTS

On 3 June 1992, I announced an amendment to the Income Tax Act, 1962, to exempt from tax the interest receipts and accruals of individuals who are not ordinarily resident in the Republic of South Africa and companies which are managed and controlled outside the country. Emigrants also qualify provided they do not carry on a business in South Africa. The exemption was granted with effect from 3 June 1992.

Before this announcement, the taxation of non-residents' interest income received widespread coverage in the media. It was argued, on the basis of an impression created by an announcement in 1988 about the withdrawal of non-residents' tax on interest, that non-residents were not subject to South African taxation. A number of non-residents had stopped declaring their interest after the 1988 announcement and were not taxed on this income.

Since the announcement of 3 June 1992, non-residents have expressed concern about the fact that the Commissioner for Inland Revenue maintains the authority to act on untaxed interest received or accrued before 3 June 1992.

22 FEBRUARIE 1993

PERSVERKLARING

deur

MNR. DEREK KEYS,

MINISTER VAN FINANSIES EN VAN HANDEL EN NYWERHEID

MET BETREKKING TOT RENTE WAT DEUR BUITELANDERS IN SUID-AFRIKA VERDIEN WORD

Op 3 Junie 1992 het ek 'n wysiging aan die Inkomstebelastingwet, 1962, aangekondig ten einde vrystelling van belasting te verleen ten opsigte van die rente-ontvangstes en- toevallings van individue wat nie gewoonlik in die Republiek van Suid-Afrika woonagtig is nie, asook maatskappye wat buite die land bestuur en beheer word. Emigrante kwalifiseer ook mits hulle nie 'n besigheid in Suid-Afrika bedryf nie. Die vrystelling was met ingang van 3 Junie 1992 verleen.

Voor hierdie aankondiging het die belasting van buitelanders se rente-inkomste wye dekking in die media geniet. Op grond van 'n indruk geskep deur 'n aankondiging in 1988 ten opsigte van die afskaffing van Rentebelasting op Buitelanders, is daar geargumenteer dat buitelanders nie aan Suid-Afrikaanse belasting onderhewig is nie. Na hierdie aankondiging in 1988 het 'n aantal buitelanders nagelaat om hul rente te verklaar en is gevolglik nie daarop belas nie.

Sedert die aankondiging van 3 Junie 1992, het buitelanders hul besorgdheid uitgespreek oor die feit dat die Kommissaris van Binnelandse Inkomste steeds die bevoegdheid het om opvolgstappe te neem ten opsigte van onbelaste rente ontvang of toegeval voor 3 Junie 1992.

As a result of problems experienced in obtaining income tax returns and collecting tax from non-residents and concern that non-residents may decide to withdraw their investments from South Africa, I have decided to recommend to Parliament this year that section 10 of the Income Tax Act, 1992, be amended as follows: (320)

Section 10 of the Income Tax Act, 1992 (Act No. 141 of 1992), is hereby amended by the addition to paragraph (c) of subsection (2) of the following proviso:

"Provided that any interest received or accrued before that date shall be exempt from tax, unless an assessment was raised with a date of assessment before that date and such interest was assessed to tax under such assessment.".

The proposed amendment means that no further assessments will be issued on or after 3 June 1992 in respect of interest received by or accrued to non-residents before 3 June 1992. Where assessments in terms of which non-residents' interest earnings have been taxed, have been issued on or after 3 June 1992, tax refunds will be made by the Commissioner for Inland Revenue upon written application by the taxpayer or his authorised representative.

Issued by: The Finance Ministry, Cape Town.

Contact: Mr J. J. Louw. Tel. (012) 315-5388, Pretoria.

As gevolg van probleme ondervind met die verkryging van inkomstebelastingopgawes en die invordering van belasting vanaf buitelanders asook kommer dat buitelanders moontlik hul beleggings uit Suid-Afrika mag onttrek, het ek besluit om vanjaar by die Parlement aan te beveel dat artikel 10 van die Inkomstebelastingwet, 1992, soos volg gewysig word:

Artikel 10 van die Inkomstebelastingwet, 1992 (Wet No. 141 van 1992), word hierby gewysig deur die volgende voorbehoudsbepaling by paragraaf (c) van subartikel (2) te voeg:

"Met dien verstande dat enige rente ontvang of toegeval voor daardie datum van belasting vrygestel is, tensy 'n aanslag met 'n datum van aanslag voor daardie datum gedoen is en bedoelde rente onder daardie aanslag vir belasting aangeslaan is.".

Die voorgestelde wysiging beteken dat geen verdere aanslae op of na 3 Junie 1992 uitgereik sal word nie ten opsigte van rente wat voor 3 Junie 1992 deur buitelanders ontvang is of aan hulle toegeval het. Waar aanslae ingevolge waarvan buitelanders se renteverdienste belas is, op of na 3 Junie 1992 uitgereik is, sal terugbetalings van belasting deur die Kommissaris van Binnelandse Inkomste op skriftelike aansoek deur die belastingpligtige of sy gemagtigde verteenwoordiger, gedoen word.

Uitgereik deur: Die Ministerie van Finansies, Kaapstad.

Kontakpersoon: Mnr. J. J. Louw. Tel. (012) 315-5388, Pretoria.

GOEWERMENTSKENNISGEWINGS

ADMINISTRATION: HOUSE OF ASSEMBLY

DEPARTMENT OF LOCAL GOVERNMENT, HOUSING AND WORKS

No. 324 **5 March 1993**

RENT CONTROL ACT, 1976

EXEMPTION OF CERTAIN DWELLINGS, GARAGES, PARKING SPACES AND SERVANTS' ROOMS FROM RENT CONTROL

I, Jacobus Theron Albertyn, Ministerial Representative for South-Western Cape, Administration: House of Assembly, in accordance with the powers granted to me by Government Notice No. 1469 of 8 December 1989, hereby declare under section 51 (g) of the Rent Control Act, 1976 (Act No. 80 of 1976), that—

(a) the dwellings mentioned in the Schedule hereto, are, as from the date on which the occupation of an existing lessee of such a dwelling is lawfully terminated or the date on which the monthly income of such lessee, as defined in Proclama-

GOVERNMENT NOTICES

ADMINISTRASIE: VOLKSRAAD

DEPARTEMENT VAN PLAASLIKE BESTUUR, BEHUISING EN WERKE

No. 324 **5 Maart 1993**

WET OP HUURBEHEER, 1976

VRYSTELLING VAN SEKERE WONINGS, MOTORHUISE, MOTORSTAANPLEKKE EN BEDIENDEKAMERS VAN HUURBEHEER

Ek, Jacobus Theron Albertyn, Ministeriële Verteenwoordiger vir Suidwes-Kaapland, Administrasie: Volksraad, handelende kragtens die bevoegdheid my verleen by Goewermentskennisgewing No. 1469 van 8 Desember 1989, verklaar hierby kragtens artikel 51 (g) van die Wet op Huurbeheer, 1976 (Wet No. 80 van 1976), dat—

(a) die wonings genoem in die Bylae hiertoe, met ingang van die datum waarop 'n bestaande huurder van so 'n woning se okkupasie wettiglik beëindig word of die datum waarop sodanige huurder se maandelikse inkomste soos omskryf

DEPARTMENT OF STATE EXPENDITURE

No. 349 (320) **5 March 1993**

Statement of Revenue collected during the period 1 April 1992 to 31 January 1993.

Treasury, Pretoria.

DEPARTEMENT VAN STAATSBESTEDING

No. 349 **5 Maart 1993**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Januarie 1993.

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting 1992–93	Month of January Maand Januarie 1993	Month of January Maand Januarie 1992	Total 1 April to 31 January Totaal 1 April tot 31 Januarie 1993	Total 1 April to 31 January Totaal 1 April tot 31 Januarie 1992
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	50 484 300 000	4 480 314 899	4 291 099 731	36 539 453 081	35 157 524 631
Loan Levy 1989–94	Leningsheffing 1989–94	–	(6 562)	–	173 464	2 032 358
Sales tax	Verkoopbelasting	21 019 700 000	7 074 745	48 846 000	69 847 704	10 552 912 482
Value added tax	Belasting op toegevoegde waarde	–	1 625 309 072	1 983 964 793	14 269 636 956	5 167 848 128
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	320 000 000	40 697 663	38 285 369	242 892 842	295 336 225
Non-residents' tax on interest	Rentebelasting op buitelanders	–	19 062	–	13 233	37 826
Undistributed profits	Onuitgekeerde winste	–	–	501	89 742	365 617
Donations tax	Geskenkbelasting	6 000 000	7 199 561	979 101	16 062 582	4 764 872
Estate duty	Boedelbelasting	75 000 000	6 707 106	7 890 718	72 072 931	69 857 426
Trade securities	Handelseffekte	221 000 000	12 007 598	10 633 521	140 143 662	169 474 083
Stamp duties and fees	Seëlregte en gelde	830 000 000	69 754 132	51 066 452	640 744 434	597 485 722
Transfer duties	Hereregte	1 110 000 000	149 953 197	92 960 956	1 068 852 784	749 588 827
Miscellaneous	Diverse	–	–	–	–	–
Mining leases and ownership	Mynverhurings-en eiendomsregte	295 000 000	625 432	(3 928 655)	156 773 703	219 209 634
Interest and dividends	Rente en dividende	59 450 000	2 172 179	2 819 884	40 731 087	53 236 897
Levies	Heffings	19 000 000	1 400 919	788 415	20 439 039	13 751 791
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	59 550 000	1 910 569	1 878 527	63 877 391	31 671 446
Departmental activities	Departementele bedrywighede	1 129 000 000	82 630 997	198 908 922	1 229 991 704	988 224 920
Capital Revenue	Kapitaalinkomste	20 000 000	–	–	–	–
	R	75 648 000 000	6 487 770 569	6 726 192 235	54 571 796 339	54 071 322 885
Less: Payments to self-governing territories	*Min:* Betalings aan selfregerende gebiede	1 361 300 000	110 854 000	148 436 917	1 127 435 000	1 068 494 917
Payments to TBVC Countries	Betalings aan TBVC Lande	760 700 000	55 992 027	–	584 409 868	–
Total: Inland revenue	Totaal: Binnelandse inkomste R	73 526 000 000	6 320 924 542	6 577 755 318	52 859 951 471	53 002 827 968
Customs and excise duties:	Doeane-en aksynsregte:					
Customs duty	Doeanereg	3 124 000 000	189 686 120	191 174 760	2 509 128 127	2 311 357 626
Excise duty	Aksynsreg	4 754 000 000	478 889 140	233 475 985	3 591 902 359	2 592 908 801
Surcharge	Bobelasting	1 670 000 000	100 486 542	101 613 710	1 272 627 981	1 216 394 734
Miscellaneous	Diverse	17 000 000	25 459 070	161 623 018	106 570 944	528 532 766
Fuel levy	Brandstofheffing	6 634 000 000	539 143 131	480 600 994	5 670 312 945	4 254 896 498
Ordinary levy	Gewone heffing	64 000 000	4 395 813	5 056 976	58 336 545	50 956 922
	R	16 263 000 000	1 338 059 816	1 173 545 443	13 208 878 901	10 955 047 347
Less:	*Min:*					
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste R	5 040 000 000	1 321 087 250	873 728 750	5 068 559 500	4 499 022 000
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	11 223 000 000	16 972 566	299 816 693	8 140 319 401	6 456 025 347
	R	84 749 000 000	6 337 897 108	6 877 572 011	61 000 270 872	59 458 853 315
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	–	–	15 023 182	–	57 495 883
	R	–	–	15 023 182	–	57 495 883
	R	–	6 337 897 108	6 892 595 193	61 000 270 872	59 516 349 198
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	–	12 224 644	1 634 619	201 414 600	154 200 180
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	–	3 997 310	1 798 845	49 915 308	27 401 995
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	–	(4 619 467)	62	13 207 794	6 206 725
	R	–	11 602 487	3 433 526	264 537 702	187 808 900
Grand total	Groottotaal R	–	6 349 499 595	6 896 028 719	61 264 808 574	59 704 158 098
Reconciliation with statement published by Government Notice 198 in *Government Gazette* of 12 February 1993:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 198 in *Staatskoerant* van 12 Februarie 1993:					
In Transit 31 March 1992	In Transito, 31 Maart 1992	–	–	–	480 288 319	–
In Transit/Overremitted, 31 December 1992	In Transito/Te veel oorgedra, 31 Desember 1992	–	74 898 817	–	–	–
Collections as above	Invorderings soos hierbo	–	6 349 499 595	–	61 264 808 574	–
	R	–	6 424 398 412	–	61 745 096 893	–
In Transit/Overremitted, 31 January 1993	In Transito/Te veel oorgedra, 31 Januarie 1993	–	33 008 103	–	33 008 103	–
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	–	(21 639 833)	–	(252 935 215)	–
Received into Exchequer Account	In Skatkisrekening ontvang R	–	6 435 766 682	–	61 525 169 781	–

Star 6/3/93

Bursaries: children of employees hardest hit

TAX exemptions for bursaries and scholarships applying to children of employees are still inadequate, and should be reconsidered in the light of the education crisis, says Dave Dickens of International Compensation. "Although the Department of Inland Revenue has relented on certain aspects of the taxation of scholarships and bursaries, children of employees are still hit hardest," he says.

According to the draft practice notes circulated by the department, only employees earning less than R36 000 a year are entitled to a tax-free bursary to the value of R1 200 per dependent. "Our special survey on company-sponsored educational assistance revealed that this area of corporate social responsibility was directed specifically at low-income employees for tertiary education purposes," says Dickens. "The present ceiling of R1 200 for bursaries is absurd, because tertiary education fees alone can amount to more than R6 000 per annum."

Dickens states that the most important criterion for the awarding of company bursaries was financial need, and in many cases, multinationals in South Africa were compelled to offer this form of educational support in terms of the now defunct Sullivan Code. "Where the bursaries are most needed, the most restrictions apply," he points out. "We are currently motivating very strongly to the Department of Inland Revenue to reconsider this aspect of the Act."

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FW's question: To pay or not to pay?

Political Staff

PRESIDENT F W de Klerk is to be asked in Parliament whether he is to follow the example of the British monarchy and start paying taxes on those portions of his salary that are at present tax-free.

And the Minister of Finance, Mr Derek Keys, is to be asked whether cabinet ministers have to complete a minimum period of service before qualifying for a pension and a gratuity.

These questions have been tabled in Parliament by Mr Desmond Lockey, the Labour Party MP for Northern Cape.

His question to Mr De Klerk is: "Whether in the light of the fact that the head of state of the Republic receives a tax-free salary and that the current British monarch has indicated that she will pay tax as from April 1, 1993, he is considering having the sections of the law in terms of which his salary is tax-free, deleted; if not, why not; if so, what are the relevant details?" 320

He has asked Mr Keys what the minimum period of service is for a cabinet minister to qualify for a pension and a gratuity, how long this is, and whether condonation had been granted for this to be reduced to a minimum of five years in the case of certain ministers whose services were to be terminated on April 1.

CT 6/3/93

Mr Lockey also wants to know which ministers were involved.

CIB's R50-million Bank guarantee

S/Times (BUSS) 7/3/93

RESERVE Bank Governor Chris Stals says guarantees to Cape Investment Bank depositors could amount to about R50-million — more than half of which could be recovered when CIB's final liquidation comes through.

The Reserve Bank agreed to compensate CIB depositors to the tune of R5-million each when CIB was placed in provisional liquidation. "This is part of our function as lender of last resort. Every bank runs into liquidity problems at some point."

Reserves fall by R490m

GOLD and forex reserves fell R490-million or 5,6% in February after dropping R300-million in January.

This dashes hopes of another cut in the bank rate as it gives the Reserve Bank little room to relax its monetary policy, says Nedcor chief economist Edward Osborn.

The Reserve Bank sold 10% of its gold holdings in January, which Mr Osborn says is probably to finance debt repayments, part of which fell due in February. The balance is to be paid in August and December this year.

3,2% more in revenue

S/Times/BUSS 7/3/93

REVENUE collected for the Exchequer during the first 10 months of the 1992/3 financial year reflects an increase of 3,2% compared with the corresponding 10 months of the previous financial year. The CSS reports that this amounts to only 74,3% of the 13,2% increase budgeted for.

7/3/93

Productivity building plan

THE CSIR has launched a programme to help increase productivity in the depressed building and construction industries.

The council says that for every 1% increase in productivity in the R8,2-billion industry, savings of R300 000 can be achieved each day.

A new range of electronic information tools has been developed for the smallest to largest companies. Quantity surveyors, architects, engineers, contractors, manufacturers and suppliers of equipment will now have co-ordinated tools for increasing productivity and cost effectiveness.

Netsys wins major deal

PRETORIA-based communications specialists Netsys International has won a contract against five large international companies, including conglomerates from France and the US, to supply a R3-million SA-designed and built computer

Office space

CPress 7/8/93 (326)

Get ready to pay higher taxes

MONEY TALK

THE budget Finance Minister Derek Keys presents next Wednesday will hit the pocket of every single South African.

Taxes will go up while steps will probably be announced that will lead to even higher unemployment.

The reality the budget will bring home is that the SA economy is in a critical state.

It is simply not producing sufficient revenue to finance state expenditure.

There are many reasons for this state of affairs, not the least being a bloated and greedy state bureaucracy.

The other is the years of recession caused mainly by our volatile and unstable political situation.

Business confidence is at a very low level and too much money is leaving the country.

Up till now the shortfall in revenue has been made good by massive borrowings by the state. But this cannot continue indefinitely and that is the key reason why Keys will have to increase taxes.

The main source of new income is likely te be a boost in the VAT rate to at least 12 percent.

Our personal and company tax rates are already among the highest in the world. Any further increases may well be completely counterproductive as the average taxpayer can only be milked up to a point before he stops increasing his income generation or even tries to hide as much of his income as possible. This leaves Keys with very little room to manoeuvre.

Yet it is essential that we tackle certain structural problems in the budget. The most important is without doubt the enormous budget deficit, currently equal to about nine percent of our Gross National Product (GNP).

An alternative to tax increases to finance the deficit is, of course, that state expenditure be cut by a similar percentage.

This is always easier said than done and will depend on the negotiated political dispensation SA is heading towards. Yet no matter who controls the state and its civil service, if we wish to resume economic growth it is essential that the state's share of the economic cake be reduced.

What we will probably see is a combination of the above: higher taxes on the one hand and a cut in the growth of government expenditure on the other.

Hopefully Keys will be able to bring down the deficit to more manageable proportions. This is going to be a complicated balancing act and he will probably end up being unpopular with all parties!

Long term the solution lies in economic growth. People who have work and companies which show good profits can pay taxes to fill the state coffers.

But, as our politicians and other leaders are discovering, economic growth cannot be attained in a climate of uncertainty.

BUSINESS DAY, Monday, March 8 1993 3

Creation of anti-tax culture 'dangerous'

B/DAY 8/3/93 (320)

THEO RAWANA

POLITICAL and labour leaders should exercise extreme caution when threatening non-payment of taxes, business and management consultant Mashudu Ramano says.

Ramano, head of Ramano and Associates, said at the weekend that although the outcry against SITE overpayments and calls for PAYE boycotts might be justified, it was important not to undermine the ability of government to raise taxes.

Unionists and politicians should educate people to adopt a responsible attitude towards tax. It was a vital vehicle, even for future governments, to run SA on an economically sound footing. A culture of non-payment in respect of taxes would be dangerous for a future SA, he said.

There was an uproar last year on political and labour fronts over tax overpayment, with employers being cited as the main culprits for excessive deductions from workers' pay packets and the Receiver of Revenue being accused of "fleecing low-paid workers" of millions.

Ramano also took a swipe at tax accountants who advocated tax avoidance schemes. "The practice of forever trying to find ways not to pay creates a conflictual relationship between tax accountants and government. This can be unhealthy for not only the present government, but also the future one.

"The authorities must have revenue to provide for and run the country, and this will be extremely difficult if the people have taken up a culture of non-payment," said Ramano.

Ramano said his company had developed, in conjunction with tax expert Matsheru Matsheru, a tax education programme covering PAYE, SITE and other tax matters.

The course is to be launched next month and was conceived in 1991.

"We have consulted widely with labour, political and business leaders and it should help people to adopt a healthier attitude towards tax and enable present and future government to run an economically sound SA," Ramano said.

He called on government to set aside funds for tax education programmes since most people in SA knew little or nothing about tax.

"Employers, too, should see to it that not only their salary department staff are educated in tax, but their entire staff. It is as much the responsibility of government as it is of the private sector to have a healthy economy," he added.

4 BUSINESS DAY, Monday, March 8 1993

Protest against high tax on married women

ERICA JANKOWITZ

COSATU is to stage a lunch-time picket today outside the Receiver of Revenue offices in Johannesburg to protest against high tax rates for married women.

This is one of the Cosatu events to mark International Women's Day today.

Cosatu gender co-ordinator Dorothy Mokgalo said a charter of women's rights would also be launched.

The charter contains demands on maternity rights including 12 months' fully paid maternity leave, job security, an end to victimisation for pregnancy, removal of sex, race and age discrimination and women's representation on employment committees. It also covers domestic and sexual violence, sexual harassment at work, education and training and the establishment of child care centres.

Mokgalo said the lack of child care facilities at union meetings and congresses prevented women workers from participating fully in these events. Cosatu is tackling this problem as well as rescheduling meetings to accommodate women.

A march on John Vorster Square will be held this afternoon to deliver a memorandum on women and violence.

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BDAY 8/3/93

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B/DAY 8/3/93

W B HOLDINGS LIMITED

(Incorporated in the Republic of South Africa) (Registration number 88/00570/06)
Directors: Robert Silverman (Chairman), A Silverman (Managing Director), B Peck, Theo B Rood, B Sacks, L Wilck, B G Ricketts.

PRELIMINARY PROFIT ANNOUNCEMENT 1992 AND DECLARATION OF DIVIDEND

GROUP FINANCIAL STATEMENTS
INCOME STATEMENT

	Year ended 31 December 1992 (Unaudited) R'000	Year ended 31 December 1991 (Audited) R'000
Turnover	12 830	15 364
Operating income	4 402	5 953
Interest paid	97	21
Net Income before Taxation	4 305	5 932
Taxation	484	487
Net Income	3 821	5 445
Dividends	1 598	2 350
Retained income for the year	2 223	3 095
Retained income brought forward	10 240	7 145
	12 463	10 240

'Critical days' ahead for labour in era of change

B/DAY 8/3/93.

ERICA JANKOWITZ

THIS will be a "make or break" year for labour, says SA Labour Bulletin editor Karl von Holdt.

Following a dismal 1992, unions will have to reassess their willingness to strike for "insignificant extra gains", says Von Holdt.

Wage restraint might be offered in exchange for training facilities, increased "social wages" and negotiated industry restructuring. Job security and retraining of retrenched workers would appear to be overtaking wage bargaining as the core of union activity.

Writing in the latest issue of the bi-monthly journal, Von Holdt says five key influences will drive industrial relations in the year ahead: wages; macro-economic policy and industry restructuring; workplace reform; organisational reform; and less political activity.

It is on the issue of macro-economic policy that Cosatu stands to gain substantially if it can avoid the pitfall of being co-opted by government and business into accepting their proposals, he says.

It is also in this arena that union leadership and membership are apparently growing further apart, as monetary and fiscal policy is difficult to sell to constituents.

As a result, the easier options of job creation, VAT, food prices and social wage issues were likely to remain in focus.

On the workplace reform front, von Holdt suggests both management and labour are moving closer to establishing a "global approach to shopfloor change".

This will consist of training and skills development linked to productivity, increased worker autonomy and participation in decision-making mechanisms. Productivity gains will have to be shared with workers in the form of production bonuses, profit sharing or even share options.

He says organisational renewal will probably take most of Cosatu's time and energy as a drop of more than 75 000 members since 1991 has had a major effect.

Recruitment in new areas and sectors, redefinition of bargaining units to incorporate higher grade workers and strengthening of shopfloor structures are the likely basis of this drive.

Mergers of unions within the same sector and agency shop arrangements to solve the "free rider" problem will also be considered.

As negotiations between major political groupings are back on track, Cosatu is likely to play a lesser role on this front.

It will, however, be involved in mobilising for elections and the establishment of a reconstruction pact with the ANC aimed at ensuring labour rights in a future constitution and resting on "four pillars": job creation; development of social services and the social wage; human resource development; and expansion of citizenship rights.

On industrial action, von Holdt suggests there will be fewer days lost to strike activity in 1993 as unions have realised this is an expensive and often fruitless form of forcing employers' hands. He says a stayaway is unlikely to be called, for the first time since 1984.

Other significant collective bargaining issues are the restructured NMC; a further push for centralised bargaining; a major recruitment drive in the public sector; gender issues; and extension of legislation to cover farm workers.

Tax breaks for small business?

Own Correspondent

(320)

JOHANNESBURG. — Bad news in the budget was expected to be tempered by tax breaks for small business and public investment spending aimed at job creation, sources said last week.

The moves are understood to be part of Finance Minister Derek Keys's long-term restructuring plan, due for release this week. It is expected that small businesses with a turnover of below R1m will pay a few percentage points less income tax than other businesses, while there may also be personal income tax relief for individuals employed by these enterprises.

CT 8/3/93

Public sector investment projects are expected to be undertaken in a labour-intensive way to maximise job creation. Sources said it was not yet clear whether specific amounts would be set aside for job creation, or whether the issue would be tackled by maximising the labour content on public investment projects.

The National Economic Forum's short-term working group is studying job creation proposals, with small business and public works key features of the suggestions received.

While only minor aspects of the Keys plan are expected to be translated into action this fiscal year, Keys will show how the budget fits in with the long-term strategy.

Lower company tax 'crucial' to Keys's plan

BIDAY 9/3/93. (320)

LINDA ENSOR

CAPE TOWN — A plan to reduce the nominal rate of company tax from 48% to 40% by 1997 formed a vital part of Finance Minister Derek Keys's economic model due for release today.

This was said yesterday by tax advisory committee member and Wits University Centre for Applied Legal Studies director Prof Dennis Davis at a Cape Town Chamber of Industries/Deloitte & Touche seminar on taxes in a new SA.

He added that the model included a plan to narrow the wide gap between the nominal and effective rates by cutting down on tax allowances and incentives.

Davis said he had read through the model's proposals for a fundamental restructure of SA's tax system. This would involve government becoming more aggressive in its treatment of corporate tax allowances and tax planning schemes in order to fuse the nominal and effective tax rates. He estimated that in 1992 the fiscus "gave away" over R1bn in allowances.

Davis said there was greater likelihood of SA attracting foreign investment if its nominal tax rate was 40% rather than 48%. There was a marked disparity between the nominal rate and the effective rate which often fluctuated between 20% and 30%.

The model also recommended a shift in emphasis towards indirect taxes so that by 1997 they represented 55% of total tax revenue. This would be achieved by increasing VAT and excise duties.

Keys's model proposed that the tax burden on individual taxpayers be reduced, with the maximum rate falling from 43% to 40%. Fiscal drag would be dealt with by reducing tax brackets.

The model assumed that GDP growth would reach 4,5% by 1997 and that the percentage of tax revenue of GDP would fall from its high of 30% to 24,4% by 1997

☐ To Page 2

Company tax

BIDAY 9/3/93. (320)

☐ From Page 1

while government dissaving would be eliminated. Davis said the tax to GDP ratio in SA was far higher than should be the case for a developing country.

He felt a key omission from the model was proposed ways of decreasing the wastage in government expenditure and increasing its efficiency.

Davis said the model's proposals were not very different from ANC thinking on taxes. He said the ANC accepted it could not increase the percentage of tax revenue to GDP but would focus on restructuring the tax system using a multiple-rated VAT system as a key tool.

There was concern within the ANC over income earners in the middle to lower brackets bearing too great a tax burden. Davis said that in the 1989/90 fiscal year, 79% of all direct income tax was levied on persons earning between R20 000 and R80 000 a year. About 45% of personal income tax was collected in that year from those earning R20 000-R40 000.

There was also consensus on simplifying the tax system, getting rid of allowances, and on the need to reduce the gap between the nominal and effective tax rates.

Keys has said previously that the model provided for an increase in government and parastatal investment from 4% of GDP to 7%, while private sector fixed investment would rise from 12% to 15%.

● See Page 3

New tax on dividends is unlikely — expert

(320)

B/D Ay 9/3/93

LINDA ENSOR

CAPE TOWN — The reintroduction of a tax on dividends was highly unlikely in the forthcoming Budget as it would require an in-depth examination of alternative systems beforehand, Tax Advisory Committee member and Wits University Centre for Applied Legal Studies director Prof Denis Davis said yesterday.

Speaking at a Cape Town Chamber of Industries/Deloitte & Touche seminar on taxes in the new SA, Davis said there was consensus by the Tax Advisory Committee that it would not be possible to simply reintroduce the old "chaotic" dividend tax.

Any dividend tax would have to examine the use made of pension funds for tax planning purposes.

Alternative systems of dividend taxation such as advance corporation tax in the UK and the franked system of dividends in Australia would have to be investigated before the tax was introduced again in SA.

However, Davis said there could be no doubt a dividend tax could be expected in future as it was considered unacceptable to allow redistribution to wealthy shareholders at the expense of lower and middle income groups.

He believed a government of national unity would not drastically change the tax system as its policy would probably be a compromise. In any event the ANC's tax policy did not differ dramatically from what existed.

The ANC and government shared the view that there was little room to impose further taxes on lower and middle income earners.

Within these constraints a new government would have to focus on enhancing the efficiency of the system and closing loopholes.

Davis expected the tax avoidance section of the Income Tax Act (Section 103) to be fundamentally changed as it was too vague at present.

Changes would probably put the onus on the taxpayer to prove he did not structure his tax planning merely to gain a tax benefit.

The tax leakage and tremendous abuse regarding pension funds would have to be eliminated.

Furthermore, the open-ended nature of contribution deductibility and tax concessions regarding benefits were unnecessary concessions to the well off.

Major increases in capital transfer tax could be expected and it was likely that the tax exemption on interest earned by non-South Africans — estimated to be about R200m annually — would be abolished.

Davis could not see any sense in a land tax being introduced. Assuming a rate of between 1% and 2%, only about R250m would be raised.

Star 9/3/93

'Stop taxing the voteless'

About 100 women staged a picket outside the Receiver of Revenue offices in Johannesburg yesterday to mark International Women's Day and delivered a memorandum addressed to Finance Minister Derek Keys which called for an end to the taxation of voteless people. (320)

ARGT 10/3/93 (320)

Bad news for taxpayers likely in Budget next week

BRUCE CAMERON
Business Staff

A TOUGH Budget is certain next week as the government takes its first tentative steps to implement an economic blueprint to pull the economy out of its longest recession since the great depression of the early 1930s.

Finance Minister Mr Derek Keys yesterday unveiled the model which aims to resolve the country's economic woes within five years.

But in his first Budget his options are limited by conditions he has inherited — and taxpayers can expect bad news.

Promises of major tax reductions in the model cannot be met in this Budget but a swing away from direct to indirect taxation will be initiated with an increase of two to three percent in VAT and a higher petrol levy.

But, in a move to protect the poor, Mr Keys is expected to abolish VAT on a range of basic food next Wednesday.

Key elements of the model are:

- To switch the negative current growth rate to a positive 4,5 percent by 1997;
- To tailor government spending to meet its revenue;
- To cut tax rates, particularly company rates, from 48 to 40 percent over the next five years;
- To reduce inflation to five percent by 1997;
- A substantial increase in capital investment by the private and public sectors, adding a further R51 billion at 1985 constants;
- The creation of an extra 1,3 million jobs;
- The removal of barriers and protective tariffs to help push exports with export-driven growth seen as the starting point for revival of the economy;
- The reduction of government interference and participation in commerce and industry;
- Getting rid of expensive apartheid structures, particularly in areas such as education; and

● See page 15.

NEWS Dispute rages over Codesa name ● Cosatu determined to help poor

Ex-radio man dies

■ Masumbuka's funeral on Saturday at noon:

FORMER South African Broadcasting Corporation radio announcer and sports commentator Mr Elijah Thetha Masumbuka (52) died at his home in Kwa-Mhlanga, KwaNdebele this week.

Masumbuka, of 1037 A Kwa-Mhlanga, died of heart failure at his home on Sunday night. At the time of his death he was employed by the KwaNdebele government as senior chief administrator.

He is survived by his wife Manana and two children. He will be buried at the Kwa-Mhlanga Cemetery on Saturday at noon. The funeral service will be held at the local community hall from 9 am.

Cosatu warns of 'a very bleak future'

~~4407~~ 320

Sowetan 10/3/93.

■ Union is planning to stymie any move to increase taxes:

By Ike Motsapi and Mzimasi Ngudle

THE Congress of South African Trade Unions yesterday warned of "a very bleak future" if the Government increased taxes in the coming Budget.

And, lunch-hour factory demonstrations have been planned countrywide on March 16, a day before the Budget is presented before Parliament.

In a memorandum presented yesterday to Finance Minister Mr Derek Keys by a delegation headed by the federation's assistant general secretary, Mr Sam Shilowa, Cosatu said it had made its position clear on several occasions.

The last time the federation had explained its position was on March 1 during a summit convened by the Value Added Tax Co-Ordinating Committee.

"We emphasise our vehement opposition to any increase in VAT or to any increases in other taxes which will add to the burden of the poor," the memorandum said.

Keys said he would consult his principals and promised to report back.

Cosatu said the essence of its views revolves around the following:

- Zero rating of basic foods, electricity and water, medicines and medical services;
- Assistance for small business in respect of the effects of VAT;
- The urgent establishment of an emergency feeding scheme. The scheme and its implementation to be negotiated as a matter of urgency;
- A fund to support the public works programme of the Drought Forum and the National Economic Forum.

"Unless a joint approach can be employed to tackle these problems, the way forward remains bleak for all."

Little likelihood of tax cut

Star 10/3/93

By Sven Lünsche

Keys's tax proposals	1992 %	1997 %
Lower direct corporate taxation rates	48	40
Lower ceiling of individuals' marginal rate	43	40
Change in the tax structure (% direct)	55	50
Reduce the "balanced budget" tax burden (tax/GDP)	30,7	24,4

One aspect of the Normative Economic Model that is bound to receive widespread approval is its commitment to reducing the total tax burden over five years.

Yet, looking ahead to next week's Budget, lower tax rates are unlikely to be introduced before the 1994-95 fiscal year.

Instead, taxpayers should expect a number of hikes, mainly in the form of indirect taxation.

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These include:

- An increase in VAT to 12 or 13 percent, accompanied by a small extension to the number of foodstuffs that are zero-rated.
- A rise in the petrol levy, probably of about 10c a litre, increasing the total petrol price by 15c to 20c a litre.
- An increase in some customs and excise duties, with tobacco and beer especially strong candidates.

There is also likely to be an increase in real income tax paid by individuals, through fiscal drag, as inflation-adjusted wage increases push taxpayers into higher tax bands.

These measures seem to run counter to the economic model's commitment to lower tax rates.

But economists say that, given the vast fiscal deficit — expected to reach R30 billion, or nine percent of gross domestic product (GDP), for 1992-93 — large tax reductions are simply impossible.

They will be possible only once Finance Minister Derek Keys has achieved substantial expenditure cuts.

In his model he aims at balancing current expenditure and revenue by the end of the programme's term in 1997 and effectively limiting state borrowing for capital expenditure only.

Judging by his record so far — most state departments are well on the way to implementing Keys's three percent real expenditure cuts through staff retrenchments and low wage increases — this is the one area where he is most likely to succeed.

For the rest, he must be hoping the spending cuts will allow sufficient leeway to introduce the desired tax cuts over the remaining four years until 1997.

The most ambitious target, when viewed against the likelihood of an ANC-dominated government in the not-too-distant future, is a decline in the corporate tax rate from 48 to 40 percent.

Reducing the lower ceiling of individuals' marginal rate from 43 to 40 percent will prove meaningful only if it is accompanied by efforts to eliminate the effects of fiscal drag, to which the model is committed.

The easiest of the model's tax targets is shifting the share of direct tax in total tax revenue from its present level of 55 to 50 percent by 1997. The expected increase in VAT next week will go a long way to achieving this aim.

Overall, however, economists believe that Keys is sincere in his attempt to reduce the overall tax burden.

The report concedes that: "The tax-paying public in general, and its entrepreneurs in particular, perceive the current levels of personal and company taxes as too high, compared with the public benefits they perceive to flow from government expenditures, and to the levels of such taxes in other middle-income countries."

Plan to raise growth to 4,5%

CT 10/3/93

Staff Reporter

FINANCE MINISTER Mr Derek Keys yesterday unveiled a five-year plan to raise South Africa's growth rate to 4,5% by 1997 through cutting taxes, slashing government spending and raising fixed investment.

The strategy also envisaged an inflation rate of 5% by 1997, with employment growth and income redistribution. If the aims are reached over the next five years, 1,3 million formal jobs would have been created.

After the announcement yesterday, Cosatu officials met Mr Keys and presented to him proposals for the independent tax and audit commissions it envisages for the monitoring of state expenditure.

The delegation also outlined Cosatu's demands concerning the VAT zero-rating of basic foodstuffs, water, electricity and medical services and its opposition to any increase in either direct or indirect tax.

A statement issued by Cosatu after the meeting yesterday said the planned tax commission could be charged with reviewing the entire tax system by September 1993 to enable its recommendations to be embodied in the 1994/5 budget.

● Keys unveils SA's five-year growth plan — Page 9

Don't increase VAT, urges Cosatu

Staff Reporter (320) ARG 11/3/93

COSATU today welcomed the lifting of VAT from basic foods and appealed to Finance Minister Mr Derek Keys not to increase the VAT rate.

The organisation, representing millions of workers, said the government should concentrate on controlling corruption, wastage and duplicated expenditure before considering increasing the tax burden.

The basic foodstuffs zero-rated for VAT purposes are: rice, fresh fruit and vegetables, fresh milk and certain cultured milk, brown wheaten meal, eggs, and legumes and pulses (peas and beans).

Cosatu questioned why fish and white bread were not being exempted and criticised Mr Keys for refusing to zero-rate medicines, medical services, electricity and water.

The zero-rating of basic foods should not be seen as a trade-off for an increase in the general VAT rate, Cosatu said.

The organisation remained "implacably opposed to any increase in the VAT rate, or other taxes affecting the poor and working people."

"Leaks to the media have attempted to prepare people for an increase in VAT to between 12 and 14 percent. We want to warn the government our people are not prepared to accept it."

Mrs Ina Perlman, executive director of Operation Hunger — South Africa's largest food aid charity — said the decision to zero-rate more basic foods could "only be applauded".

Mrs Perlman said a "huge concern" was the increasing numbers who did not qualify for relief and could no longer afford to feed families."

● See page 4

Vat relief

320 CT 11/3/93

More foods to be zero-rated

By CHRIS WHITFIELD

FINANCE MINISTER Mr Derek Keys last night announced new Value Added Tax (VAT) zero-ratings on a wide range of foodstuffs — a step his predecessor Mr Barend du Plessis refused to contemplate.

Mr Keys' decision followed a meeting with the VAT Co-ordinating Committee (Vatcom) — embracing a wide range of organisations that strongly opposed the introduction of the tax — which he said had "reached a successful conclusion".

New zero-ratings will apply from April 7 to rice, vegetables (in their natural state), fruit, vegetable oil for use in cooking, milk, cultured milk, brown wheaten meal, eggs, legumes and pulses.

At present brown bread, mealie meal, mealie rice, samp, dried mealies, dried beans, lentils, tinned pilchards, milk powder and dairy powder blends are zero-rated.

Mr Keys also revealed that Vatcom had called for the zero-rating of electricity, water, medical services and medicines and for favourable VAT treatment for small businesses.

However, he felt that on these "a change of rating for VAT purposes would be a wasteful, expensive and inappropriate remedy, and that direct focused action by the responsible authorities is the preferred alternative".

Yesterday Cosatu welcomed the decision to zero-rate the foodstuffs, but found it "anomalous that Mr Keys is resisting zero-rating medicines, despite the fact that the relevant minister, Dr Rina Venter, supports zero-rating of medicines".

The government has in the past preferred to give directed aid to the poor, instead of doing it through zero-rating, which distorts relative prices.

However, Mr Keys said "we can accept these disadvantages in the particular context of these agreed changes, which represent a meeting of the minds of two parties formerly at loggerheads".

He and Vatcom appealed to the Food Logistics Forum, other consumer bodies and consumers themselves to "ensure that the prices of the products concerned reflect their changed VAT status from April 7".

● **Keys' plan: Cautious ANC nod — Page 5**

'Consumers must receive benefits'

Govt drops VAT on some basic foods

BDAY 11/3/93. (320) (843)

GRETA STEYN

FINANCE Minister Derek Keys last night announced the zero rating of VAT on certain basic foodstuffs from next month — a move that will mean an immediate 10% reduction in some food prices.

The decision, aimed at helping the poorest sections of the community, came after months of difficult negotiations with the Cosatu-led VAT Co-ordinating Committee (VCC). Keys described the deal with the VCC as "a meeting of the minds of two parties formerly at loggerheads". The VCC said the zero rating was "the best that could be achieved at the present time".

Keys's decision flies in the face of IMF advice to keep the system pure but goes a long way towards lessening the threat of mass action after the Budget.

The following foods would be zero rated from April 7: rice, fresh vegetables (dehydrated, canned and bottled vegetables are excluded), fresh fruit, vegetable oil used for cooking (excluding olive, soya-bean and cotton seed oil), milk (excluding condensed, flavoured, sweetened, evaporated and concentrated but including ultra-high temperature treated milk), cultured milk, brown wheaten meal, raw eggs and bean family vegetables.

The VCC regretted the decision not to zero rate red and white meat, white bread and fish.

An issue of major concern to Keys and the VCC was whether the price reductions would be passed on to consumers. Keys said the Food Logistics Forum had made a valuable contribution to bringing the "unbridled" rises in food prices during 1992 under control. "We appeal to them to play an equally valuable role now in ensuring that the prices of the products concerned reflect their changed VAT status."

The VCC said it would approach the food industry and retailers to ensure the price decreases were passed on to consumers.

The VCC had also tried to secure zero rating of electricity, water, medical services and medicines as well as to extend the tax breaks to small businesses. Keys said, however, that it would be a "wasteful, expensive and inappropriate remedy" and that direct attention by the different authorities would be the correct approach. The Finance Department had facilitated the committee's access to these authorities, but would not be further involved.

The VCC said it had discussed with Eskom ways of providing cheaper electricity to poor communities. Eskom would propose to the National Electrification Forum plans for block tariffs which provided a cheap lifeline supply of electricity to households which consume little power.

Cosatu issued a statement last night warning that the zero rating of foodstuffs should in no way be seen as a trade-off for an increase in the general VAT rate. Noting that the rate was expected to rise to 12%-14%, Cosatu said: "We want to warn the government our people are not prepared for this, and are not prepared to accept it." It also regretted the decision not to zero rate medicines.

Keys said there were problems associated with the zero rating of products — it weakened the efficiency of the VAT system and distorted relative prices.

Vat lifted from some foodstuffs

Sowetan 11/3/93 320

■ SLIGHT RELIEF No respite on medicines, water and electricity:

By Mzimkulu Malunga

THE GOVERNMENT yesterday announced tax exemptions on a number of basic foodstuffs, including eggs, fresh milk, brown wheatmeal, rice, fresh fruit and vegetables, legumes and pulse.

The move follows negotiations earlier with the Vat Co-ordinating Committee, which included Cosatu.

The country's largest labour federation welcomed Keys' decision to zero-rate basic foodstuffs but was concerned at the Finance Minister's reluctance to do the same for the other items.

"We find it anomalous that he is resisting zero-rating medicines, despite the fact that the relevant Minister, Rina Venter, supports zero-rating of medicines," Cosatu said.

Cosatu met with Keys on Tuesday to express its opposition to any increase in Vat and stressed the need for additional zero Vat-rating on basic foodstuffs, water and electricity tariffs, medicines and medical services.

However, in a surprise statement a week before the Budget, Keys said: "On all of these issues (electricity, water, medical services and medicines) the Department of Finance maintains its view that a change in the rating for Vat purposes would be a wasteful, expensive and inappropriate remedy."

Earlier the head of the ANC's economics department, Trevor Manuel, said if the Government wanted to increase indirect tax it should exempt basic foodstuffs from Vat.

He was reacting to the Government's proposed economic model for South Africa in the next five years, tabled by the Finance Minister on Tuesday.

Mr Mahlomola Skhosana, assistant general secretary of the National Council of Trade Unions, said his organisation had not yet received the full report and would comment at a later stage.

The document received a cautious welcome from a number of other organisations as a valid contribution to the ongoing economic debates.

Star 11/8/93

ANC-led government unlikely to raise taxes

By Sven Lünsche

An ANC-led government would be unlikely to raise the overall tax burden from its present level, says Professor Dennis Davies of the Wits Legal Resources Centre and an ANC tax adviser.

Davies suggested, however, that the organisation would aim to achieve more equitable revenue income by taking cognizance of vast wealth gaps now prevailing.

Addressing a seminar on taxes in the new SA, organised by accountants Deloitte & Touche, Davies listed a range of changes under discussion by the ANC.

He stressed there was very limited scope for increasing the tax burden on persons earning R20 000 to R80 000 a year because they already accounted for almost 80 percent of all income tax payments.

"We are moving in the wrong direction.

"If we want to boost investment spending we cannot raise taxes any further," Davies said.

Nevertheless, within these confines, a number of tax changes could be introduced by a future government, which would ease the emphasis on the lower- and middle-income groups to provide the bulk of tax revenues.

(320)

Davies said these included:

- A multiple VAT system with a high basic VAT rate, a lesser rate for essential goods and services and zero-rating for basic foodstuffs.

While such a system was more complex, it would be acceptable, given future political realities.

- Plugging certain tax loopholes, which have resulted in a marked disparity between the nominal rate of company tax at 48 percent and the effective rate of between 20 to 30 percent.
- Reintroduction of a dividend tax, which brought in R408 million in 1990.

Davies said, however, tax on dividends should only be introduced after a careful consideration of alternative systems to avoid the abuse presently existing insofar as tax planning and pension funds were concerned.

- A land tax, which would be costly to implement, but would allow a future government to address tenure patterns in its effort to deal with the legitimate claims of 3,5 million people displaced by apartheid.
- Lifting estate duty from its current level of 15 percent to about 35 percent.
- Excluding immigrants from exemption for tax on interest earned by non-South Africans, which could raise about R200 million.

Davies said the ANC was unlikely to introduce a wealth tax to raise additional revenue.

Dennis Davies ... more equitable revenue income ibly be the foundation for future Joint Committees at the regional level.

— The involvement of the provincial Directors-General in this matter stems primarily from an administrative arrangement between themselves and the Auditor-General. Whilst they cannot be held directly *accountable* for the affairs of local authorities, they should still—in terms of their regulatory and facilitating functions in respect of the financial administration of local authorities—render *support* to the Auditor-General and Joint Committee on Public Accounts to ensure that local authorities comply with prescribed audit requirements.

— Should the Auditor-General need to report to the Joint Committee on all local authorities individually and the committee has to call them all to account, the workload would be insurmountable. It is therefore proposed that only the more serious misdemeanours—which could include continuous "administrative" irregularities such as the failure to produce financial statements timeously—be reported to the Joint Committee by means of separate *special* reports and which could result in the relevant Town Clerks and/or mayors being called to appear before the Committee, whilst less serious and general issues still be dealt with in a general report. All reports should be provided to the Director-Generals of the Provincial Administrations for their information and further action where applicable. However, even if only some of the worst "culprits" are called to account directly to the Joint Committee, it will serve as an example to others.

— The empowerment of regional governments and local electorates to exact effective accountability at the local authority level should receive proper attention in any negotiations about a future constitution for the RSA, in order to avoid a repetition of the current unsatisfactory situation.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Tax concessions for shows featuring overseas artists

7. Mr M RAJAB to ask the Minister of Finance:

(1) (a) How many promoters of shows featuring overseas artists (i) applied and (ii) qualified for tax concessions for such shows in 1992, (b) what was the total amount involved in the granting of such concessions and (c) what criteria are applied in connection with the granting of concessions of this nature:

(2) whether he will disclose the amounts of the individual concessions granted in 1992; if not, why not; if so, what are they? D38E

The MINISTER OF FINANCE:

(1) (a) (i) None.

(ii) None.

(b) Nil.

(c) The sponsorship allowance which was provided for in the Income Tax Act was withdrawn last year and only shows which have been approved on or before 14 February 1992 by the Minister of Finance on the recommendation of the Minister of National Education, as an international event could have been taken into consideration for such allowance. No applications were received during the period 1 January 1992 to 14 February 1992.

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The following criteria was applicable up to 14 February 1992 when granting concessions of this nature:

The expenditure which served as a basis for the determination of the concession must have in the first instance, complied with the general deduction formula contained in section 11(a) or (b) of the Income Tax Act, before it could have been considered for the sponsorship allowance. Furthermore, the Minister of Finance in consultation with the Minister of National Education, must have been satisfied that the cultural event which was sponsored, was of an international nature. The guidelines which the Act prescribed in this regard were the following:—

(1) it must have been an event which is commonly participated in on an international basis;

(2) a substantial number of the participants or the key participants must have been non-residents of the Republic; and

(3) the holding of the event must have been of material advantage to cultural activities in the Republic.

(2) Not applicable.

Basic food exemption from VAT welcomed

ARG 11/3/93 (320)

The Argus Correspondent

JOHANNESBURG. — The government has bowed to pressure from consumer groups and trade unions by exempting a range of basic food from VAT.

But in exchange it is probable that an increase in VAT on all other goods and services from 10 percent to between 12 and 14 percent will be announced in the budget on Wednesday.

Finance Minister Derek Keys said in a statement that rice, vegetables, fruit, vegetable oils, milk, cultured milk, eggs and brown bread would be zero-rated with effect from April 7.

Mr Keys said the deal was struck after successful negotiations between the Department of Finance and the VAT Co-ordinating Committee (VCC), an umbrella body of various interest groups led by Cosatu.

Reponding to the announcement, the VCC's Mr Bernie Fanaroff said the committee had accepted the zero-rating on basic food "as the best that could be achieved at the present time".

Economists said yesterday that Mr Keys, in exchange for agreeing to the zero-rating, would raise VAT by between two and four percent when he presented his budget next week.

In a statement separate from the VCC announcement, Cosatu said its acceptance of the zero-rating of basic food should in no way be seen as a trade-off for an increase in VAT.

The trade union federation warned that an increase in VAT "would not be accepted by our people".

"It is Cosatu's view, which we expressed to Minister Keys on Tuesday, that the billions extra they want to raise via VAT and increased personal taxes should rather be recovered via control of corruption, wastage and duplicated expenditure," Cosatu said.

In its statement the VCC also regretted the government's decision not to exempt other food, such as meat, white bread and fish, as well as medicines, medical services, water and electricity.

But the VCC disclosed that Eskom would soon be proposing a cheap supply of electricity to households which consume less electricity as part of the block tariff system.

Defending the decision not to extend the zero-rating to other goods and services, Mr Keys said it would weaken the efficiency of the VAT system and distort relative prices.

"A change in the VAT rating for basic services is wasteful, expensive and an inappropriate remedy. Direct focused action by the responsible authorities is the preferred alternative," the Minister said.

Mr Keys and the VCC said they would approach the Food Logistics Forum, which represents large chain groups, to ensure the zero-ratings were passed on to consumers through an immediate 10 percent cut in prices.

Tax dropped on basic foods, but likely to rise on other goods

Star 11/3/93

Govt gives in on VAT

By Sven Lünsche 320

The Government yesterday bowed to pressure from consumer groups and trade unions by announcing the zero-rating of value added tax on a range of basic foodstuffs.

It is probable, however, that an increase in the VAT rate on all other goods and services from 10 percent to between 12 and 14 percent will be announced in next week's Budget.

Finance Minister Derek Keys said in a statement that rice, fresh vegetables, fruit, vegetable oils, milk, cultured milk, eggs, beans and brown wheaten meal

ANC on taxes — Page 19

would be "zero-rated with effect from April 7 for the purposes of VAT".

This is in addition to brown bread, maize meal, samp, mealie rice, dried mealies and powdered milk, which were zero-rated when VAT was introduced in October 1991.

Keys said he agreed to the zero-rating after successful negotiations between the Department of Finance and the VAT Co-ordinating Committee (VCC), an umbrella body of various interest groups led by Cosatu.

The VCC's Bernie Fanaroff said the committee had accepted the zero-rating on basic foodstuffs "as the best that could be achieved at the present time".

Horror crash . . . police and rescue workers inspect the wreckage of a plane which disintegrated in mid-air yesterday.
Picture: Sean Woods

Three die as plane falls apart

By Glen Elsas
West Rand Bureau

landed in a concrete ditch near Westonaria.

Eddie Edward, of Germiston.

A shocked Max Slabbert was driving home when he

Samp, mealie rice, dried mealies and powdered milk, which were zero-rated when VAT was introduced in October 1991.

Keys said he agreed to the zero-rating after successful negotiations between the Department of Finance and the VAT Co-ordinating Committee (VCC), an umbrella body of various interest groups led by Cosatu.

The VCC's Bernie Fanaroff said the committee had accepted the zero-rating on basic foodstuffs "as the best that could be achieved at the present time".

Economists said yesterday that Keys, in exchange for agreeing to the zero-rating, would raise VAT by between two and four percentage points when he presented his Budget to Parliament next week.

In a statement separate from the VCC announcement, Cosatu said its acceptance of the zero-rating of basic foodstuffs should in no way be seen as a trade-off for an increase in the general VAT rate. The trade union federation warned the Government that an increase in VAT "would not be accepted by our people".

"It is Cosatu's view, which we expressed to Minister Keys on Tuesday, that the billions extra they want to raise via VAT and increased personal taxes should rather be recovered via control of corruption, wastage, duplicated expenditure, etc," Cosatu said.

The VCC, in its statement, said it regretted the Government's decision not to exempt other foodstuffs, such as meat, white bread and fish, as well as medicines, medical services, water and electricity. The VCC disclosed, however, that Eskom would soon be proposing a cheap supply of electricity to households which consumed less electricity as part of the block tariff system.

Defending the decision not to extend the zero-rating to other goods and services, Keys said it would weaken the efficiency of the VAT system and distort relative prices: "A change in the VAT rating for basic services is wasteful, expensive and an inappropriate remedy. Direct, focused action by the responsible authorities is the preferred alternative."

Keys and the VCC said they would approach the Food Logistics Forum, which represents large chain groups, to ensure the zero-ratings were passed on to consumers through an immediate 10 percent cut in prices.

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Vol. 333 PRETORIA, 12 MARCH / MAART 1993 No. 14641

3 MARCH 1993

DEPARTMENT OF FINANCE

PRESS STATEMENT

by the

320

COMMISSIONER FOR INLAND REVENUE

CONCERNING THE DOUBLE DEDUCTION OF EXPENDITURE

Section 23B was introduced into the Income Tax Act to prohibit the allowance of any double deduction of expenditure or allowances except in instances where the Act expressly allows it. Taxpayers had, for example, claimed expenditure under the general deduction formula of section 11 (a), read with section 23 (g), and again under a specific section of section 11. This was clearly not what the legislature had intended nor was it the official practice of Inland Revenue to allow it. Section 23B was introduced with effect from the commencement of years of assessment ending on or after 1 January 1992.

It has come to my attention that certain tax consultants are advising their clients to claim a double deduction of certain expenditure for years of assessment prior to the year in which the amendment took effect. This would give these taxpayers an unintended and unwarranted benefit which is to the detriment of the fisc and ultimately to other taxpayers who cannot or do not claim a double deduction of expenditure.

3 MAART 1993

DEPARTEMENT VAN FINANSIES

PERSVERKLARING

deur die

KOMMISSARIS VAN BINNELANDSE INKOMSTE

RAKENDE DIE DUBBELE AFTREKKING VAN ONKOSTE

Artikel 23B is in die Inkomstebelastingwet ingevoeg om die toelating van 'n dubbele aftrekking van onkoste of toelaes te verbied, behalwe in gevalle waar die Wet dit uitdruklik toelaat. Belastingpligtiges het byvoorbeeld onkoste geëis ingevolge die algemene aftrekkingsformule van artikel 11 (a), saamgelees met artikel 23 (g), en weer ingevolge 'n spesifieke bepaling van artikel 11. Dit was duidelik nie wat die wetgewer bedoel het nie en was dit ook nie die praktyk van Binnelandse Inkomste om dit toe te laat nie. Artikel 23B is ingevoeg met ingang van die begin van jare van aanslag wat op of na 1 Januarie 1992 eindig.

Dit het onder my aandag gekom dat sekere belastingkonsultante hul kliënte aanraai om 'n dubbele aftrekking van sekere onkoste te eis vir jare van aanslag voor die jaar waarin die wysiging in werking getree het. Dit sal aan hierdie belastingpligtiges 'n onbedoelde en ongeoorloofde voordeel verleen wat tot nadeel is van die skatkis en uiteindelik van ander belastingpligtiges wat nie 'n dubbele aftrekking eis of kan eis nie.

It is my intention to recommend to the Minister of Finance and of Trade and Industry that the Income Tax Act be amended with retrospective effect to make the provisions of section 23B effective from the date the Income Tax Act, No. 58 of 1962, came into operation. The effect of the proposed amendment will be: (320)

(1) Assessments which are final, i.e. older than three years, may not be reopened to disallow the double deduction.

(2) Assessments may not be reopened to allow a double deduction or make a refund.

(3) Where assessments have, for whatever reason, not been raised, a double deduction will not be allowed.

Issued by: The Commissioner for Inland Revenue, Pretoria.

Enquiries: Mr T. F. van Heerden.
Tel. (012) 315-5304.

Dit is my bedoeling om by die Minister van Finansies en van Handel en Nywerheid aan te beveel dat die Inkomstebelastingwet met terugwerkende krag gewysig word om die bepalings van artikel 23B van toepassing te maak vanaf die datum waarop die Inkomstebelastingwet, No. 58 van 1962, in werking getree het. Die uitwerking van die voorgestelde wysiging sal soos volg wees:

(1) Aanslae wat finaal is, d.w.s wat ouer as drie jaar is, sal nie heropen kan word om die dubbele aftrekking terug te tel nie.

(2) Aanslae sal nie heropen kan word om 'n dubbele aftrekking toe te laat of om 'n terugbetaling te maak nie.

(3) Waar aanslae vir watter rede ook al nog nie gehef is nie, sal 'n dubbele aftrekking nie toegelaat word nie.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

Navrae: Mnr. T. F. van Heerden.
Tel. (012) 315-5304.

PROCLAMATION

by the

State President

of the Republic of South Africa

No. 13, 1993

ESTABLISHMENT OF A SPECIAL COURT IN TERMS OF THE MAINTENANCE AND PROMOTION OF COMPETITION ACT, 1979 (ACT No. 96 of 1979)

By virtue of the powers vested in me by section 15 (2) of the Maintenance and Promotion of Competition Act, 1979 (Act No. 96 of 1979) (the Act), I hereby establish a special court for the hearing of an appeal by Richards Bay Bulk Storage (Pty) Ltd against Notice No. 1011 published in *Gazette* No. 14367 of 6 November 1992 by the Minister for Public Enterprises in terms of section 14 (1) (c) of the Act, and for the hearing of such other appeals that may in future be lodged from time to time in terms of the Act.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town this Twenty-second day of February, One thousand Nine hundred and Ninety-three.

F. W. DE KLERK,
State President.

By Order of the State President-in-Cabinet:

D. J. DE VILLIERS,
Minister of the Cabinet.

PROKLAMASIE

van die

Staatspresident

van die Republiek van Suid-Afrika

No. 13, 1993

INSTELLING VAN 'N SPESIALE HOF KRAGTENS DIE WET OP DIE HANDHAWING EN BEVORDERING VAN MEDEDINGING, 1979 (WET No. 96 VAN 1979)

Kragtens die bevoegdheid my verleen by artikel 15 (2) van die Wet op die Handhawing en Bevordering van Mededinging, 1979 (Wet No. 96 van 1979) (die Wet), stel ek hiermee 'n spesiale hof in vir die verhoor van 'n appèl deur Richards Bay Bulk Storage (Edms.) Bpk. teen Kennisgewing No. 1011 gepubliseer in *Staatskoerant* No. 14367 van 6 November 1992 deur die Minister vir Openbare Ondernemings kragtens artikel 14 (1) (c) van die Wet, en vir die verhoor van sodanige ander appèlle wat in die toekoms van tyd tot tyd kragtens die Wet aangeteken mag word.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad, op hede die Twee-en-twintigste dag van Februarie Eenduisend Negehonderd Drie-en-negentig.

F. W. DE KLERK,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:

D. J. DE VILLIERS,
Minister van die Kabinet.

GOVERNMENT NOTICES

DEPARTMENT OF FINANCE

No. 394 320 **12 March 1993**

REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF FINANCE: INLAND REVENUE

OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 16

Date: 12 March 1993

INCOME TAX:

DEDUCTION IN TERMS OF SECTION 12C OF THE INCOME TAX ACT (THE ACT) IN RESPECT OF CERTAIN FOUNDATIONS OR SUPPORTING STRUCTURES

1. Section 11 (e) of the Act contains [in paragraph (iiA) of the proviso] a provision allowing a deduction to be granted under that section in respect of certain foundations or supporting structures which have been designed to support specific pieces of machinery, etc. Because there is no corresponding provision in section 12C of the Act, the argument has been put forward that such foundations or structures cannot qualify for the deduction under that section.

2. The reason for the above-mentioned provision in section 11 (e) is to be found in paragraph (ii) of the proviso, which places a general prohibition on the granting of a deduction in respect of structures or works of a permanent nature. Section 12C, however, contains no such prohibition on a deduction in respect of such structures or works of a permanent nature. On the contrary, it is settled law that the expression "plant", as used in section 12C, can include permanent structures. See, for example, Blue Circle Cement Ltd v CIR, 1984(2) SA 764(A) (46 SATC 21), in which the following dictum of Lindley, L. J., in the English case of Yarmouth v France (1887) 19 QBD 647 is cited with approval:

   "There is no definition of plant in the Act: but, in its ordinary sense, it includes whatever apparatus is used by a business man for carrying on his business, not his stock-in-trade which he buys or makes for sale; but all goods and chattles, fixed or movable, live or dead, which he keeps for permanent employment in his business.".

3. Having, therefore, established that foundations can constitute plant, the main test to be met under section 12C is thus whether it is used directly in the manner envisaged in this section. As a general rule, where the machinery mounted on the foundation qualifies for the deduction, so too will the foundation.

ISSUED BY THE COMMISSIONER FOR INLAND REVENUE, PRETORIA.

GOEWERMENTSKENNISGEWINGS

DEPARTEMENT VAN FINANSIES

No. 394 **12 Maart 1993**

REPUBLIEK VAN SUID-AFRIKA

DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 16

Datum: 12 Maart 1993

INKOMSTEBELASTING:

AFTREKKING INGEVOLGE ARTIKEL 12C VAN DIE INKOMSTEBELASTINGWET (DIE WET) TEN OPSIGTE VAN SEKERE FONDAMENTE OF STEUNENDE BOUWERK

1. Artikel 11 (e) van die Wet [in paragraaf (iiA) van die voorbehoudsbepaling] bevat 'n bepaling dat 'n aftrekking ingevolge dié artikel toegelaat mag word ten opsigte van sekere fondamente of steunende bouwerk wat ontwerp is om ondersteuning te gee aan 'n spesifieke deel van masjinerie, ensovoorts. Aangesien daar geen ooreenstemmende voorbehoudsbepaling by artikel 12C van die Wet is nie, word die argument geopper dat sodanige fondasies of bouwerke nie vir 'n aftrekking kragtens dié artikel kan kwalifiseer nie.

2. Die rede vir bogenoemde bepaling in artikel 11 (e) word gevind in paragraaf (ii) van die voorbehoudsbepaling wat 'n algemene beperking plaas op die toestaan van 'n aftrekking ten opsigte van strukture of werke van 'n permanente aard. Artikel 12C bevat egter nie so 'n beperking ten opsigte van 'n aftrekking op sodanige strukture of werke van 'n permanente aard nie. Inteendeel, dit is gevestigde reg dat die uitdrukking "installasie", soos in artikel 12C gebesig, permanente bouwerke kan insluit. Vergelyk, byvoorbeeld, Blue Circle Cement Ltd v CIR, 1984(2) SA 764(A) (46 SATC 21), waarin die volgende uitspraak van Lindley, L. J., in die Engelse saak van Yarmouth v France (1887) 19 QBD 647 met goedkeuring aangehaal is:

   "There is no definition of plant in the Act: but, in its ordinary sense, it includes whatever apparatus is used by a business man for carrying on his business, not his stock-in-trade which he buys or makes for sale; but all goods and chattles, fixed or movable, live or dead, which he keeps for permanent employment in his business.".

3. Aangesien daar dus vasgestel is dat fondamente installasies kan uitmaak, is die algemene toets om aan die vereistes van artikel 12C te voldoen die feit of dit regstreeks gebruik word op die wyse soos beoog in genoemde artikel. As 'n algemene reël sal 'n fondament vir die aftrekking kwalifiseer indien die masjien wat op die fondament gemonteer is, vir die aftrekking kwalifiseer.

UITGEREIK DEUR DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

Stop ad hoc tax changes, says Sacob

Zero rating could cost govt R850m

320

BDAY 12/3/93.

GRETA STEYN

THE zero rating of VAT on certain basic foodstuffs will cost the cash-strapped government R850m in revenue — almost twice the size of the poverty safety net originally designed to counteract VAT's effect on the poor.

Sacob said yesterday this week's measures would cost the state R850m and meant government would have to raise the VAT rate by one percentage point merely to maintain present revenues. Economists said a VAT rate of at least 13% would be necessary to raise the revenue that 12% without zero rating would have achieved.

"Given the present high fiscal deficit, the zero rating will remove the scope of the Minister to progress with the planned lowering of direct tax rates, or even to compensate individuals for the effects of bracket creep," Sacob said.

The move to zero rate basic foodstuffs came in response to the VAT Co-ordinating Committee's argument that VAT placed an unbearable burden on the poor. However, the IMF argued that direct assistance to the needy was the correct response to the problem. Economists said the R850m loss in revenue failed to translate into an equal injection into the pockets of the most needy. They said targeted assistance would be more effective.

Government's opposition to demands for zero rating was weakened by the failure of its aid programme, which received R440m in last year's Budget. Sources in non-government organisations said the state's delivery of aid could be substantially improved if it allowed the organisations to play a greater role in the scheme.

Sacob said zero rating offered no benefit to those without incomes and its impact on people in rural areas was likely to be limited. Sacob called for a detailed investigation to determine the full extent of the poverty problem, and the best ways to address it, so that "ad hoc and ill-conceived" changes to the tax system could be avoided in future.

Economists speculated Finance Minister Derek Keys's confidence that inflation's fall to single digits was not a flash in the pan indicated he would not raise the VAT rate to more than 13%. They said the food zero rating would lead to a 0,4 percentage point reduction in the inflation rate. However, this would be more than counteracted by a hike in the overall VAT rate. A VAT rate of 13% with food zero rating is estimated to add 1,5 percentage points to the rate of increase in the consumer price index. Without food zero rating, a 13% VAT rate would have translated into an inflation rise of about two percentage points. A 12% VAT rate without zero rating would have had more or less the same effect on inflation as a 13% VAT rate with zero rating.

Increases in fuel prices and customs and excise duties in the Budget are expected to bring the total Budget-related rise in the CPI rate of increase to almost two percentage points. This would take the rate up to more than 11%, but a renewed downtrend from that level was possible.

● See Pages 3 and 10

INCOME TAX FM 12/3/93

Directors' woes (320)

The introduction of the concept "labour broker" to the Income Tax Act has implications for public company directors paid through wholly owned private subsidiaries.

Paye is deducted at source if directors' fees are paid by the public companies. But, in the past, when payment was routed through the service company, the directors were taxed provisionally, which gave them an important timing benefit.

The private company made good the amount by charging the public company a service fee adjusted to make up the tax-deductible directors' fees plus incidental overheads. Thus it made neither profit nor loss and paid no tax.

cont →

FM 12/3/93. (320)

The amendment will oblige public companies to deduct Paye from payments to the service company, at the company tax rate of 48%, unless the service company can obtain from Revenue exemption from the labour broker requirements.

All public company directors will have to accept payment from the public companies. The implications are that they will now have Paye deducted at source, instead of paying tax in arrears, and those who have used tax shelters will not be able to shop around for appropriate schemes towards the end of the tax year.

Though most shelters have been knocked down by amendments to the Act and Income Tax Special Court judgments, advisers can come up with new ones.

Another problem frequently overlooked is the Vat-liability of fees paid to the private service company by the public company. A few group service companies are probably in default — with grave consequences in penalties looming. ■

ANC TAX POLICY

FM 12/3/93. (320)

A tenuous grasp of reality

Hopes that the ANC is coming to terms with economic reality are repeatedly dashed by public pronouncements from people who really should know better. The logical case for not taxing individuals' dividend income — which has already been taxed at underlying corporate level — is impeccable and abolition of this tax has been one of the few positive tax reforms of recent years.

Yet this week, legal professor and ANC adviser Dennis Davis said that the tax will have to be re-introduced because "it is unacceptable to allow redistribution to wealthy shareholders at the expense of lower and middle income groups."

Since when is rewarding the providers of risk capital "redistribution"? Only those who do not understand the nature of profits could make such an absurd assertion.

Making matters worse, Davis continued that the "tax leakage and tremendous abuse" regarding pension funds will have to be eliminated. Given existing laws, most private-sector *FM* readers would be only too happy to find out how to "abuse" the pension fund system.

Or is the mere desire to provide adequate retirement income by one's own savings, rather than rely on the handouts of a benevolent socialist state, in itself an abuse?

Finally, Davis warned that it will probably be necessary to place the onus on taxpayers to prove that they have not structured their arrangements merely to gain a tax benefit. Apart from the intrinsic difficulty of proving a negative, the authorities already have quite enough discretion in this direction — as their arbitrary and inconsistent treatment of film and other tax shelters has made clear.

Clearly, there are still elements within the ANC who consider a punitive tax policy an acceptable method of redistribution of wealth. At the same time, others are calling on the business sector to invest and create jobs. Can they not see that these attitudes are incompatible?

It is no coincidence that SA's transition from a low- to a high-tax society has been accompanied by a deterioration in relations between the taxman and his clients (the fact that much of the tax revenue so painfully collected has been stolen or wasted by the kleptocracy only makes matters worse). The higher taxes are, the more it makes sense to minimise one's liability — and it is no man's patriotic duty to pay a cent more in tax than he has to.

In the circumstances, Davis's attempted reassurance that there will be no drastic changes in the tax system in the new SA "because the ANC's tax policy does not differ dramatically from what exists" could be counterproductive. ■

No. 395 **12 March 1993**

REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF FINANCE: INLAND REVENUE

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OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 17

Date: 12 March 1993

INCOME TAX:

TAXATION IMPLICATIONS OF BURSARIES AND SCHOLARSHIPS (APPLIES FROM COMMENCEMENT OF YEARS OF ASSESSMENT ENDED OR ENDING ON OR AFTER 1 JANUARY 1992 UNLESS OTHERWISE INDICATED)

1. STATUTORY PROVISIONS

1.1 Section 10 (1) (q), which was added to the Income Tax Act, 1962 (the Act), by section 10 (1) (p) of the Income Tax Act, 1992, provides for the exemption from income tax of any *bona fide* scholarship or bursary granted to enable or assist any person to study at a recognised educational or research institution subject to the following conditions:

If such scholarship or bursary has been granted by an employer or an associated institution (as defined in paragraph 1 of the Seventh Schedule to the Act) to an employee (as defined in the said paragraph) or to a relative of such employee in circumstances indicating that the scholarship or bursary would not have been granted had that employee not been an employee of that employer, the exemption shall not apply—

(i) if any remuneration to which the employee was entitled or might in the future have become entitled was in any manner whatsoever reduced or forfeited as a result of the grant of such scholarship or bursary, i.e. a salary sacrifice,

(ii) in the case of a scholarship or bursary granted to enable or assist any such relative of any employee so to study, if the renumeration derived by the employee during the year of assessment exceeds R36 000; and

(iii) to so much of any scholarship or bursary contemplated in paragraph (ii) as in the case of such relative exceeds R1 200 during the year of assessment.

1.2 Where a scholarship or bursary is granted subject to a salary sacrifice [paragraph 1.1 (i)], section 23 (j) [which was inserted in the Act at the same time as section 10 (1) (q)] provides that where a taxpayer is an "employer" or "associated institution" (as respectively defined in the Seventh Schedule to the Act) no deduction will be made in respect of the cost to the taxpayer of providing such scholarship or bursary. (See also paragraph 4.2.)

No. 395 **12 Maart 1993**

REPUBLIEK VAN SUID-AFRIKA

DEPARTEMENT VAN FINANSIES: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 17

Datum: 12 Maart 1993

INKOMSTEBELASTING:

BELASTINGIMPLIKASIES VAN STUDIEBEURSE (VAN TOEPASSING VANAF DIE BEGIN VAN JARE VAN AANSLAG WAT OP OF NA 1 JANUARIE 1992 GEËINDIG HET OF EINDIG TENSY ANDERSINS AANGEDUI)

1. STATUTÊRE BEPALINGS

1.1 Artikel 10 (1) (q) wat by the Inkomstebelastingwet, 1962 (die Wet), ingevoeg is deur artikel 10 (1) (p) van die Inkomstebelastingwet, 1992, maak voorsiening vir die vrystelling van inkomstebelasting van enige *bona fide*-studiebeurs wat toegeken is ten einde 'n persoon in staat te stel of aan hom hulp te verleen om by 'n erkende opvoedkundige of navorsingsinrigting te studeer, onderhewig aan die volgende voorwaardes:

Indien sodanige studiebeurs toegeken is deur 'n werkgewer of 'n verwante inrigting (soos omskryf in paragraaf 1 van die Sewende Bylae by die Wet) aan 'n werknemer (soos omskryf in genoemde paragraaf) of aan 'n familielid van sodanige werknemer in omstandighede wat daarop dui dat die betrokke studiebeurs nie toegeken sou gewees het nie indien daardie werknemer nie 'n werknemer van daardie werkgewer was nie, is die vrystelling nie van toepassing nie—

(i) indien enige besoldiging, waarop die werknemer geregtig was of in die toekoms op geregtig sou geword het as gevolg van die toekenning van daardie studiebeurs, op enige wyse hoegenaamd verminder of verbeur is, dit wil sê 'n salarisopoffering;

(ii) in die geval van 'n studiebeurs toegeken om so 'n familielid van 'n werknemer in staat te stel of aan hom hulp te verleen om aldus te studeer, indien die besoldiging verkry deur die werknemer gedurende die jaar van aanslag R36 000 te bowe gaan; en

(iii) op soveel van 'n studiebeurs soos bedoel in paragraaf (ii) as wat in die geval van so 'n familielid die bedrag van R1 200 in die jaar van aanslag te bowe gaan.

1.2 Waar 'n studiebeurs toegeken word onderhewig aan 'n salarisopoffering [paragraaf 1.1 (i)], bepaal artikel 23 (j) [wat terselfdertyd as artikel 10 (1) (q) by die Wet ingevoeg is] dat waar 'n belastingpligtige 'n "werkgewer" of "verwante inrigting" is (soos onderskeidelik omskryf in die Sewende Bylae by die Wet), geen aftrekking van die koste deur die belastingpligtige aangegaan ten opsigte van die verskaffing van so 'n studiebeurs toegestaan sal word nie. (Kyk ook paragraaf 4.2.)

2. INTERPRETATION OF WORDS AND PHRASES

2.1 **"Bona fide *scholarship or bursary*"** refers to financial or other assistance granted to a person to enable him to study at a recognised educational or research institution. It would include a grant which is in terms of a written agreement conditional on the fulfilment of stipulated requirements; for example, the grantee is required to obtain a qualification or take up employment with the grantor on completion of the course of study.

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2.1.1 The grant must be made to enable the grantee to pursue a course of **study** for the purpose of gaining or expanding his knowledge, intellect or skills.

2.1.2 A reward or reimbursement of study expenses (borne by a person) after completion of his studies does not constitute a scholarship or bursary as the grant must have been made **to enable or assist the grantee to study.**

2.1.3 The tax position relative to scholarships, bursaries and study loans is dealt with in paragraph 4 of this Practice Note.

2.1.4 A direct payment of fees, for example to a university, for the purpose of an employee's studies is regarded as falling within the ambit of a scholarship, bursary or grant.

2.2 ***"A recognised educational or research institution"*** comprehends a "college" or "university" as defined in section 18A of the Act, or a school or any other educational or research institution wheresoever situated which is of a permanent nature, open to the public generally and offering a range of practical and academic courses.

2.3 ***"To study"*** relates to the formal process whereby the person to whom the scholarship or bursary has been granted gains or enhances his knowledge, intellect or expertise. It is not a requirement that a degree, diploma or certificate be awarded on completion of the course of study.

2.3.1 Where research is undertaken by a person for the benefit of another person, for example, an employer, a business or sponsor, the relevant expenditure incurred by the employer, business or sponsor for the purposes of such research will not constitute a *bona fide* scholarship or bursary granted to enable or assist the researcher to study. See paragraph 4.2.3 for the tax implications.

2. VERTOLKING VAN WOORDE EN UITDRUKKINGS

2.1 **"Bona fide-*studiebeurs*"** verwys na die finansiële of ander bystand wat verleen word aan 'n persoon om hom in staat te stel om by 'n erkende opvoedkundige of navorsingsinrigting te studeer. Dit sal 'n toekenning insluit wat ingevolge 'n skriftelike ooreenkoms voorwaardelik toegeken is op die voorwaarde dat bepaalde vereistes nagekom word, byvoorbeeld, van die bevoordeelde word verwag om 'n kwalifikasie te verwerf of om 'n betrekking te aanvaar by die toekenner na voltooiing van die studiekursus.

2.1.1 Die toekenning moet gemaak word ten einde die bevoordeelde in staat te stel om **'n studiekursus** te volg met die doel om sy kennis, intellek of vaardigheid te verbeter of uit te brei.

2.1.2 'n Beloning of terugbetaling van studieuitgawes (wat deur 'n persoon aangegaan is) na voltooiing van sy studies maak nie 'n studiebeurs uit nie aangesien die toekenning gemaak moes gewees het ten einde die ontvanger **in staat te stel om te studeer of om hom behulpsaam te wees met sy studies.**

2.1.3 Die belastingposisie met betrekking tot studiebeurse en studielenings word in paragraaf 4 van hierdie Praktyknota aangespreek.

2.1.4 'n Direkte betaling van gelde, byvoorbeeld aan 'n universiteit, word vir die doeleindes van 'n werknemer se studies beskou as binne die omvang van 'n studiebeurs of toekenning te val.

2.2 ***" 'n Erkende opvoedkundige of navorsingsinrigting"*** omvat 'n "kollege" of 'n "universiteit" soos omskryf in artikel 18A van die Wet, of 'n skool of enige ander opvoedkundige of navorsingsinrigting van 'n permanente aard waar ookal geleë, wat oop is vir die algemene publiek en 'n reeks praktiese en akademiese kursusse aanbied.

2.3 ***"Te studeer"*** het betrekking op die formele proses waardeur die persoon aan wie die studiebeurs toegeken is sy kennis, intellek of vaardigheid verbeter of uitbrei. Dit is nie 'n vereiste dat 'n graad, diploma of sertifikaat by voltooiing van die studiekursus toegeken moet word nie.

2.3.1 Waar 'n persoon navorsing onderneem tot voordeel van 'n ander persoon, byvoorbeeld 'n werkgewer, 'n besigheid of 'n borg, sal die betrokke uitgawes aangegaan deur die werkgewer, besigheid of borg vir doeleindes van sodanige navorsing, nie 'n *bona fide*-studiebeurs wat toegeken is ten einde die navorser in staat te stel of hulp te verleen met sy studies, uitmaak nie. Kyk paragraaf 4.2.3 vir die belastingimplikasies.

2.3.2 A scholarship or bursary granted to a visiting academic for the purpose of lecturing students does not satisfy the study requirement as the object of the grant will be to impart and not to gain knowledge.

2.4 ***"Remuneration"*** means remuneration as defined in the Fourth Schedule to the Act. This also applies to any amounts paid to directors of private companies for the purposes of this exemption.

3. CLOSED AND OPEN SCHOLARSHIPS OR BURSARIES

For the purpose of the exemption scholarships and bursaries may be categorised as open or closed.

3.1 ***Open scholarships or bursaries***

These are scholarships or bursaries which are competed for by, or are awarded on merit (academic or otherwise) to, anyone applying therefor and are not, **to any extent,** confined to the employees or relatives of employees of a particular employer, organisation or other institution.

3.2 ***Closed scholarships or bursaries***

These are scholarships or bursaries which are confined to employees, or relatives of employees, of an employer or an associated institution.

Both scholarships or bursaries under 3.1 and 3.2 may be subject to a condition that, upon completion of his studies, the scholarshipholder or bursar take up employment with the grantor or repay the scholarship or bursary if he abandons his studies or fails to complete them with a specified period.

4. TAX IMPLICATIONS

4.1 ***Open scholarships or bursaries*** are fully exempt from tax if they are *bona fide* awarded to enable the scholarship-holder or bursar to study at a recognised educational or research institution. However, where an employee or relative of an employee is awarded a scholarship or bursary under an open scheme and such award is, for example, subject to a salary sacrifice, the exemption under section 10 (1) (q) will not apply as the scholarship or bursary will not have been *bona fide* granted. The exemption will also not apply as there is an express proviso to preclude an exemption when there is a salary sacrifice.

4.2 ***Closed scholarships or bursaries*** granted to an employee or relative of an employee that are subject to a present or future salary sacrifice by the employee [see paragraph 1.1 (i)] are not exempt from tax. Moreover, in terms of section 23 (j) of the Act the employer is not entitled to a deduction in respect of the cost of such scholarship or bursary. If there is no salary sacrifice the scholarship or bursary awarded to an employee will be exempt from tax and the provisions of section 23 (j) will not apply.

2.3.2 'n Studiebeurs wat toegeken is aan 'n besoekende akademikus om lesings vir studente aan te bied, voldoen nie aan die studievereiste nie omrede die oogmerk van die toekenning die meedeling van kennis is en nie die verkryging daarvan nie.

2.4 ***"Besoldiging"*** beteken besoldiging soos omskryf in die Vierde Bylae by die Wet. Dit is ook van toepassing op enige bedrag betaal of betaalbaar aan 'n direkteur van private maatskappye vir die doeleindes van hierdie vrystelling.

3. OOP EN GESLOTE STUDIEBEURSE

Vir die doeleindes van die vrystelling word studiebeurse as oop of geslote geklassifiseer.

3.1 ***Oop studiebeurse***

Hierdie is studiebeurse waarvoor meegeding word deur, of wat toegeken word op grond van meriete (akademies of andersins) aan, enige persoon wat daarvoor aansoek doen en wat nie, **in enige mate,** beperk is tot werknemers of familielede van die werknemers van 'n bepaalde werkgewer, organisasie of 'n ander instelling nie.

3.2 ***Geslote studiebeurse***

Hierdie is studiebeurse wat beperk word tot werknemers, of familielede van die werknemers, van 'n werkgewer of 'n verwante inrigting.

Beide studiebeurse onder 3.1 en 3.2 kan onderhewig wees aan 'n voorwaarde dat die beurshouer by voltooiing van sy studies 'n betrekking moet aanvaar by die werkgewer of om die studiebeurs terug te betaal indien hy sy studies staak of waar hy in gebreke bly om dit binne 'n bepaalde tydperk te voltooi.

4. BELASTINGSIMPLIKASIES

4.1 ***Oop studiebeurse*** is ten volle van belasting vrygestel indien dit *bona fide* toegeken is ten einde die beurshouer in staat te stel om by 'n erkende opvoedkundige of navorsingsinrigting te studeer. Waar daar egter aan 'n werknemer of 'n familielid van 'n werknemer 'n studiebeurs onder 'n oop skema toegeken word en sodanige toekenning is, byvoorbeeld, onderhewig aan 'n salarisopoffering, sal die vrystelling ingevolge artikel 10 (1) (q) nie van toepassing wees nie aangesien die studiebeurs nie *bona fide* toegeken is nie. Die vrystelling sal ook nie van toepassing wees nie aangesien daar 'n uitdruklike voorbehoudsbepaling is dat 'n vrystelling uitgesluit word waar 'n salarisopoffering voorkom.

4.2 ***Geslote studiebeurse*** wat toegeken is aan 'n werknemer of 'n familielid van 'n werknemer en wat onderhewig is aan 'n huidige of toekomstige salarisopoffering deur die werknemer [kyk paragraaf 1.1 (i)], is nie van belasting vrygestel nie. Daarbenewens is die werkgewer ingevolge artikel 23 (j) van die Wet ook nie geregtig op 'n aftrekking ten opsigte van die koste van sodanige studiebeurs nie. Indien daar geen salarisopoffering is nie, sal die studiebeurs aan 'n werknemer toegeken, vrygestel wees van belasting en artikel 23 (j) sal nie van toepassing wees nie.

4.2.1 Where a scholarship or bursary is awarded to a relative of an employee and there is no present or future salary sacrifice by the employee and the remuneration derived by the employee during the year of assessment does not exceed R36 000, an amount of so much of the scholarship or bursary as does not exceed R1 200 is exempt from tax. The R1 200 exemption limit applies to each relative of the employee who is granted a scholarship or bursary.

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4.2.2 Scholarships or bursaries granted under a closed scheme to a relative **of a retired or deceased employee** will be subject to the limitations referred to in **paragraph 4.2.1** if they were granted prior to the employee's retirement or demise. Where they are granted or paid after one of those events has occurred they will be treated as if they had been granted under an open scheme (see paragraph 4.1) unless an agreement was entered into prior to an employee's retirement between the employee and the employer in terms of which the employer will provide a scholarship or bursary for a relative of the employee subsequent to the employee's retirement.

4.2.3 Where a person undertakes research for the benefit of another person (see paragraph 2.3.1) the payment received in this regard by the first-mentioned person will be taxed as income in his hands and he will not qualify for the exemption under section 10 (1) (q). The person paying the amount will qualify for a deduction subject to the provisions of sections 11 (a) and 23 of the Act.

4.3 Any recoupment which arises in respect of a scholarship or bursary granted by a taxpayer, where the amount of the scholarship or bursary has been allowed as a deduction against the income of such taxpayer will, in terms of section 8 (4) (a) of the Act, be included in the taxpayer's income in the year of assessment when recouped.

4.4 ***Study loans***

4.4.1 A loan does not constitute income for tax purposes and is, therefore, not taxable. Personal study loans obtained from a financial institution or from any other source unrelated to employment are not taken into consideration for purposes of section 10 (1) (q) of the Act, nor are study expenses incurred by the holder of the loan, including the interest payable thereon, deductible from the income of the borrower. Such privately-funded loans, are, therefore, neither taxable nor tax deductible.

4.2.1 Waar 'n studiebeurs aan 'n familielid van 'n werknemer toegeken word en daar geen huidige of toekomstige salarisopoffering deur die werknemer is nie en die vergoeding van die werknemer vir die jaar van aanslag gaan nie R36 000 te bowe nie, sal soveel van die studiebeurs as wat R1 200 nie te bowe gaan nie, van belasting vrygestel wees. Die R1 200-vrystellingsperk sal van toepassing wees op elke familielid van die werknemer aan wie 'n studiebeurs toegeken is.

4.2.2 Studiebeurse wat onder 'n geslote skema aan 'n familielid van **'n afgetrede of gestorwe werknemer** toegeken is, sal onderhewig wees aan die beperkings waarna verwys word in **paragraaf 4.2.1** indien dit toegeken is voor die werknemer se aftrede of afsterwe. Waar dit toegeken of betaal is nadat een van bogenoemde gebeurtenisse plaasgevind het, sal dit behandel word asof dit onder 'n oop skema (kyk paragraaf 4.1) toegeken is tensy 'n ooreenkoms voor die werknemer se aftrede tussen die werknemer en werkgewer aangegaan is waarvolgens die werkgewer 'n studiebeurs aan 'n familielid van 'n werknemer na die werknemer se aftrede sal voorsien.

4.2.3 Waar 'n persoon navorsing doen tot voordeel van 'n ander persoon (kyk paragraaf 2.3.1), sal die betaling wat deur eersgenoemde persoon ontvang word, belas word as inkomste in sy hande en sal hy nie vir die vrystelling ingevolge die bepalings van artikel 10 (1) (q) kwalifiseer nie. Die persoon wat die bedrag betaal, sal kwalifisieer vir 'n aftrekking onderworpe aan die bepalings van artikels 11 (a) en 23 van die Wet.

4.3 Enige herwinning wat ontstaan as gevolg van 'n studiebeurs deur 'n belastingpligtige toegeken en waar die bedrag van die studiebeurs as 'n aftrekking teen die belastingpligtige se inkomste toegelaat is, sal ingevolge die bepalings van artikel 8 (4) (a) van die Wet ingesluit word in die belastingpligtige se inkomste in die jaar van aanslag waarin die herwinning ontstaan.

4.4 ***Studielenings***

4.4.1 'n Lening maak nie inkomste vir belastingdoeleindes uit nie en is derhalwe nie belasbaar nie. Persoonlike studielenings verkry vanaf 'n finansiële instelling of vanaf enige ander bron wat nie aan indiensneming gekoppel is nie, word nie in aanmerking geneem vir die doeleindes van artikel 10 (1) (q) van die Wet nie. So ook kwalifiseer studie-uitgawes aangegaan deur die houer van die lening, asook die rente daarop betaalbaar, nie as 'n aftrekking van die lener se inkomste nie. Sodanige privaatgefundeerde lenings is dus nie belasbaar of aftrekbaar vir belastingdoeleindes nie.

4.4.2 In terms of paragraph 11 (4) (b) of the Seventh Schedule to the Act no value is placed on a taxable benefit derived by an employee in consequence of the grant by any employer of a loan for the purpose of enabling that employee to further his own studies.

4.4.3 Any scholarship or bursary which is granted subject to repayment due to non-fulfilment of conditions stipulated in a written agreement will be treated as a *bona fide* scholarship or bursary as indicated in paragraphs 4.1 to 4.2.2 until such time as the non-compliance provisions of the agreement are invoked. In the year of assessment in which such provisions are invoked the amount or amounts of the scholarship or bursary will be regarded as a loan and, if relevant, any benefit which an employee may have received by way of an interest-free or low-interest loan will constitute a taxable benefit in terms of paragraph 2 (f) of the Seventh Schedule to the Act and not qualify for the exemption contained in paragraph 11 (4) (b) of the Seventh Schedule to the Act as such loan was not granted to enable the employee to study.

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4.4.4 Where an employee who had obtained a loan from his employer to enable him to study is absolved from repaying the loan, he will have received a taxable benefit in terms of paragraph 2 (h) of the Seventh Schedule to the Act.

4.5 ***Reimbursement of study expenses***

Where, as mentioned in paragraph 2.1.2, an employer rewards an employee for a qualification or for having successfully completed a course of studies, or reimburses him for study expenses borne by him, such reward or reimbursement of study expenses will represent, in the case of the reward, taxable remuneration, and in the case of the reimbursement of expenses, a taxable benefit in terms of paragraph 2 (h) of the Seventh Schedule to the Act.

4.6 ***Taxable scholarships or bursaries granted to employees and relatives of employees***

These arise under the following circumstances:

(i) The employee sacrifices a part of his present or future remuneration in order to obtain a scholarship or bursary for himself or for a relative.

(ii) Where, under a closed scheme, an award is made to a relative of an employee and the employee's remuneration exceeds R36 000 per annum.

4.4.2 Ingevolge die bepalings van paragraaf 11 (4) (b) van die Sewende Bylae by die Wet, word geen waarde geplaas nie op die belasbare voordeel verkry deur 'n werknemer as gevolg van 'n toekenning van 'n lening deur 'n werkgewer aan sy werknemer ten einde daardie werknemer in staat te stel om sy eie studies te bevorder.

4.4.3 Enige studiebeurs wat toegeken word onderhewig aan die voorwaarde dat dit terugbetaal word indien die voorwaardes soos uiteengesit in 'n skriftelike ooreenkoms nie nagekom word nie, sal as 'n *bona fide*-studiebeurs beskou word soos aangedui in paragrawe 4.1 tot 4.2.2 tot op sodanige tydstip as wat die nie-nakomingsbepalings van die ooreenkoms in werking tree. In die jaar van aanslag waarin hierdie bepalings van krag word, sal die bedrag of bedrae van die studiebeurs as 'n lening beskou word en, indien van toepassing, sal enige voordeel wat 'n werknemer moontlik mag ontvang het by wyse van 'n rentevrye of lae rente lening 'n belasbare voordeel ingevolge paragraaf 2 (f) van die Sewende Bylae by die Wet uitmaak en nie vir die vrystelling ingevolge paragraaf 11 (4) (b) van die Sewende Bylae by die Wet kwalifiseer nie aangesien sodanige lening nie toegestaan was om die werknemer in staat te stel om te studeer nie.

4.4.4 Waar 'n werknemer wat 'n lening van sy werkgewer ontvang het ten einde hom in staat te stel om te studeer, van die terugbetaling daarvan kwytgeskeld word, sal hy ingevolge paragraaf 2 (h) van die Sewende Bylae by die Wet 'n belasbare voordeel ontvang het.

4.5 ***Terugbetaling van studie-uitgawes***

Waar, soos reeds genoem in paragraaf 2.1.2, 'n werkgewer die werknemer beloon vir die verwerwing van 'n kwalifikasie of vir die suksesvolle voltooiing van 'n studiekursus, of studie-uitgawes wat deur hom gedra is, terugbetaal, sal sodanige beloning of terugbetaling van studie-uitgawes, in die geval van 'n beloning, belasbare vergoeding verteenwoordig, en in die geval van die terugbetaling van studie-uitgawes, 'n belasbare voordeel ingevolge paragraaf 2 (h) van die Sewende Bylae by die Wet.

4.6 ***Belasbare studiebeurse toegeken aan werknemers en familielede van werknemers***

Hierdie geskied onder die volgende omstandighede:

(i) Die werknemer staan 'n gedeelte van sy huidige of toekomstige salaris af ten einde 'n studiebeurs vir homself of 'n familielid te verkry.

(ii) Waar, ingevolge 'n geslote skema, 'n toekenning aan 'n familielid van 'n werknemer gemaak word en die werknemer se jaarlikse besoldiging R36 000 te bowe gaan.

(iii) Where, under a close scheme, an award is made to a relative of an employee whose remuneration is less than R36 000 per annum but the award exceeds R1 200 per annum in the case of any relative (i.e. the amount exceeding R1 200 per relative per annum will be taxable).

To the extent that the scholarships or bursaries referred to above are not exempt from tax under section 10 (1) (q) of the Act they will be taxable in the hands of the employee.

5. STUDY LOANS ETC. TAKEN OVER BY NEW EMPLOYER

5.1 Where—

(i) in consideration for the grant by any employer (referred to as the former employer) to an employee of any bursary, study loan or similar assistance, the employee assumed an obligation to render services to the former employer for an agreed period;

(ii) in consequence of the employee having terminated his services with the former employer before the expiry of the said period and having taken up employment with another employer (referred to as the present employer), the employee thereupon became liable to pay an amount to the former employer;

(iii) such amount was paid to the former employer on the employee's behalf by the present employer; and

(iv) the employee has in consideration for such payment by the present employer assumed an obligation to render services to the present employer for a period which is not shorter than the unexpired portion of the period during which he had been obliged to render services to the former employer,

no value will be placed on the value of any taxable benefit to the employee derived by reason of the payment referred to in item (iii) and consequently the payment by the present employer to the former employer will not be a taxable benefit under the Seventh Schedule to the Act.

5.2 These provisions operate with effect from the 1991 year of assessment. The amount so refunded, if allowed as a deduction to the former employer, will be taxable as a recoupment in the hands of such former employer.

(iii) Waar, ingevolge 'n geslote skema, 'n toekenning gemaak word aan 'n familielid van die werknemer wie se jaarlikse salaris minder as R36 000 beloop maar die toekenning in die geval van enige familielid R1 200 per jaar te bowe gaan (dit wil sê, die bedrag wat R1 200 per familielid oorskry, sal belasbaar wees).

In die mate wat die studiebeurse hierbo na verwys, nie ingevolge artikel 10 (1) (q) van die Wet van belasting vrygestel is nie, sal dit in die werknemer se hande belasbaar wees.

5. STUDIELENINGS ENSOVOORTS DEUR NUWE WERKGEWER OORGENEEM

5.1 Waar—

(i) as teenprestasie vir die toekenning van enige beurs, studielening of soortgelyke bystand deur enige werkgewer (hierna verwys as die voormalige werkgewer) aan 'n werknemer, die werknemer 'n verpligting aanvaar om vir 'n ooreengekome tydperk diens aan die voormalige werkgewer te lewer;

(ii) as gevolg van die beëindiging van die dienste van die werknemer deur die voormalige werkgewer voordat die genoemde tydperk verstryk het en hy by 'n ander werkgewer (hierna verwys as die huidige werkgewer) diens aanvaar het, die werknemer daarna aanspreeklik is om 'n bedrag aan die voormalige werkgewer te betaal;

(iii) sodanige bedrag deur die huidige werkgewer, namens die werknemer, aan die voormalige werkgewer betaal is; en

(iv) die werknemer as vergoeding vir sodanige betaling deur die huidige werkgewer, 'n verpligting aanvaar om diens te lewer aan die huidige werkgewer vir 'n tydperk wat nie korter is nie as die onverstreke gedeelte van die tydperk waaronder hy verplig was om diens aan die voormalige werkgewer te lewer,

sal daar geen waarde geplaas word op die waarde van enige belasbare voordeel wat ontstaan het as gevolg van die betaling waarna in item (iii) verwys word, en gevolglik sal die betaling deur die huidige werkgewer aan die voormalige werkgewer nie 'n belasbare voordeel kragtens die Sewende Bylae by die Wet uitmaak nie.

5.2 Hierdie bepalings het in werking getree vanaf die 1991 jaar van aanslag. Die bedrag wat so terugbetaal word, indien dit aan die voormalige werkgewer as 'n aftrekking toegelaat, sal as 'n herwinning in die hande van so 'n voormalige werkgewer belasbaar wees.

6. Other forms of study assistance

6.1 *Specialised training courses*

6.1.1 Expenditure in connection with in-house or on-the-job training or courses presented by **other undertakings for or on behalf of employers** does not represent a taxable benefit in the hands of the employees of the employer if the training is job-related and ultimately for the employer's benefit. The tape of training envisaged under this heading could include the following:

(i) Computer and word processing courses.

(ii) Management and administration courses.

(iii) Bookkeeping courses.

(iv) Sales courses.

(v) Courses in operating office and technical equipment.

(vi) Language courses for employees whose home language is not one of the official languages.

(vii) Public relations courses.

(viii) In-house courses presented by banks, building societies and insurance companies for their employees.

This list is not exhaustive and in cases of doubt the local Receiver of Revenue should be consulted in the first instance.

6.1.2 Training, research and education of the nature described above must be distinguished from professional and formal education resulting in qualifications attaching to the person of an employee. Where admission to a particular profession or the ability to perform certain specialised duties is dependent on an employee obtaining an appropriate qualification and the employer meets the employee's costs of obtaining the required qualification, **which costs would normally be borne by the employee himself,** the employee will, **subject to the provisions of section 10 (1) (q) and the relevant paragraphs of this Practice Note,** be regarded as having received a taxable benefit.

6.1.3 If in terms of a law such as the Manpower Training Act, No 56 of 1981, an employer is required to pay the fees payable in respect of prescribed classes or courses attended by his employees or to refund such fees paid by them, the fees will not constitute a taxable benefit in the employees' hands. The employer will qualify for a deduction in respect of these payments in terms of section 11 (a) of the Act.

6. Ander vorme van studiebystand

6.1 *Gespesialiseerde opleidingskursusse*

6.1.1 Uitgawes in verband met interne of indiensopleiding of kursusse wat aangebied word deur **ander instansies namens die werkgewer** verteenwoordig nie 'n belasbare voordeel in die hande van die werknemers van die werkgewer nie, mits die opleiding beroepsgeoriënteerd is en uiteindelik die werkgewer bevoordeel. Die tipe opleiding wat hier beoog word, kan die volgende insluit:

(i) Rekenaar- en woordverwerkingkursusse.

(ii) Bestuurs- en administratiewe kursusse.

(iii) Boekhoudingkursusse.

(iv) Verkoopskursusse.

(v) Kursusse om kantoor- en tegniese toerusting te bedryf.

(vi) Taalkundige kursusse vir werknemers wie se huistaal nie een van die twee amptelike tale is nie.

(vii) Kursusse in verband met openbare betrekkinge.

(viii) Interne kursusse wat deur banke, bouverenigings en versekeringsmaatskappye aan hulle werknemers aangebied word.

Hierdie lys is nie omvattend nie en in geval van twyfel moet die plaaslike Ontvanger van Inkomste in die eerste plaas geraadpleeg word.

6.1.2 Opleiding, navorsing en opvoeding van die aard soos hierbo beskryf, moet onderskei word van professionele en formele opleiding wat lei tot 'n kwalifikasie wat eie aan die werknemer is. Waar die verwerwing van 'n gepaste kwalifikasie deur die werknemer as 'n voorwaarde gestel word vir die toelating tot 'n spesifieke beroep of die vermoë om bepaalde gespesialiseerde pligte te verrig en die werkgewer dra die koste om die vereiste kwalifikasie te bekom, welke **koste gewoonlik deur die werknemer self gedra moet word,** sal die werknemer, **onderhewig aan die bepalings van artikel 10 (1) (q) en die toepaslike paragrawe van hierdie Praktyknota,** geag word 'n belasbare voordeel te ontvang het.

6.1.3 Indien daar ingevolge 'n wet soos die Wet op Mannekragopleiding, No 56 van 1981, van 'n werkgewer vereis word om die voorgeskrewe gelde vir klasse of kursusse wat deur sy werknemers bygewoon word te betaal, of hulle te vergoed vir sodanige uitgawes, sal die gelde nie 'n belasbare voordeel in die hande van die werknemers uitmaak nie. Die werkgewer sal kragtens artikel 11 (a) van die Inkomstebelastingwet vir 'n aftrekking kwalifiseer.

6.2 ***Remission of study fees by virtue of employment (teachers, lecturers and their relatives)***

It is common practice for certain educational institutions, notably universities, to allow their employees and such employees' close relatives to study free of charge or at greatly reduced fees at these institutions. While the marginal cost of the education of such employees and their relatives represents a taxable benefit under the Seventh Schedule to the Act, the exemption under section 10 (1) (q) will apply subject to the limitations provided for. See paragraphs 4.2 to 4.2.2 of this Practice Note.

7. Where the circumstances of a particular case are not covered by this Practice Note or there is uncertainty, the matter should be taken up with the local Receiver of Revenue citing full details.

8. PAYE

Book 1 (INSTRUCTIONS AND GUIDELINES ON PAYE AND SITE) of the IRP 10 Tax Deduction Tables contains instructions relating to the employees tax position of taxable scholarships, bursaries, study loans and fringe benefits relative thereto and the duties of employers in this regard.

ISSUED BY THE COMMISSIONER FOR INLAND REVENUE, PRETORIA.

6.2 ***Kwytskelding of vermindering van studiegelde uit hoofde van werkverskaffing (onderwysers, dosente en hulle familielede)***

Dit is algemene gebruik by sekere opvoedkundige inrigtings, veral universiteite, om hulle werknemers en hulle naasbestaandes toe te laat om gratis of teen 'n grootliks verlaagde koste by die inrigting te studeer. Terwyl die grenskoste van die opvoeding van sodanige werknemers en hulle naasbestaandes 'n belasbare voordeel kragtens die Sewende Bylae by die Wet verteenwoordig, sal die vrystelling kragtens artikel 10 (1) (q), onderhewig aan die beperkings neergelê, van toepassing wees. Kyk paragrawe 4.2 tot 4.2.2 van hierdie Praktyknota.

7. Waar die omstandighede van 'n besondere aangeleentheid nie deur hierdie Praktyknota gedek word nie of daar bestaan onsekerheid, moet die aangeleentheid met die plaaslike Ontvanger van Inkomste opgeneem word. Volledige besonderhede moet verskaf word.

8. LBS

Boek 1 (INSTRUKSIES EN RIGLYNE OOR LBS EN SIBW) van die IRP 10-belastingaftrekkingstabelle bevat instruksies met betrekking tot werknemers se belastingposisie ten opsigte van belasbare studiebeurse, studielenings en byvoordele wat daarmee verband hou asook die verpligtinge van werkgewers in hierdie verband.

UITGEREIK DEUR DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

DEPARTMENT OF HOME AFFAIRS

No. 358 **12 March 1993**

ASSUMPTION OF ANOTHER SURNAME IN TERMS OF SECTION 26 OF THE BIRTHS AND DEATHS REGISTRATION ACT, 1992 (ACT No. 51 OF 1992)

The Director-General has authorised the following persons to assume the surname printed in italics:

1. Emrus Samuel van der Heever—600929 5059 08 8—57 Longtom Road, Ladysmith—***De Wet.***
2. Vinod Kantilal—660327 5217 08 6—348 Pine Street, Durban—***Govan.***
3. Ntombikayise Xaba—1968-08-22—4920 Nyakatha Street, Lamontville—***Mkhwanazi.***
4. Nomboniso Sellina Gamede—621212 0783 08 4—M157 Umlazi Township, Umlazi—***Nofukula.***
5. Mbombozi Mark Hlatshwayo—410918 5400 08 7—his wife Saraphina Dlamini—391010 0585 18 8—and minor child Sandile Dennis Hlatshwayo—5 August 1978—852 Third Avenue, Langlaagte Deep, Johannesburg—***Dhlamini.***
6. Lwayiphi Joseph Hadebe—1956-06-14—E1099 Ntuzuma Township, P.O. kwaMashu—***Ngcobo.***
7. Boginkosi Praisegod Jiyane—640927 5288 08 9—Posina Court, 8 Regent Street, Yeoville—***Dubazana.***

DEPARTEMENT VAN BINNELANDSE SAKE

No. 358 **12 Maart 1993**

AANNAME VAN ANDER VAN INGEVOLGE ARTIKEL 26 VAN DIE WET OP REGISTRASIE VAN GEBOORTES EN STERFTES, 1992 (WET No. 51 VAN 1992)

Die Direkteur-generaal het goedgekeur dat die volgende persone die van in kursief gedruk aanneem:

1. Emrus Samuel van der Heever—600929 5059 08 8—Longtomweg 57, Ladysmith—***De Wet.***
2. Vinod Kantilal—660327 5217 08 6—Pinestraat 348, Durban—***Govan.***
3. Ntombikayise Xaba—1968-08-22—Nyakathastraat 4920, Lamontville—***Mkhwanazi.***
4. Nomboniso Sellina Gamede—621212 0783 08 4—M157 Umlazi Lokasie, Umlazi—***Nofukula.***
5. Mbombozi Mark Hlatshwayo—410918 5400 08 7—sy eggenote Saraphina Dlamini—391010 0585 18 8—en minderjarige kind Sandile Dennis Hlatshwayo—1978-08-05—Derde Laan 852, Langlaagte Deep, Johannesburg—***Dhlamini.***
6. Lwayiphi Joseph Hadebe—1956-06-14—E1099 Ntuzuma Lokasie, Pk. kwaMashu—***Ngcobo.***
7. Boginkosi Praisegod Jiyane—640927 5288 08 9—Posina Court, Regentstraat 8, Yeoville—***Dubazana.***

Star 12/3/93

Calls for more VAT cuts

Consumer Reporter and Sapa

The Government's decision to zero-rate VAT on a range of basic foodstuffs was welcomed yesterday by consumer bodies, political parties and the Medical Association of SA (Masa).

Finance Minister Derek Keys announced on Wednesday that rice, fresh vegetables, fruit, vegetable oils, milk, cultured milk, eggs, beans and brown wheaten meal would be exempted from VAT from April 7.

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DP spokesman on finance Ken Andrew said the Government had been forced continually to back-pedal after a short-sighted and dogmatic approach to VAT which had made the system increasingly complex and open to abuse.

The IFP welcomed the Government's decision but bemoaned the exclusion of medicine and drought-resistant crops.

The ANC hailed the decision but deemed it long overdue.

"We remain concerned that other basic necessities, including electricity and medical services, are not covered. Any possibility of an increase in VAT will have a devastating effect on the poor, who are already reeling under inflation and unemployment," the ANC said.

The Herstigte Nasionale Party condemned the move as nothing more than a total capitulation to the demands of the SACP, through its allies Cosatu and the ANC.

As the announcement came a week before the Budget, it was seen by the HNP as "gross contempt of Parliament".

Masa said it had hoped medical services and medicine would be zero-rated to allow for more affordable health care.

Consumer Council head Jan Cronje appealed to producers, wholesalers and retailers to ensure consumers received the full benefits of the VAT exemptions, and he invited people to report any irregularities.

Gareth Ackerman, CEO of Blue Ribbon Meat Corporation, said: "Along with the VAT Co-ordinating Committee, we will continue to call on the Government to zero-rate red meat, as it is a basic foodstuff and was exempt under GST."

Whitey Basson, group managing director of Shoprite Checkers, urged the Government to extend the list to include meat, fish, chicken and white bread.

Zero-rating to cost a packet

Star 12/3/93

By Michael Chester

The overall cost of new Government measures to exclude more basic foodstuffs from the VAT tax net has been estimated by the SA Chamber of Business (Sacob) at no less than R850 million a year.

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Total tax concessions on food baskets — also counting earlier concessions — now amount to about R1,5 billion, according to Sacob calculations.

Warning was sounded that an announcement on an immediate increase in the general VAT tax rate in the 1993 Budget next week now looked inevitable.

Sacob chief economist Dr Ben van Rensburg said an increase in the VAT rate on all other consumer goods of at least 1 percent was needed to recoup losses of tax revenue from the food package alone.

Dr Azar Jammine, director of the Econometrix think-tank, said the estimates reinforced forecasts that the VAT rate would be hoisted from 10 percent to around 13 percent — with the possibility of sliding scales going higher on luxury goods.

Also to be taken into account, he said, was the dramatic slide in tax collections over the past year, caused by cutbacks in consumer spending and the retrenchment of thousands of taxpayers.

In an assessment of the chain reaction of the new food concessions, Van Rensburg warned: "Given the present high fiscal deficit, it will also remove the scope of the Minister to progress with the planned lowering of direct tax rates — or even to compensate individuals for the effects of bracket creep."

He added: "Against the present fragile state of the economy, a sharp rise in the VAT rate on taxable commodities could result in greater unemployment in some sectors, such as consumer durables.

"However, the ultimate effect of a possible higher VAT rate will depend on the overall strategy which emerges from the Budget on March 17."

Van Rensburg said in a statement: "Sacob recognises the widespread poverty in South Africa and that the Government was under extreme pressure to introduce measures to lessen the impact of high food price inflation on the poor.

"The business community has also been concerned about poverty and the socio-economic problems which accompany it and has embarked on a number of initiatives."

Van Rensburg argued that the removal of more basic food items from the VAT net "removes attention from the plight of the really poor — particularly in rural areas".

He said the benefits of zero-rating were enjoyed equally by the wealthy and the less wealthy: "However, they offer no benefit to those with no incomes, and their impact on the welfare of people in the rural areas is likely to be limited. The latest concessions do not eliminate the need for, or reduce the importance of, a suitable poverty-assistance programme."

'Brace for a bad-news budget'

Political Staff (320)

HARD-PRESSED consumers are being warned: "Brace yourselves for a bad news Budget."

CT 13/3/93

Petrol going up by 15c a litre — possibly more — and a VAT increase of about 3% are just two tough steps expected when the Budget is presented to the country on Wednesday.

But personal and company taxes are unlikely to go up in spite of Minister of Finance Mr Derek Keys's intention to lower the R30-billion budget deficit — and edge the country away from a "debt trap" in which the government is compelled to increase borrowings merely to service debt.

Although economists believe personal tax will be pegged, income tax thresholds could be left where they are and fiscal drag — the effect of individuals' salary increases forcing them into a higher tax bracket — would generate greater collections.

Dr Japie Jacobs, a special adviser to Mr Keys, warned recently that the upcoming Budget would prove "most unpopular" by deflating the economy. He confirmed the Budget would not be a stimulatory one, "based on the strong need to reduce the government's deficit".

Keep in trim on the Vat Diet

ARG 13/3/93

LIBBY PEACOCK
Weekend Argus Reporter

INTRODUCING the VAT Diet — guaranteed to suit your pocket and your waistline.

South Africans have tried the Scarsdale Diet, the Beverley Hills Diet and the Weighless Diet with varying degrees of success.

But the VAT Diet — made possible after Minister of Finance Mr Derek Keys announced new Value Added Tax zero-ratings on a wide range of foodstuffs this week — contains all the nutrients for a healthy eating plan.

At present brown bread, mealie meal, mealie rice, samp, dried mealies, dried beans, lentils, canned pilchards, milk powder and dairy powder blends are zero-rated.

From April 7, rice, fresh fruit and vegetables, vegetable oil for use in cooking, fresh milk, certain cultured milk, brown wheaten meal, eggs and legumes and pulses (peas and beans) will be exempted.

And that's enough to live on, says Mrs Joan Huskisson, head of the Nutrition and Dietetics Unit at the University of Cape Town.

"You should be able to live on the VAT Diet, provided nutrients are taken in the right quantities."

It would have been better if meat had been included in the range of zero-rated foodstuffs, but one could have a "perfectly adequate, healthy diet" without meat.

There would have been a lot of advantage in including margarine, especially to make the starches more palatable.

The VAT Diet also does not provide the "comfort" of beverages like tea and coffee.

Calcium would be available from both the bones in the pilchards and the dairy products.

"They have included more basic agricultural products. Hopefully this will encourage people to use unprocessed foods more freely than processed, composite foods, which are less healthy and more expensive."

On the VAT Diet, fruit and vegetables would provide the whole range of vitamins and minerals, while pilchards, eggs and dairy products would provide protein.

Carbohydrates were present in mealie meal, rice and brown bread.

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The inclusion of cultured milk showed recognition of the fact that many South Africans had a sensitivity to the lactose in uncultured milk, Mrs Huskisson said.

A concern was that the vegetable oil was the only source of concentrated calories needed by people who took a lot of exercise.

Meat producers call for zero-rating

Weekend Argus Correspondent

PRETORIA. — Red meat producers are outraged at the government's decision not to grant their product tax exempt status.

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Mr Gerhard Bronn, chairman of the Red Meat Producers Organisation (RPO) which falls within the ambit of the South African Agricultural Union, said the retention of VAT on red meat was "unacceptable."

Urgent representations had already been made to Finance Minister Mr Derek Keys.

"If VAT could be imposed at a zero rate, this would mean a saving of approximately R700 million for the consumer who in many cases already lives beneath the breadline.

"Red meat is a basic foodstuff which, in view of its extremely nutritious properties, plays an important role in feeding all consumers."

According to information at the RPO's disposal, red meat producers have had to absorb a portion of the VAT on their product themselves.

This and the drought in many areas has led to "a drastic deterioration in the financial position of many producers", Mr Bronn said.

A Consumer Council spokesman said yesterday that with certain foodstuffs being zero-rated, red meat, fish and white bread should receive the same treatment. ARG 13/3/93

"Statistics show that the black population eat far more white bread than brown."

A bad news Budget, predict the experts

SOUTH 13/3-17/3/93.

By Lynda Loxton 320

A TAX increase, possibly a two to three percent rise in VAT, is likely in next Wednesday's Budget.

Old Mutual economist Riaan le Roux told a media briefing this week that there was no alternative for the government but to increase taxes.

The economy had never been in such a weak state and the deficit had never been as high as it is now.

"This is not going to be a good news budget," Le Roux said.

The root of the problem was that the government consistently spent more than it earned through tax revenues.

Most of that spending was on salaries and wages rather than on capital invesment to help the economy grow.

This was worsened by the drought over the last year, when government paid out an unbudgeted R3,5 million in drought relief.

Tax revenue fell short of expectations because the government over-estimated what it could raise through VAT and it has started to borrow heavily to make ends meet.

Le Roux said this raised the spectre of South Africa falling into a major debt trap as it had to start borrowing money to pay the interest on the money borrowed, which will be the start of an endless cycle of borrowing.

It was therefore inevitable that there would be some tax increases in next week's Budget, he said.

These could include a VAT increase of between two and three percent, which would raise about R5 billion; a 10 cent increase in petrol, which would raise R1,2 billion and customs and excise duty increases on alcohol and cigarettes, which would raise R0,4 billion. There may be small tax cuts for small businesses or poorer people.

Huge cutbacks in government spending or massive tax increases all round would stall the economy completely.

He said that if the government ended the year with a deficit higher than targeted, its credibility would be eroded completely.

• **For more on what the experts predict could be in the Budget, see pages 12 and 13.**

'Stop all govt perks'

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SOWETAN 12/3-17/3/93.

COSATU does not want taxes — including VAT and income tax — to be increased in this year's Budget.

The union federation's secretary general, Jay Naidoo, says Cosatu wants Budget allocations to finance economic restructuring. It also wants a halt to expenditure on apartheid-related departments.

The National Council of Trade Unions (Nactu) is also opposed to an increase in income tax.

Cosatu says it wants all bureacratic perks stopped.

"All civil servants, including the president, should pay tax and the practice of golden handshakes and housing and travel privileges for the state should be abolished," Naidoo said last week.

Government corruption should be stopped by firm financial controls. Cosatu wants the income and expenditure sides of the Budget brought under one government department, and each department audited to identify areas of wastage and corruption.

Cosatu is discussing the need for an independent tax commission to rationalise government income and expenditure and make it more efficient.

While Naidoo conceded the deficit could not be ignored, he said priorities should be indentified and addressed over time.

Cosatu believes these priorities to be housing, health and job training needs.

The involvement of agencies like the Development Bank of South Africa would assist in delivering resources to people who need them.

Restructuring the public sector and incorporating the homelands is also high on Cosatu's agenda.

This would mean the demise of own affairs administrations, which would save millions.

A saving of R2,5 billion a year could be made if the homelands were incorporated into South Africa, according to conservative estimates.

According to the Central Statistical Services, the homelands salary bill for their 230 000 public servants would exceed R5 billion this year.

The saving would be made at the level of executive and administrative level.

Cosatu acknowledges that essential services would have to continue.

Lavish perks for chief ministers and their cabinet colleagues have loaded costs significantly.

The six homelands have a combined total of 57 ministers, including chief ministers.

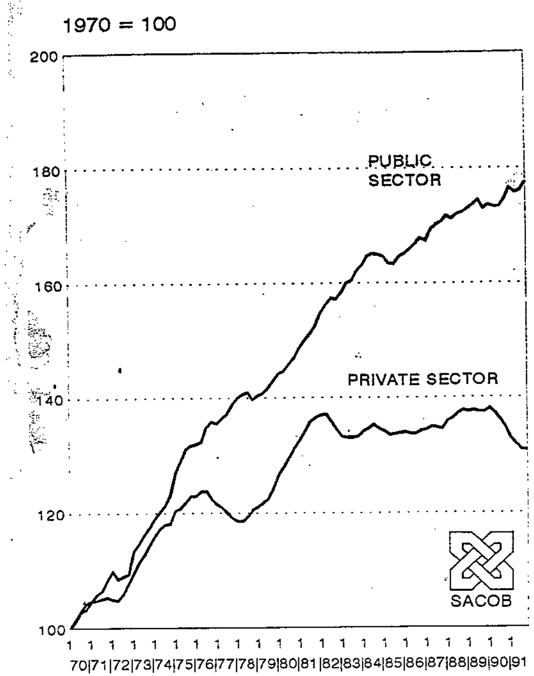
Gazankulu had nine, KaNgwane nine, Kwazulu 12, Lebowa 10, QwaQwa eight, and KwaNdebele nine.

Their total grant from the South African government in the current financial year was just under R9 billion.

Budget '93: Taxing times for all in SA

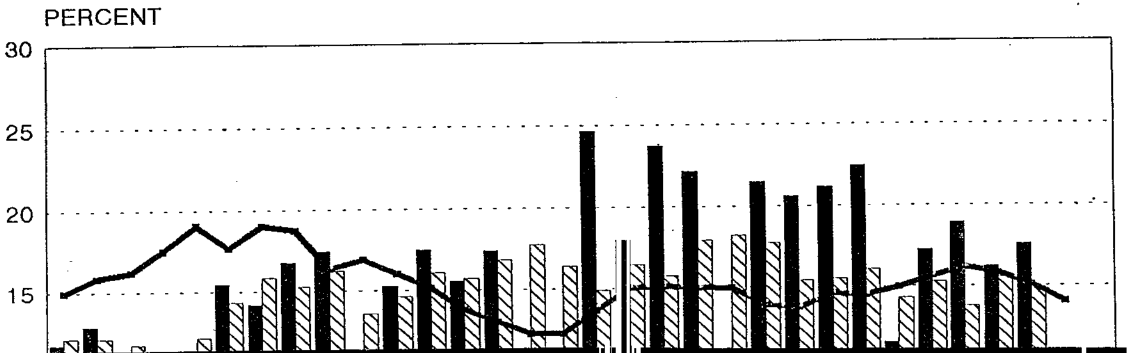
SOUTH 13/3 – 17/3/93.

(320)



EMPLOYMENT TRENDS IN THE FORMAL SECTOR: Since 1970, more jobs have been created in the public sector than in the private sector

SOUTH Financial Reporter **Waghied Misbach** sounds out the views of the business sector, trade unions and academics in this preview of the Budget to be announced on March 17.



Taxpayers wait anxiously

IN A RECESSION, is it acceptable that the government increase taxes? That's the big question bugging taxpayers as Budget day approaches. Even the business community is divided on the issue.

The South African Chamber of Commerce (Sacob) says increased taxes will lower the purchasing power of consumers. Sacob says the issue could become a political hot potato.

But Sanlam says an increase, whether we like it or not, is inevitable.

Sacob's director general Mr Raymond Parsons argues that indirect taxes, such as VAT, should not be raised by Finance Minister Mr Derek Keys.

"An increase in indirect taxes will undermine the purchasing power of consumers. This could result in pressure for wage and salary increases to compensate for higher living costs, which would raise inflationary pressure further," says Parsons.

Sanlam chief economist Johan Louw says Keys will have no option but to raise taxes.

"However, it is expected that he will keep the increases as moderate as possible so as not to dampen general economic activity unnecessarily," says Louw.

He expects a hike in VAT from 10 percent to 13 percent, with a wider

'An increase in VAT to 13 percent, even if more foodstuffs are exempted, would raise inflation by about 1,5 percentage points' — Raymond Parsons

range of basic foodstuffs and services being exempted from VAT.

There could also be an increased levy on fuel, about 10 cents a litre, and higher excise duties, says Louw.

Parson argues that an increase in VAT to 13 percent, even if more foodstuffs are exempted, would raise inflation by about 1,5 percentage points during 1993. The increased inflation rate would then reduce the amount of real disposable income — the cash consumers can spend or save after costs or taxes.

Parson estimates a 13 percent VAT rate would raise an additional R3,5 billion (assuming that zero rating and other exemptions are limited).

Another R1 billion could be raised by increasing the fuel tax and other indirect taxes.

But the R4,5 billion raised would be offset by government collecting less in other sectors, because people would have less to spend.

Parsons says Sacob is not opposed in principle to an increase in indirect taxes such as VAT, but is concerned at the timing of the increase.

He says it could make the recession more severe and "repoliticise" VAT when the system has been "accepted by the public".

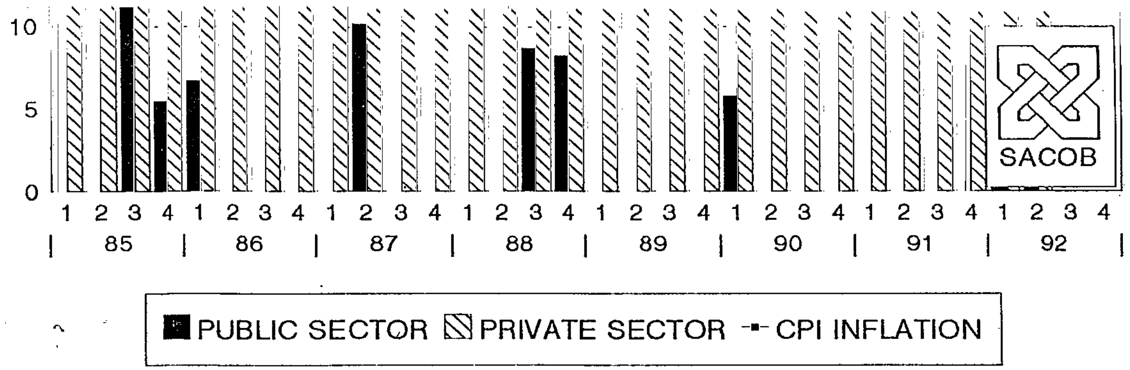
The result would be a call for more goods to be exempt and this could undermine the system, he says.

The high budget deficit, resulting from the government spending more than it receives, will also be a source of worry.

The deficit currently stands at nine percent of the Gross Domestic Product (GDP) — the total value of a country's output.

Parson says the failure by government to address the high budget deficit will undermine perceptions of this country by organisations such as the International Monetary Fund (IMF) and the World Bank.

The IMF wants South Africa to contain the deficit to about 4,5 percent of GDP.



WAGE AND SALARY INCREASES RELATIVE TO INFLATION: Public sector wage increases have consistently been above the lev of inflation

Instead of raising taxes to raise revenue, another way of attacking the deficit is to cut government spending.

Parsons and Louw agree that the government will have to cut the state wage bill if they want to cut spending.

The State wage bill accounts for roughly 40 percent of the government's total spending, says Parsons.

He estimates that there could be a "real reduction" in government spending if the wage increases are kept to five percent and employment levels are not increased.

Parsons and Louw agree that the economy — which is in its worst recession since the depression of the thirties — may only recover significantly towards the end of the year.

Prospects of an export-led recovery have become increasingly unlikely as the world economy, which accounts for about 70% of South Africa's exports, remains in recession.

Jobs will continue to be lost as the country enters its fifth year of recession. About 300 000 jobs have been lost in the formal sector during these five years.

"There are no signs the retrenchment phase has come to an end, although there are signs that it may be slowing down.

"However if production levels start to increase, labour will once again be absorbed into the formal economy. Sacob believes this process will start gaining momentum from the third quarter of 1993."

Parsons estimates that salary and wage increases will be limited to between five and eight percent. He hopes the recently launched National Economic Forum will diffuse tensions between business, labour and the government and help to create a more stable environment.

Sacob believes the budget will have to assist small business, which constitute about 40 percent of GDP. The National Economic Forum has already been asked to look at how to assist the small business community.

Louw agrees that the economy may make a recovery late in 1993, but he says favourable developments such as the lower inflation rate and lower interest rates will be overshadowed by negative influences.

These include:

- the ongoing violence;
- limited export opportunities as the world wide recession continues;
- the low gold price
- decreased domestic spending as consumers become poorer and the disapointing level of fixed investment.

The drought also remains a factor and the Budget is expected to have a mildy dampening effect on general economic activity.

Revenue falls slightly short

S/Times 14/3/93.

REVENUE collected in the first 11 months of the current financial year came to 80,1% of the amount voted for the year. (320)

This compares to 88,4% for the corresponding 11 months of the previous financial year, says the Central Statistical Service.

The revenue collected for the Exchequer rose 2,6% over that collected in the first 11 months of the previous financial year.

R2bn shootout in taxman vs investor epic

S/Times (Buss) 14/3/93.

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By TERRY BETTY

FINANCE Minister Derek Keys is expected to table a treaty this week to end the seven-year, R2-billion wrangle between film investors and the taxman.

Mr Keys confirms that he will address the issue in his Budget speech on Wednesday. He declines to give any further details.

This follows speculation that a compromise has been reached between the Commissioner for Inland Revenue and the 38 000 taxpayers who owe around R2-billion for deductions they claimed for film expenses.

Industry sources say the settlement on the table allows for film investors to write off their production costs or an amount not more than their initial investment in the film. This means they will get a tax deduction of R1 for every R1 invested.

However, marketing and distribution costs are unlikely to be tax deductible.

Before the scheme was stopped, investors stood to get as much as R5 in tax deductions for every R1 invested.

A tax consultant says many investors are hoping for a write-off equal to twice their costs, which means they will come out square on their investment but will not be able to use the deductions to offset other income.

Taxpayers are not bound to accept the expected offer and can press ahead with court proceedings if they wish.

Tax experts say as much as R2-billion is at issue, although figures are not available on how much of the that has been paid to Inland Revenue. Some investors have met demands from the Receiver, some have made late payments but withheld interest and others have witheld all payments.

The proposal is the culmination of several years of negotiations between the Receiver's office and taxpayers, many of whom are represented by top Johannesburg lawyer Michael Katz.

Distrust

Coopers Theron du Toit partner Rick Cottrell says that if the 1:1 offer is accepted by the majority it will be because they are sick of the protracted arguments and uncertainty and not because it is a fair settlement.

He says a 1:1 settlement is no more than what the taxpayers are entitled to.

"This is not going to appease anybody. If the Commissioner wants to allay the distrust and feeling of the lack of honour of Inland Revenue, then it is going to have to be more generous."

The law — before its effective abolition — provided for tax incentives to encourage the production of films in SA.

Kessel Feinstein tax partner Ernest Mazansky explains that investors were allowed to deduct a variety of expenses inccured in producing, marketing and distributing the films. They also qualified for export marketing allowances.

As a result, numerous poor quality B-grade films were produced regardless of financially viability.

Mr Cottrell says some people were involved in fairly aggressive schemes which exploited the benefits.

"But there were also many honest and conservative investors who did not see this as a loophole but as a legitimate opportunity to invest in films.

"To lump them together in one basket highlights the system's unfairness."

Mr Mazansky says the Commissioner pulled the plug on the investments in March 1989 and proceeded to attack existing schemes, including those which had received written rulings.

"Additionally, Inland Revenue attacked film schemes which complied with the criteria contained in legislation specifically introduced to cater for film investment and not withstanding public assurances to the contrary by both the then Commissioner for Inland Revenue and the then Minister of Finance."

Although many investors did not receive written rulings, they based their deals on similar structures. And by that stage a practice was considered to have been established because written rulings had to be issued for similar cases.

A test case on a movie called **Jake Speed** was taken to the Special Tax Court last year, and the judgment from Mr Justice Melamet is expected before the end of the month, says Hofmeyr van der Merwe partner, Fiona Peart, who is representing the **Jake Speed** taxpayers.

Although the judgment was originally intended to set a precedent for other taxpayers, it is now feared it will be based on technicalities peculiar to the **Jake Speed** case only.

It is possible that the losing party will take the case on appeal, which will take another few years to settle, says Mrs Peart.

Interest

This has necessitated some sort of compromise between the Receiver and taxpayers, as it would be virtually impossible to take all 38 000 cases to court.

A settlement is also imperitive for taxpayers, as interest is accumulating at 18% a year on the amount they owe.

Fisher Hoffman Stride tax partner Anthony Chait explains that two types of interest are involved.

People are charged interest for having paid insufficient provisional tax. This is levied from six months after the financial year to the date the assessment is issued, which was when they found the tax breaks had been disallowed.

As some people only got their assessment six years later, and some are said to still be outstanding, in many cases the interest bill is significant in relaiton to the tax owed.

Mr Chait says Inland Revenue has allowed for this interest to be postponed, although it has not been waived.

However, the industry believes the interest will be waived as part of the settlement and those unable to pay the Receiver up front will be allowed to negotiate terms.

The second type of interest is levied once the assessment is issued and the tax remains unpaid. This interest is not expected to be waived.

New maid's law could mean tax benefits for employers

S Times 14/3/93

Domestics and madams can expect legislation this year that will regulate working conditions in the home. JANET WILHELM looks at current developments

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IT'S a topic that should focus the mind of the nation: legislation regulating the working conditions of domestic workers is due to come into force this year ... and every household that employs a char or gardener is affected.

However, these moves to put domestics on a par with workers in commerce and industry should be accompanied by similar tax relief for employers. This is the view of the recently formed Domestic Employers' Association of South Africa.

The proposal that wages paid to domestics should be tax deductible forms part of the association's recommendations to the Department of Manpower.

Most domestic arrangements tend to be ad hoc, without written contracts — and wages are paid out of after-tax money.

"Quite simply," says Clare Read, the association's chairman, "the other side of regulating the employment of domestics is that employers should enjoy the same tax benefits as all other employers.

"The Income Tax Act should be amended to allow domestic employers to deduct the wages, benefits and expenses pertaining to their workers in the calculation of taxable income.

"It would be grossly unfair to the domestic industry that it remains excluded from the provisions of the Income Tax Act while having to fulfill all the obligations flowing from the Basic Conditions of Employment Act."

The draft bill to extend the Basic Conditions of Employment Act to include domestics was gazetted for comment in December.

The deadline for public submissions on the legislation has now expired. The Department of Manpower is processing these for a final decision by the Minister of Manpower.

But, in terms of agreements made with Cosatu on the regulation of domestic and farm workers, we can expect legislation shortly.

Another concern of the Domestic Employers' Association is that the legislation will be pushed through before people fully understand the implications.

"We are worried that employers will over-react owing to a lack of knowledge," says Mrs Read. "What we don't need in this country right now is more unemployment."

"Already there is confusion. Many employers believe the new legislation will enforce a minimum wage."

The fact is that the legislation does not concern itself with minimum wages.

What is on the table are working conditions. Specifically: working hours, meal intervals, overtime, work on Sundays and public holidays, holiday pay, maternity and sick leave, the introduction of pay slips and rights in respect of termination of service.

To help both employers and employees to adjust to the new order, the association has recommended that the law not be brought into force until January next year.

This will allow for an interim adjustment period.

The Domestic Employers' Association has recommended that the Department of Manpower use this time to embark on a nationwide educational programme to prepare both employees and employers.

A number of submissions have been made on behalf of employees, including one by the Black Sash.

The organisation has asked for clarity on who is included in the definition of a domestic worker and on the rights of part-time but regular employees.

The Black Sash also asks that the minister addresses the question of unfair dismissal and the paying of UIF to cover benefits like maternity leave.

The legislation will touch virtually every family in the country. What's needed as soon as possible is clarity so that people can plan for the anticipated changes.

REVENUE COMPARISONS

(320)

	1992-93 Budgeted Rm	1992-93 Revised estimate Rm	1993-94 Budgeted at existing rates Rm	1993-94 Budgeted at new rates Rm	% Change on 1992/93 revised
Inland Revenue					
Income tax on:					
Individuals	35 511	32 572	37 680	37 627	15,5
Non-mining companies	13 356	10 796	11 101	11 101	2,8
Gold mines	472	482	500	500	3,7
Diamond and other mines	855	603	425	401	−33,5
VAT/sales tax	21 020	17 376	19 188	24 858	43,1
Gold mine leases	145	163	115	115	−29,4
Stamp duties	830	750	825	815	8,7
Transfer duties	810	870	922	991	13,9
Other	1 627	2 014	1 325	735	−63,5
Total	74 626	65 626	72 081	77 143	17,5
Customs and Excise					
Customs duty	3 124	2 975	3 132	3 132	5,3
Import surcharge	1 670	1 525	1 635	1 635	7,2
Excise duty	4 519	4 097	4 236	4 556	11,2
Fuel levy	6 634	6 810	6 893	7 633	12,1
Ordinary levy	64	85	88	88	3,5
Miscellaneous	252	355	383	383	7,9
Total	16 263	15 847	16 367	17 427	10,0
Less: Customs Union payments	5 040	5 160	5 675	5 675	10,0
Total	11 223	10 687	10 692	11 752	10,0
Total Revenue	85 849	76 313	82 773	88 895	16,5

Little VAT relief for poor

C/Press 14/3/93 (320)

By STAN MHLONGO

SLIGHT relief greeted the lifting of Vat on basic foodstuffs this week.

However, Cosatu spokesman Bheki Nkosi slammed Finance Minister Derick Keys for not zero-rating taxation on water, electricity and medicine.

"This organisation had a meeting with Minister of Health Rina Venter, where we received an assurance that medicine would not be taxed," said Nkosi.

He added that Cosatu also does not accept the exclusion of meat, fish and white bread from the zero-rated foods.

Foods like eggs, fresh milk, rice, vegetables and brown flour will be zero-rated.

Soweto Housewives' League general secretary Stella Mohlame said the zero-rating of basic foodstuffs was welcomed, but stressed that the decision not to zero-rate medicine "was disappointing considering that this country's poor majority would be the ones to feel the pinch".

Revenue figures post tax structure poser

(320) CT 15/3/93

Own Correspondent

JOHANNESBURG. — Latest Exchequer figures, which showed revenue collection slowed in February from January, indicated serious structural problems within the tax system, Nedcor Bank chief economist Edward Osborn said yesterday.

The Central Statistical Service reported that total revenue collected for the 11 months to February was 80,1% of the budgeted amount. The deficit, before borrowing and debt repayment and excluding the other statutory appropriations, was 130,5% of the deficit voted for the full year. For the 1991/92 period, the deficit was 117,8%.

Total Exchequer receipts were R67,9bn and total issues were R91bn.

Osborn said the figures showed total revenue for the year was likely to be R75bn and total expenditure, including additional appropriations amounting to about R4,5bn in February, would be R104bn, which meant the deficit would be R29bn.

The deficit outcome doubled that initially budgeted for and posed a "considerable credibility problem" for Finance Minister Derek Keys's Budget this week, he said.

CSS said during the first 11 months of the financial year, receipts showed a rise of 2,6% over the corresponding period last year, compared with a 3,2% improvement in the ten months to January.

Revenue figures highlight tax flaws

TIM MARSLAND (320)

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The deficit outcome doubled that initially budgeted for and posed a "considerable credibility problem" for Finance Minister Derek Keys's Budget this week, he said.

The problem, besides the usual understatement of expenditure, was that of the reliability of the revenue forecasts. This had been "inadequate" in recent years.

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Last-minute plea for zero-rate meat

Staff Reporter (320) MEAT

A LAST-minute appeal to zero-rate red meat for VAT has been made by the South African Agricultural Union's Redmeat Producers Organisation.

"If VAT could be imposed at a zero rate (on red meat), it would mean a saving of about R700 million for the consumer who, in many cases, already lives below the breadline," said RPO chairman Mr Gerhard Brönn.

Mr Brönn said red meat was a nutritious basic food and according to information obtained by the RPO, cattle farmers have had to absorb part of the VAT on their product.

This, as well as the lengthy drought which had hit large parts of the country's cattle-farming areas, have placed farmers in a worsening financial position.

ARG 15/3/93

Mr Brönn said urgent representations to zero-rate red meat had already been made to the Minister of Finance, Mr Derek Keys, and the issue was still under discussion.

According to Mr Gareth Ackerman, chief executive officer of the Blue Ribbon meat corporation, the tonnage of red meat sold in his stores declined in October 1991 by the amount of the increase as a result of the implementation of VAT and had still not recovered.

Addressing the South African Feedlot Association in Vereeniging, Mr Ackerman said: "One can understand 'luxury items' not being allocated zero rating, but to continue to classify meat as a luxury item is a serious mistake," he said.

Economy cannot afford drastic fix

The Government cannot afford to apply drastic medicine to markedly cut the deficit before borrowing, says Old Mutual economist Riaan le Roux.

Le Roux said at a press conference yesterday that the economy was far too weak to absorb large scale tax increases. STAR 16|3|93

He expects the government to budget for spending increases of 7,5 percent to R113 billion in the 1993/4 fiscal year, while revenue income, excluding any tax hikes, is forecast to rise by nine percent to R82 billion.

This would leave the deficit at an unacceptably high R31 billion, the equivalent of 8,4 percent of GDP.

Such a large deficit will increase the cost of servicing the government's debt, which is already swallowing over 20 percent of revenue income.

Le Roux therefore expects a gradual decline in the deficit, which would be accomplished by a real cut in government spending as well as tax increases to rake in an additional R6,3 billion. (see chart)

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	1992/93 Rbn	1993/94 Rbn	1993/94 %CH
Spending	105,0	113,0	7,5
Revenue	75,0	82,0	9,0
Deficit	30,0	31,0	
% of GDP	8,9	8,4	
Tax increases:			
VAT : 3%		R4,6bn	
Petrol: 10c = R1,2bn		R1,2bn	
C & E :		R0,5bn	
Other :		?	
		R6,3bn	
Tax cuts		-R0,8bn (?)	
		R5,5bn	
Adjusted deficit		R25,5	
		6,8% of GDP	

Coupled with minor tax cuts worth about R800 million this would reduce the deficit to R25,5 billion, equivalent to 6,8 percent of GDP.

LOA expects Keys to scrap Sixth Schedule

Star 16/3/93

(320)

By Sven Lünsche

The life insurance industry is expecting the abolition of the Sixth Schedule of the Income Tax Act to be announced in the Budget tomorrow.

The Life Offices Association (LOA), the umbrella body for the industry, has issued a note to its members advising them of a "code of conduct" to apply between the announcement and amending legislation in the Insurance Act.

Lifting the Sixth Schedule will enable life insurers to issue investment products for a five-year period with no life cover requirements. At present, life office products have to have a minimum term of 10 years and a life cover component.

The repeal of Sixth Schedule and the "four-fund" approach to life offices taxation were key recommendation of the Jacobs Committee inquiry into the industry.

The LOA expects Finance Minister Derek Keys to commit the Government to both these principles tomorrow, although the four-fund approach is only likely to be phased in over three years.

Elaborating on the impending changes, Old Mutual's manager, product research, Peter Spreeuwenberg, said yesterday the Sixth Schedule had made the primary function of the industry — the provision of long-term insurance and the protection of future income — an administrative nightmare.

"With a democratic process starting to unfold, and especially the pressures of a prolonged recession, the abolition of the schedule cannot be postponed anymore," he said.

In terms of the code of conduct, the LOA advises that the prescriptions of the code should be interpreted as if they were law, as amending regulation for the repeal of the Sixth Schedule may still undergo changes between now and the eventual amendment.

"We were told that one of the considerations would be the conduct of the industry during the imterim period which will now commence," the LOA says.

The code prescribes that products should adhere to the following guidelines:

- A demarcation period of five years, allowing for limited cash values within this period.
- Limiting premium increases to 20 percent per annum, applicable to both new and existing business, but containing lifestyle protection and inflation-fighting clauses.
- A go-ahead for single investments, which would have certain tax benefits, but would not attract tax penalties upon early investments in the underlying portfolio.
- Allowing for limited premium-paying terms.
- No minimum life cover requirements.

Spreeuwenberg said business shorter than five years was clearly the domain of banks and building societies.

"To prevent life assurance instruments even closely marketing any cash benefits within the first five years, we envisage that cash values within this period will be limited to a return of premiums compounded by five percent interest.".

He added that the simultaneous phasing in of the four-fund approach also had certain inherent benefits for the insurance industry.

In terms of this approach, life office operations are split into four funds for purposes of taxation — an individual policyholder's fund, an untaxed policyholder's fund, a corporate fund and a corporate policyholder's fund.

The key benefit of this approach is that income earned by funds of individual persons would attract a tax rate of 30 percent, instead of 48 percent.

Unions set to oppose Budget if job problems are ignored

ARG 16/3/93 (320)

SHARON SOROUR
Labour Reporter

ORGANISED labour is set to oppose the Budget if it does not address demands for the creation of jobs and the upliftment of workers.

Cosatu regional secretary Jonathan Arendse said federation members would hold a "low profile protest" tomorrow, beginning with a meeting in St George's Cathedral hall and culminating in a march to parliament with its affiliate National Education, Health and Allied Workers Union (Nehawu).

Cosatu members would protest outside the offices of the Receiver of Revenue in Plein Street.

The trade union federation — which has called for a Budget aimed at creating jobs and providing housing and education — met Finance Minister Derek Keys last week to discuss it.

Cosatu also appealed to Mr Keys not to increase the VAT rate or other taxes that would affect the poor and the working class.

The federation welcomed the lifting of VAT from basic foodstuffs last week, but questioned why fish and white bread were not exempted.

Nactu spokesman Brian Williams said Nactu was not expecting a Budget that would direct itself at "providing a foundation to overcome problems created by apartheid".

Mr Williams said preliminary reports on the Budget Nactu had received indicated it was "excessively weak" on economic redistribution.

"The central philosophy of the Budget is based on the supply-side economic philosophy of Britain and the United States."

Mr Williams believed the Budget presented little hope for the poor.

"It will burden the poor to a greater extent to provide more money for the government and I do not believe it will bring about any significant changes in unemployment or the conditions of the working classes," he said.

Nactu would hold a strategy planning conference in Johannesburg later this week.

Tax woes loom

Derek Keys, above, juggling demands on Budget tightrope

ARGT 16/3/93

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BRUCE CAMERON
Business Staff

TAXPAYERS will shoulder the burden of government overspending with increases in direct and indirect taxes and higher levies and tariffs, particularly on fuel and luxuries, in tomorrow's Budget.

An increase in VAT from 10 percent will be the main weapon which Finance Minister Derek Keys will use to add to the depleted government coffers.

Taxpayers can also expect a 10 percent increase in fuel prices and to pay more for luxuries.

Although it is not known whether the government will go ahead with a 1 percent increase in the top marginal rate in individual tax, the inflationary effect on earnings will drag taxpayers into higher brackets.

On the spending side, the civil service has already been told that government will restrict increases, which in recent years have been higher on average than in the private sector.

This will probably be the main saving Mr Keys can effect to meet his commitment to limit government consumption spending this year.

On the concession side, Mr Keys has already given away his prize plum — zero-rating on a limited range of food.

Details of the Budget will be reported in later editions of The Argus tomorrow.

Social pensioners of all races can expect an across-the-board increase followed by a promise of parity by the end of the year.

Economists expect only bad news but encouraged Mr Keys to stick to his aim of a steady reduction in government debt.

Mr Keys delivers his first Budget tomorrow under the pressure of enormous political and economic demands which cannot be met in the short term.

● From the political left Mr Keys faces demands for a swing to redistribution policies to meet the acute demands of the underprivileged.

● From the business sector the demand is for a reduction in State spending, cuts in tax and long-term growth-oriented fiscal policies. The trend should be within the framework of the government's normative economic model unveiled last week.

Indications are that Mr Keys will aim at a shortfall in government spending of about 6,5 percent of the gross domestic product (GDP). This means he will be looking to borrow about R20 billion to balance his books.

This would be down from the almost R30 billion or 9 percent of GDP for this year but way above the accepted guidline of no more than 3 percent of GDP.

Democratic Party finance spokesman Mr Ken Andrew has urged Mr Keys to stick to his word to restrain government spending by delivering a Budget of no more than R107,3 billion.

The South African Chamber of Business has said that it will be watching to see whether Mr Keys will start moving on the guidelines of the government's economic model, warning of a loss of credibility if he does not.

Mr Trevor Manuel, African National Congress head of economic planning, said he expected the Budget to reflect National Party election priorities but it would continue to reflect the government's ineptitude in developmental planning.

He said that although there would be parity in pensions expenditure, areas such as education management would be continued along apartheid lines.

Mr Manuel said it was important that the Budget should deal with the efficient management of the deficit which he said was the direct result of government inefficiency in overspending and the under-collection of taxes.

Star 16/3/93

Dealers the key to VAT benefits

(326)

Fresh deal . . . now consumers will wait to see if the benefits of fresh fruit and vegetables being zero-rated for VAT will be passed on to them, or stay with dealers.

THE deal worked out in the zero-rating of value added tax (VAT) on basic foodstuffs should bring down the cost of a shopping basket, as long as unscrupulous dealers resist the temptation to exploit the move.

The overall impact of VAT on food prices will be known only tomorrow when Finance Minister Derek Keys presents his Budget.

The deal has been welcomed by consumer organisations and political parties, although the Cosatu-led Vat Co-ordinating Committee (VCC) would have liked it applied to other basic foods and services.

The VCC, the driving force in anti-VAT campaigns since this tax replaced general sales tax (GST) 19 months ago, hailed the Government's decision but added that it was "the best that could be achieved at the present time".

It asked the Government to consider zero-rating VAT on basic foodstuffs, electricity, water, medicines and medical services. It also asked for assistance for small business.

However, last-minute consultations between Finance Minister Derek Keys and the VCC saw the Government agreeing that rice, fresh vegetables, fruit, vegetable oils, milk, cultured milk, eggs, beans and brown wheaten meal would be zero-rated from April 7.

This is in addition to brown bread, maize meal, samp, mealie rice, dried mealies and powdered milk, which were exempted in October 1991.

But questions remain over whether the exemptions bring an immediate 10 percent (the current VAT rate) reduction on the items listed, and whether the savings will be passed on to consumers.

Pick 'n Pay and Checkers have said they will ensure savings are passed on.

However, Econometrix director Tony Twine says although he believes the reductions could lower food prices, the question is whether the benefits will go to the shopper or to the shopkeeper.

Inclusive

Twine says the removal of VAT from the listed items could be exploited by unscrupulous dealers. He says one of the problems recognised with VAT is that prices are quoted inclusive of the tax, while the GST system added it at the till.

"Take for instance a kilogram of rice which costs R1,10. An unscrupulous shopkeeper could raise the price before April 7. Then when VAT goes, the price could be back at R1,10 and the consumer won't benefit from the reductions."

Twine warns further that even if the full benefits are passed on to consumers, they will experience only a 0,4 percent cut in the inflation rate.

He points out that it is widely expected that VAT on the remaining basket of goods will go up and a 1 percentage point increase in VAT adds 0,66 percent to the inflation rate over a full year.

Twine believes VAT will be increased to 12 percent and, if it is, there will be a net 0,9 percent increase in inflation.

"Consumers can benefit only if their consumption contains an abnormally high proportion of foodstuffs that are zero-rated and the dealer gives them the full benefit on these items."

The Consumer Council has urged retailers, producers and wholesalers to pass on the benefits to consumers and has asked consumers to report any irregularities to it.

Star 17/3/93

Checklist for higher tax level

(320)

Value added tax is expected to rise from 10 to 13 percent when Finance Minister Derek Keys makes his Budget speech later today.

This means food generally — like everything else — will cost more.

The Star today publishes its third monthly Consumer Basket so that consumers will have a comparison when the new VAT figure becomes effective.

The 16 items surveyed are common among many households. But brand names have been given, after supermarkets said the first two Baskets had "not compared like with like".

The price survey was conducted on Monday.

16 ITEMS	OK Eloff Street	PICK 'N PAY West Street	SPAR Newgate	CHECKERS Yeoville
Frozen Chicken 1 kg	Rainbow 6,29	Festive 6,49	Festive 4,79	Rainbow 7,29
I & J Hake Fillets 800 g	11,79	10,89	10,29	9,99
Rindless Back Bacon 250 g	Escort 6,35	Escort 4,99	Renown 6,19	Escort 6,19
Tastic Rice 1 kg	3,89	3,95	3,95	3,95
Floro Margarine 500 g	4,89	4,49	4,49	4,49
Butter 500 g	Mooiriver 6,69	Farmerspride 6,55	Mooiriver 6,29	Mooiriver 6,35
Bliss Milk 1 litre	2,55	1,59 SPECIAL	2,59	1,99
Cornflakes 500 g	5,89 SPECIAL	6,99	6,99	6,49
Frisco Instant Coffee 250 g	4,99	4,39	5,49	4,99
Iwisa Mealie Meal 2,5 kg	3,99 SPECIAL	4,29	4,25	4,29
Bliss Yoghurt 500 ml	3,35	3,05	3,85	2,89 SPECIAL
Omo 1 kg	6,69	6,99	6,99	6,99
Handy Andy 750 ml	3,59	3,29	3,69	3,69
Toilet Rolls 1 doz	Twinsavers 10,99	Twinsavers 10,59	Carlton 11,99	Twinsavers 9,49
Cooking Oil 750 ml	Black Cat 2,99	Black Cat 2,79	Spa Brand 3,19	Black Cat 2,89
Five Roses Tagless Teabags 250 g	7,89	7,29	7,29	6,99
	92,82	88,62	92,32	88,96

Taxpayers, wait for mugging

By ANTHONY JOHNSON and IVOR CREWS

TAXPAYERS can expect a mugging today when Finance Minister Mr Derek Keys presents his first Budget.

The minister will have to juggle the conflicting demands of millions of underprivileged first-time voters with promises that the state will finally curb runaway expenditure. CT 17/3/93

Experts expect:

- An increase in the 10% VAT rate to at least 12%, but probably higher.
- A hike in the fuel price of between 10-20c a litre.
- Higher taxes on tobacco, alcohol and other "luxuries".
- Using the inflationary effects of earnings to drag taxpayers into higher brackets.

(320)

Mr Keys is expected to use some of these revenue-collecting devices, as well as savings effected by further cut-backs in defence spending, to assist the poor which will comprise the bulk of voters.

Racially-based discrepancies in pension payments are expected to be eliminated this year, but political parties are concerned that the discriminatory means test for pensioners be eliminated as well.

Mr Keys will also be under pressure to divert additional funds to social spending in areas such as education, health, housing and job-creation.

Government sources said that the Budget would also be geared to improving conditions to satisfy the related goals of increased growth and economic investment in South Africa's ailing economy.

- Anti-Budget protests have been organised by members of the ANC alliance and public sector workers.

● Budget necessities likely to dampen economic activity — Page 11

Education vote expected to soar

Budget likely to hike taxes, cut spending

BDay 17/3/93. (49) (320)

GRETA STEYN and SIMON WILLSON

CAPE TOWN — A deflationary blend of tax increases and spending cuts is the likely theme of Finance Minister Derek Keys's maiden Budget, to be presented to Parliament today.

Already billed by Finance officials as probably the most unpopular in living memory, the Budget looks set to increase the current 10% VAT rate to 12%-14%.

Further revenue measures are likely to include a hike in the petrol price of 10c-15c a litre, generating about R1,5bn. Increases in customs and excise duties on petrol, alcohol and cigarettes should raise R500m, and estate duties are also set to rise.

Indications are that a reduction in marketable securities tax and a return of taxes on dividend income will not materialise.

The higher taxes, together with an expected cut in inflation-adjusted government spending, will help finance commitments such as the equalisation of social pensions and probable extra allocations to welfare and law and order.

Keys must balance the need for economic growth with the requirement to reduce the deficit to more manageable levels from the present 9% of GDP. He is expected to announce a deficit for 1993/94 of R24bn-R25bn, or more than 6% of GDP — on the high side of economists' forecasts. Spending of about R113bn is expected, representing an increase of about 8% from last year's R104,9bn, which includes drought relief expenditure.

One of the largest spending increases will be on the biggest spending item in the Budget, education. The vote is expected to increase by more than 25% to about 7% of GDP — high by international standards.

The second biggest slice of the Budget will go to servicing state debt, estimated to cost R20bn. Real increases are also expected for the police budget, the TBVC states, housing and other social spending. Defence, at less than R10bn, is expected to remain constant in nominal terms, representing a sharp decline in real terms.

The Budget will have to tackle simultaneously short-term issues such as a soaring deficit before borrowing and increasing requirements for welfare provision. In addition, Keys will have to start the adjustment of state finances to the medium-term targets outlined last week in the economic structural adjustment programme.

DON'T miss Business Day's Budget Special tomorrow. Apart from all the news, analysis and comment, it will include the Finance Minister's full speech in a pull-out supplement with graphs, charts and tax tables — easy to keep for future use.

The already high income tax burden on individuals and companies, as well as the medium-term intention to raise more revenue from indirect taxation, probably means direct tax rates will be unchanged. Rumours persist, however, of a possible percentage point increase to the current top marginal personal tax rate of 43%.

An important source of income is expected to be fiscal drag when tax brackets are not adjusted. Eliminating fiscal drag

☐ To Page 2

Budget

BDay 17/3/93. (49) (320)

☐ From Page 1

would cost government about R3bn. Last year relief was given at the bottom end of the scale, where it hits the hardest, but it is understood it would have proved too expensive to repeat the exercise. It was decided not to tinker with the personal taxes until fundamental reform became possible, sources said.

About R1bn will be added to the spending totals because of a move to bring off-Budget government spending onto the Budget. The move, which makes it more difficult to announce a lower deficit, forms part of Keys's efforts to make government more transparent.

While revenue from selling oil stockpiles might be used to finance part of the deficit, indications ~~are~~ that there will be no special allocation from this source for job creation programmes, as there was last year. However, there is likely to be an increase in government capital expenditure from the present level of about R6bn with infrastructure projects designed to maximise labour input. Capital spending has been on the same level for the past few fiscal years as government cut back on that score to finance surging consumption expenditure.

The combination of higher taxes and curbed overall state spending is expected to rein in the 1993/94 Budget deficit to less than 7% of GDP — the first step in reaching the medium-term target of a deficit of less than 3% of GDP by 1997.

● See Page 10

Tax discrimination alleged

BDAY 17/3/93.

LINDA ENSOR

CAPE TOWN — Discrimination against non-residents who declared interest income earned in SA, and the favourable treatment granted those who did not, represented a "disturbing precedent" in SA's tax law, Syfrets tax expert Dale Lippstreu said in a statement yesterday.

He was referring to a Government Gazette promulgation on March 5 this year giving notice of Finance Minister Derek Keys' intention to retrospectively extend the exemption on payment by non-residents of interest income which accrued prior to June 2 1992.

Income which was assessed before this date has been specifically excluded from the scope of the exemption.

Lippstreu said this meant that non-residents who failed to return their interest income would be absolved of their tax liability whereas those who abided by the law would have to pay tax on the interest income declared.

"There is no doubt that the Minister must be aware of this anomaly, but it seems that the government's revenue account is in such a parlous state that he cannot refund the taxpayers in order to place them on an equal footing with the rest," Lippstreu said.

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The Government Gazette notice related to tax exemption on interest income granted non-residents in June 1992 with immediate effect. The exemption was granted because of the failure of the Receiver of Revenue to collect interest income because of an oversight.

"Belatedly, Revenue approached certain banks for details of interest paid by non-residents. When word reached the market, affected investors scrambled to place their funds out of reach, precipitating a collapse of the financial rand."

The question as to what was to become of income accruing before June 2 1992 was left unresolved.

"Legally the Receiver of Revenue, once aware of such income, was obliged to tax not only current income, but also that which accrued in previous tax years as well," Lippstreu said.

VAT committee pickets Receiver's office

Star 17/3/93

By Abdul Milazi

(320)

The VAT Co-ordinating Committee yesterday picketed the Receiver of Revenue offices in Johannesburg and held demonstrations in Cape Town, Port Elizabeth and Kimberley to protest against the planned increase in Government taxes, including VAT.

The tax increases are expected to be announced when Finance Minister Derek Keys tables this year's Budget in Parliament today.

Cosatu spokesman Neil Coleman said the Government was prepared to allow corruption in its departments at the expense of poor people who had to foot the bill.

He said the Government should purge its departments of corruption and introduce measures to alleviate the plight of the poor.

He said Cosatu demanded:

- An independent commission to devise a new tax system that would benefit the poor.
- No VAT on basic foods.
- A Budget for reconstruction and not destruction.
- An independent audit investigation into all government departments to put an end to corruption.

Sapa reports that copies of the Budget speech will be on sale at the offices of the Receiver of Revenue in Cape Town, Johannesburg and Pretoria shortly after Keys delivers it.

The Ministry of Finance said in a statement that the copies, at R15 each, would be on sale between 3.15 pm and 6 pm today and from 8 am to midday tomorrow.

Extra muscle for tax collectors

(320) CT 18/3/93

Political Staff

TAX collectors are to be given extra muscle in the coming financial year.

Finance Minister Mr Derek Keys announced during his Budget speech yesterday that "nothwithstanding fiscal constraints, an additional R40 million is provided for Inland Revenue and Customs and Excise in 1993/94".

The minister said the additional funding for tax collection purposes should enable Revenue Commissioners to attract "adequate staff of even a higher calibre".

Mr Keys said one of the spin-offs of this development would be the speedy establishment of a specialist office in northern Johannesburg to deal exclusively with company taxation.

With the application of VAT to imports and exports, new customs border posts would be established during the year.

Mr Keys said he acknowledged the relationships between the Commissioners for Inland Revenue and Customs and Excise on the one hand, and taxpayers, importers and exporters on the other, were sometimes "strained"

"I ... approach the matter in a spirit of partnership with taxpayers.

"I as satisfied that both Commissioners will adopt the self-same attitude and we look forward to a response in kind from private sector parties and their advisers."

Provisional tax boon for some over 65

CT 18/3/93

THE provisional tax threshold for some over-65s is to be raised from the start of the 1994 tax year, Minister of Finance Mr Derek Keys said yesterday.

He said in his Budget speech that some individuals older than 65 were now exempt from paying provisional tax if their annual taxable income did not exceed R25 000 and consisted exclusively of remuneration, interest or rent from the lease of fixed property.

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Since the tax threshold for married people over 65 had already reached R24 881 for the 1993 tax year, it was proposed that the exemption threshold be raised from R25 000 to R35 000.

This should mean that from the start of the 1994 tax year a smaller number of elderly taxpayers in the lower income brackets would need to make provisional tax payments. — Sapa

Star 18/8/93

Rough time ahead for consumers

By Zingisa Mkhuma
and Paula Fray

Any benefits for battered consumers from the recent food zero-ratings would be wiped out by yesterday's double blow of a 40 percent increase in VAT and a hike in fuel prices, consumer groups and businesses warned last night.

Consumers were in for a tough time, said SA National Consumer Union chairman Lillibeth Moolman.

"The new Minister of Finance may have done the best he could in the circumstances, but his overall proposals give consumers little relief," she said.

Any advantages on VAT food exemptions would be wiped out by the increase in VAT to 14 percent and the 16c a litre fuel rise.

"They will increase consumer prices across the board and reduce the sale of manufactured goods which will, in turn, lead to weaker markets and more unemployment. There is no encouragement to consumers to save, nor any incentive to work harder," said Moolman.

Consumer Council executive director Jan Cronje described the higher VAT rate and fuel levy as a "blow to consumers" at a time when millions were unemployed and living below the breadline.

"These increases will contribute to inflation, with the fuel price in particular causing a ripple effect on all commodity prices. Many consumers are also disappointed at not being afforded personal income tax relief," he said.

Housewives League spokesman Lyn Morris made an impassioned appeal to retailers and manufacturers to be "responsible" when they applied the fuel increases.

"Let the business sector absorb all they possibly can and let us share the burden," said Morris, who warned shoppers to monitor prices and ensure the cost of zero-rated items dropped.

Shoprite Checkers slammed the "unreasonably" high VAT increase and reiterated its call to Government to extend the list of zero-rated basic foodstuffs.

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Marketing director Brian Weyers said the VAT increase and the fuel price rise would have a damaging ripple effect.

Yesterday's fuel rise would impact on food prices by increasing transport costs, warned Pick 'n Pay marketing director Martin Rosen.

Should the industry be deregulated, said Rosen, his company could discount fuel by between 7c and 8c.

AA spokesman Robin Scholtz said the fuel increase on the Reef would have a negative effect on all consumers and put an added pressure on already shrinking disposable incomes.

The increase would not benefit the oil companies as they were increases in fuel tax insurance and an adjustment to the basic price, said Caltex Oil.

Blue Ribbon Meat Corporation chief executive Gareth Ackerman said the VAT increase only made matters worse for meat consumers and the ailing meat industry.

"We have strongly objected to meat remaining a VATable item at all, since there is no question that it is a basic foodstuff and we are naturally even more alarmed at a 40 percent increase in VAT which can only further exacerbate the 16,4 percent decrease in meat retail sales," he said.

New laws on estate duty in pipeline

Star 18/3/93

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Draft legislation is being drawn up for a more efficient system of taxing the transfer of estate assets and wealth, according to the Budget Review. The review says that from 1986 until 1992, revenue from estate duty fell by an average of 9 percent a year.

Inland Revenue had given the Tax Advisory Committee a discussion document on the issue, and the committee had recommended that the Estate Duty Act be combined with the Income Tax Act and adapted to offer a more effective system of taxing the transfer of wealth.

Referring to self-assessment for company tax, the review said more of the fiscus's discretionary powers would be removed from the Income Tax Act this year. — Sapa.

Vat, duties to hit top of property market

Star 18/3/93

(320)

By Meg Wilson
Property Editor

On property, the increase in VAT and in some transfer duties stipulated in the Budget will have most effect on the top end of the market.

VAT, which applies to the purchases of newly built homes, is to be increased from 10 to 14 percent.

This, says Camdon's national franchise chairman Scott McRae, will have a negligible effect for buyers who were existing homeowners, as the increased value of their homes will offset the increased cost of the new purchase.

For first-time buyers, however, home ownership will become less affordable in the medium term, since the increase in VAT will push up building costs.

Commissions

The increase in VAT will also affect estate agents' commissions, raising the amount payable from R770 on a R100 000 house to R980 — and on a R250 000 house from R1 750 to R2 450.

Pam Golding Properties director Ronald Ennik said the increase in VAT could cause a hiccup in the imminent upturn in the property market due to the erosion of disposable incomes.

"It could also have an inflationary effect on developments and projects where developers of new properties will need to increase the price of the units to counter the increase in VAT.

"However, we accept that this medicine is necessary if the Keys plan is to succeed. Within this plan, the property market will have a rosy future."

For transfer duties, the exemption threshold is to be raised from R50 000 to R60 000 for residential houses and flats, and from R20 000 to R24 000 for unimproved land purchased for building a dwelling.

The rate of duty for natural persons will be adjusted to 1 percent on the first R60 000, 5 percent for amounts between R60 001 and R250 000 and 8 percent above R250 000.

The rate will rise from 7 to 10 percent for companies.

Absa economist Christo Luus comments that this will mean some relief for buyers at the bottom end of the market, but will steeply increase costs on houses over R250 000.

"On a R100 000 house, the duty payable will in fact decrease from R3 000 to R2 600 but on a R250 000 house, it will rise from R18 000 to R22 000."

Anglo American Property Services (Ampros) said it would absorb the 4 percent increase in VAT on all residential land sales until the end of June.

Ampros sales and marketing director Grahame Lindop said the special offer applied to all purchasers who qualified for a VAT input credit.

It was regrettable, he said, that the Minister had not been able to exempt residential property from VAT, or tax it at a lower rate.

"An increase in VAT is another cost for potential homeowners, which for many will push ownership even further out of their reach."

'Fiscal control not enforced'

CT 18/3/93 320

By LINDA ENSOR

Inflation will rise — ANC

FINANCE MINISTER Mr Derek Keys was criticised by ANC economics chief Mr Trevor Manuel yesterday for failing to introduce measures into the Budget to enforce fiscal discipline.

"There is no indication in the Budget that discipline goes beyond aggregate expenditure cuts. Poorly targeted and inefficient delivery of social services will by and large continue through wasteful apartheid structures," Mr Manuel said at a press briefing on the ANC's response to the Budget.

He criticised the absence of clear objectives which would allow for the measurement of performance and said the nature of the internal budgetary process encouraged departments to build fat into their estimates.

"The budgetary process undermines the good intentions the minister may have on exerting fiscal discipline," Mr Manuel said. "Little value can be attached to the stated commitment to discipline and growth."

If discipline was the theme for the Budget, why did the vote for Parliament rise by about 31%, he asked.

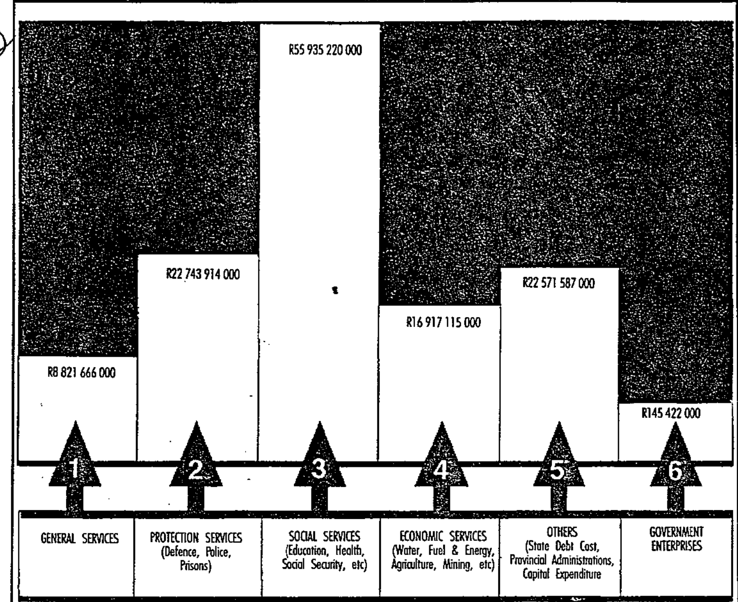
He said the theme of the Budget — discipline and growth — was inappropriate at this stage of political development as it could only be realised after a political transition had brought about stability in society and a degree of predictability in government policies.

Furthermore, there was nothing on the revenue side of the Budget which would promote economic growth. The effective personal tax rate had been increased and the higher VAT rate and excise duties would contribute to the contraction of consumer spending and a 2% rise in inflation, which would affect "the ordinary person in the street" disastrously.

At the same time government expenditure would be kept constant or decline slightly in real terms and as a proportionately higher amount would be used for interest payments, expenditure on goods and services would be reduced in real terms. Neither would the change in company tax have the desired supply-side impact on economic growth, Mr Manuel said.

He believed the budget lacked strategic coherence owing to the absence of any apparent development strategy to provide it with context and direction.

Where the money goes



70, (left) and Mrs Khulukazi Baleka, 76.

Picture: BENNY GOOL

Partying costs go up

By ANTHONY JOHNSON
Political Correspondent

THE price of partying has gone up.

Finance Minister Mr Derek Keys yesterday slapped additional "sin" taxes on a wide range of alcohol and tobacco products. The adjustments take immediate effect.

The minister said they would generate additional income for the state coffers of R320 million in 1993/94.

The increases include:

- Beer: 4,8c a litre or about 2c a 340ml can or dumpy (increased revenue of R112m).
- Spirits: 37,7c a 750ml bottle (R50m).
- Cigarettes: 2,45c per 10 and 5c per 50 grams of cigarette tobacco (R99m).
- Pipe tobacco and cigars: 5c per kg (R400 000).
- Wine (fortified, unfortified and sparkling): 4c per 750ml bottle (R18,8m).
- Sorghum beer and beer powder: 1c a litre and 5c a kg (R6m).
- Cool drinks and mineral water: 2c a litre (R34m).

● Alcohol firms react — Page 9

CT 18/3/93

Pensioners happy over increases

Staff Reporters

ALL social pensioners will receive an increase of at least 7,5% from July 1, Finance Minister Mr Derek Keys announced in his budget.

The increase will also apply to other social allowances and will cost the state R521,5 million.

Black pensioners reacted happily yesterday to the increase. Among pensioners visited, some were singing, ululating and shouting at the top of their voices.

Their increase, once parity is reached, is an effective R77 per month — or 26,2%. In September, all pensioners will receive R370.

CT 18/3/93

Chairman for the Phumlani Organisation for the Aged, Mr Sonny Tyatyam, said both the increase and the parity were "great news" and were very welcome.

MPs get 37% increase

CT 18/3/93

By BARRY STREEK
Political Staff

A 37% INCREASE in the salaries, allowances and benefits of MPs — up to R78,4m from R57,2m — includes an increase of R16m for new cars for parliamentarians.

The increases in allowances and subsidies for MPs comes at a time when the government is refusing to budge on demands for additional increases in salaries for teachers and public servants — although MPs will receive the public sector five percent increase.

A spokesman for the Department of State Expenditure said yesterday 119 MPs became eligible to buy new cars this year. Last year only 15 MPs were entitled to buy cars under the car subsidy scheme.

The total budget for Parliament in the 1993/4 financial year is R113,7m — an increase of R27,2m over the last financial year. Most of this increase, R21m, is for the "salaries, allowances and other benefits".

The increases included an extra R2,5m for constituency allowances and R2,8m for salary improvements (the 5% increase) during the 1993/4 financial year.

In the last financial year, R55,2m was provided for the salaries, allowances and benefits for MPs and a further R2m provided under the Improvement of Conditions of Service vote.

The budget for the President's Council, which is to be abolished soon, has also been increased from R9,7m to R10,7m.

Business welcomes new dual company tax format

B DAY 18/3/93

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Business Day Reporters

ORGANISED business yesterday gave the new dual company tax structure the thumbs-up.

Sacob welcomed the reduction of the corporate tax rate to 40% and said with tax on distributed profits it should encourage expansion and employment, as well as increase SA's attractiveness as an investment destination.

"The Budget is ... positive for the longer-term economic and employment growth prospects of SA," a Sacob statement said. "However, the failure of government to exercise adequate control over state spending in the past now places a harsh burden on consumers and individual taxpayers in the short term."

The Afrikaanse Handelsinstituut agreed that the corporate tax plan would boost business confidence locally and abroad. Describing it as "innovative", the Steel and Engineering Industries Federation said it could stimulate new capital investment, while National Productivity Institute executive director Jan Visser said it "can only have productivity benefits".

Leading stockbrokers felt the Budget would be neutral to slightly positive for the JSE.

JSE executive president Roy Andersen said: "We are pleased that there is no increase in individual taxes and that there is a fairer distribution of the tax burden. Although we are disappointed that Minister (Derek) Keys was unable to keep to government commitment to abolish marketable securities tax, we welcome proposals to give qualified exemption from stamp duty for the unbundling of pyramid structures."

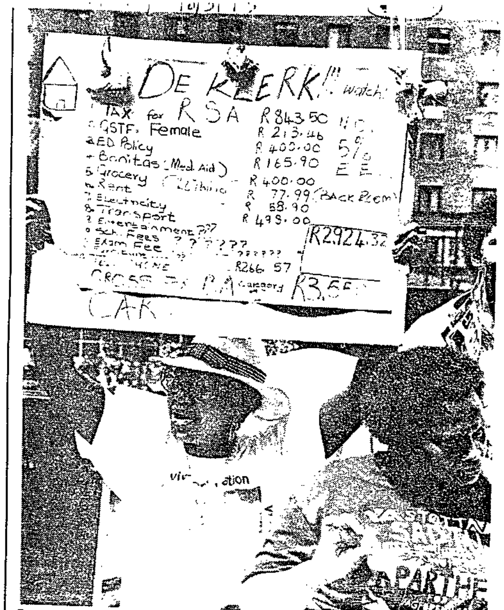
Frankel, Pollak, Vinderine MD David Shapiro said the reduction in corporate tax rates was the biggest factor in the market moving higher in an initial favourable reaction to the Budget. Bond prices weakened on the back of the Budget, reversing earlier gains, but dealers said this was an initial reaction.

Keys said last night he had put the deficit at R40bn since this accurately reflected the entire government deficit. Addressing a tax seminar, he said he had "gone for the biggest deficit I could find".

Economists expressed mixed views on the Budget, but most agreed Keys had achieved a measure of credibility through it. Rand Merchant Bank economist Rudolf Gouws said Keys had reached a compromise between his goals of reducing the deficit without causing the recession to deepen.

Nedcor Bank chief economist Edward Osborn said SA was caught in the public debt trap, clearly reflected by the burgeoning interest payments. The rise in VAT "had to be done". FNB assistant treasurer Mike Law said the Budget was in line with what was expected, except for the decrease in company tax.

Absa economist Dominick Sutton warned that Keys might have been a "little optimistic" concerning both income and expenditure. The deficit might be more than the predicted 6,8% of GDP before the year ended.



Frustrated teachers vented their anger at a demonstration in Johannesburg's Library Gardens yesterday, over government's refusal to increase their pay beyond 5%. They demanded a "living wage" for all teachers. Picture: BRIAN HENDLER

Little room for hotel industry

MARCIA KLEIN and KELVIN BROWN

B DAY 18/3/93

THE hotel industry would receive only modest relief from Finance Minister Derek Keys's budget proposals for tourism expenditure, industry sources said yesterday.

They were reacting to Keys's proposal that in addition to the R85,1m in the printed estimate, a further R25m would be made available for tourism.

The Minister said that for income tax purposes, the depreciation period for certain refurbishments of tourist accomodation would be reduced from 20 years to five.

Satour director Ernie Heath said that with the present low occupancy levels, the depreciation allowance was welcomed.

The additional R25m would be used mainly for Satour to promote SA overseas. This came at an opportune time to get the tourist industry on a meaningful growth path in line with the three-year plan which followed last year's White Paper on tourism.

Sources said that hotel groups had been hoping for other forms of relief, including allowances for hotel development and export incentives.

Government had indicated it would give serious consideration to incentives for a new tourism infrastructure, but this had not materialised, they said.

Gold mines now given tax options

JONO WATERS and MATTHEW CURTIN

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B DAY 18/3/93

GOLD mines could opt out of the proposed dual company tax system which is set to apply to mining and non-mining companies, Finance Minster Derek Keys said yesterday.

Keys said gold mines could choose between their current tax regime and the new 40% company rate and 15% dividend tax, to avoid any prospect that the sector would be put at a disadvantage.

Under the existing tax structure, gold mines pay taxes on profits, against which they are able to offset all their capital spending, and lease taxation, effectively a royalty paid to government for mining precious metals.

Keys made no mention of plans to lift "ring fencing", the mechanism which prevents one mining company offsetting the cost of development work at a separate sister mine against its own profits.

A Chamber of Mines spokesman said the organisation wanted to take a closer look at the Budget proposals before commenting.

Analysts said gold mines were unlikely to take up the option even if gold prices showed a sharp and sustainable rise.

E W Balderson analyst Nick Goodwin said the only mine likely to benefit from the new structure would be Driefontein, SA's most profitable gold producer. He said that in the six months ended December 1992, Dries paid R147m in tax. Under the new system with the dividend tax, the mine would have paid R133m.

Simpson McKie analyst Peter Bahnemann said that as mines paid out all their bottom line profit in dividends, accepting the new company tax system would bring their tax rate to 55%, a rate they had not paid since recording super-profits in the early and mid-80s.

Dual tax system to encourage growth

BDay 18/3/93. (320)

LINDA ENSOR

CAPE TOWN — Company tax was reduced to 40% and a dual tax system including a 15% secondary tax on distributed profits of all non-mining companies falling under the Income Tax Act was introduced by Finance Minister Derek Keys in his Budget speech yesterday.

Gold mining companies which have their own tax formulas would be given the choice of applying the existing or the new system. They would have to exercise their choices on or before July 31, 1993, and this choice would then be binding.

Keys stressed that the dual tax rate would provide an important incentive to new and fast growing companies — the more a company exploited investment opportunities and financed itself, the lower its tax rate would be.

"A fast-growing company observing a 3:1 ratio of earnings to profit distribution can pay the same dividend as before and plough back more profits. Under the dual tax rate such a company would pay a de facto rate of 43%," Keys said.

The estimated loss of revenue from the reduction in the basic company tax rate would be neutralised by the secondary tax on companies (STC) and no loss for the exchequer should materialise in the 1993/94 fiscal year.

Thereafter the state would benefit from the termination of Section 37E concessions in September and from the stimulus the lower tax rate would have on industrial development.

Keys said the tax on distributed profits could not be seen as a tax on shareholders as they would benefit from the lower company tax rate.

The 40% tax rate would be implemented on those companies whose financial year-ends fell within the period ending March 31, 1994. The 15% STC would be applied to any dividend declared on or after March 17, 1993, or which was declared before that date and was paid after that date.

However, dividends declared by listed companies before March 17 and payable after that date would not be subject to STC if the dividend declaration was made known publicly before March 17.

STC would normally be payable 30 days after the date on which the dividend was declared, or in the case of a dividend in specie within 30 days of the date on which the dividend is delivered to the shareholder.

As an implementation measure the first payment of the STC would fall due on July 31 and would cover distributions paid between or declared between March 17 and July 1, even though liability for the tax might arise earlier.

Keys said double taxation would be avoided by giving credit to companies for profit distributions that had already borne the 15% tax, and as a transition measure this credit would also be given for such revenue received since September 1, 1992, or any later distribution date.

Inland Revenue Commissioner Hannes Hattingh said yesterday the liability for STC would be determined independently from the liability for normal tax.

"It is therefore important to note that the fact that a company has no taxable income and is therefore not liable for normal tax because it is in a loss situation or for any other reason, does not affect the determination of the STC."

Estate duty income dips

BI DAY 18/3/93. B20

INCOME from estate duty fell by an average of over 20% per year in real terms between 1986 and 1992, according to the Finance Department's Budget Review which suggests legislative changes are likely.

A discussion document on this point was submitted to the Taxation Advisory Committee, which recommended investigating the possibility of combining the existing Estate Duty Act and the provision referring to tax on donations in the Income Tax Act.

Retrenched workers to get relief

ALAN FINE

FINANCE Minister Derek Keys yesterday announced a new system of tax relief for retrenched workers, but also indicated that large-scale retrenchments of public sector employees were in the offing.

He announced a "provision for possible retrenchment costs" of R300m. He did not elaborate on any retrenchment plans from the public sector.

Commission for Administration member Ian Robson said last night it was "logical that some provision for retrenchment costs must be made in terms of rationalisation and expenditure cutbacks".

A measure of what government may have in mind can be extrapolated from retrenchment costs in the private sector. Last year it cost Harmony gold mine about R30m to retrench 5 000 people, suggesting government could be looking at laying off tens of thousands of its employees.

Tax relief for retrenched workers announced by Keys provided that lump sum severance payments of up to R30 000 to employees laid off because of staff reductions or enterprise shutdowns would be introduced retroactive to March 1 1992.

The proposal originated with an agreement between the Chamber of Mines, the NUM and other mining unions. (320)

The relevant provision of the Income Tax Act previously applied only to men over the age of 55 and women older than 50.

Keys said the concession would cost R100m in lost revenue in 1993/94.

NUM assistant general secretary Marcel Golding last night welcomed the move. "It provides important relief for retrenched workers. It indicates the value of our negotiating process with the chamber on the issue, and it is good that he acknowledged the contribution of the chamber and the NUM. However, the concession is only part of a longer term programme of relief for retrenched workers which must also include such features as retraining."

18/3/93

Private entrepreneurs the focus of growth

Keys revamps corporate tax

B/DAY 18/3/93 (320)


● KEYS

SIMON WILLSON

CAPE TOWN — A two-tier corporate tax system to help new and emerging companies was the surprise feature in Finance Minister Derek Keys's deficit-cutting, R114bn debut Budget tabled in Parliament yesterday.

Presenting what he termed "a structurally sound Budget that is going to bear fruit in the medium term", Keys raised the VAT rate to 14%, increased duties on petrol, alcoholic beverages and tobacco and left individual tax bands unadjusted for inflation.

But he also cut the corporate tax rate from 48% to 40% at a stroke, offsetting the revenue lost through the tax reduction by simultaneously introducing a 15% tax on distributed company profits.

The novel secondary tax on companies (STC) is to be levied on public and private companies and close corporations at 15% on dividends payable from today, and is designed to make the corporate tax rate cut revenue-neutral to the exchequer.

STC succeeds Section 37E accelerated depreciation as an investment incentive for companies. The 37E scheme is to be allowed to expire in September this year.

An 8,8% nominal increase in state spending to R114,2bn is projected, although this rises to 12,5% if drought aid in 1992/93 is excluded and to 13,9% — according to the DP — if assessed on a wholly ex-drought basis, thus strictly dashing expectations of a cut in real government spending in the coming fiscal year.

Set against a projected 16,5% increase in revenue to R88,9bn, yesterday's package yields a 1993/94 Budget deficit of R25,3bn or 6,8% of GDP compared with the previous year's record deficit of 8,6% of GDP.

Keys said a 13% VAT rate would have met his revenue requirements, and the extra percentage point had been added to the rate to pay for the extension of zero rating to cover basic foodstuffs. The higher VAT rate would add two points to inflation for a year, although the downtrend in consumer price increases would reduce the overall inflationary impact.

The increase in VAT was expected to yield a net R5,1bn for the Exchequer in 1993/94, after allowing for a revenue loss of R1,9bn from all zero ratings.

By leaving personal tax thresholds unchanged for another year, the Exchequer would automatically rake in around R2,5bn in fiscal drag as inflation pushed earners into higher tax brackets. The unchanged tax structure would yield a total of around R6,5bn in 1993/94.

Tax changes had been focused on indirect taxes and would generate a further R6bn in revenue. Besides the higher VAT rate, the Budget raised fuel tax by 6c/l on all octanes and added 2c to the price of a dumpy of beer, 38c to a bottle of spirits, 2c/l to soft drinks and 2,5c to 10 cigarettes.

Additional increases to the petrol price to compensate for the depreciation of the rand, higher transport costs and payments to the Motor Vehicle Accidents Fund meant a total increase of 15c/l to 97 octane fuel at the coast and 16c/l inland, according to a statement by Energy Affairs Minister George Bartlett.

The higher duties on drink and tobacco were expected to generate R320m in the coming fiscal year. The higher petrol and diesel levies would produce R740m in additional revenue.

Keys said government would keep its promise to propose full pensions parity in the coming fiscal year. Social assistance allowances would be adjusted in two stages: a general increase of 7,5% in July, costing R520m, and full equalisation in September costing R690m.

Education and the various law and order departments were allocated substantial spending increases. The education vote is up a nominal 19,2% at R22,7bn, which excludes the 1993/94 salary increase for teachers and is intended to be the spring-

☐ To Page 2

BUDGET 1993

Keys

B/DAY 18/3/93. (320)

☐ From Page 1

board for the education renewal strategy announced earlier this year.

Justice Department spending is slated to rise 24,1% to cover commitments associated with the national peace accord. Correctional Services' budget is slated to rise 17,6%, and that of police by 14,3%. Defence spending is to be cut in cash terms in 1993/94 when its allocation will be trimmed by 3,8% to R9,4bn.

Explaining the origins of STC, Keys said no further proof was needed that the main source of growth was private entrepreneurs, great and small. Most of SA's entrepreneurs were companies and they needed a favourable climate, of which the tax rate was a crucial element.

"Various special tax concessions relating to companies have been phased out over the past few years, whereby the effective tax rate has risen, but the nominal rate has been reduced only from 50% to 48% — still too high in a global economy into which SA is becoming increasingly integrated and in which the tax trend is clearly downwards."

The dual corporate tax rate should prove an important incentive for the new and fast-growing company. The more it exploited investment opportunities and financed itself, the lower its tax rate would be. Such investment was not only important for job creation but also served to stimulate domestic demand.

The Budget's greater help for emerging companies through STC is accompanied by a substantial increase in provision for small business development. A total of R112,6m is to be made available to small business through the national economic forum, the Small Business Development Corporation and the Development Bank of Southern Africa — over 500% more than was provided in fiscal 1992/93.

A total of R1,7bn would be provided for housing in 1993/94 but funding would be conditional on "satisfactory co-operation" between government departments and the various non-governmental agencies and organisations in the housing field.

Keys gave lower income homebuyers a tax break by raising the bottom transfer duty thresholds for houses and unimproved land. He raised duty at higher thresholds to bring in an extra R69m in 1993/94.

NEWS IN BRIEF

Double tax agreements made

(320)

DRAFT double taxation agreements had been initiated by SA with France, Hungary, Namibia, Poland, the Republic of China and Rumania, Finance Minister Derek Keys said in his Budget Review.

Keys added that negotiations were also taking place with Lesotho, Mauritius and the Russian Federation.

6 10 (m) 18/3/93

SA's greater international acceptance had also paved the way for more active involvement by the World Bank and the International Monetary Fund.

Four-fund approach for life offices to be promulgated

B/DAY 18/3/93 (320)

LINDA ENSOR

CAPE TOWN — Legislation to give effect to the four-fund approach to the taxation of life offices would be promulgated during the current parliamentary session, Finance Minister Derek Keys said in his Budget Review.

The date for implementing the new scheme would be determined after consultation with life assurers.

Also to be introduced in the session was an amendment to the Insurance Act introducing new conditions for life policies.

Keys said the Sixth Schedule to the Income Tax Act which prescribed the kind of business assurers might conduct might be replaced by simplified provisions under the Insurance Act once the four-fund tax system had been implemented.

"Provided new policies issued in the interim comply (with the new conditions) it should be possible to also scrap the Sixth Schedule in relation to existing non-standard policies," Keys said.

In terms of the four-fund approach, assurers would be taxed on income received from policyholders under the trustee principle as if it were income in the hands of policyholders. Non-policyholder income would be taxed on company tax principles.

Keys said the four-fund approach would require the compartmentalisation of assurers's assets into tax-exempt retirement funds, policyholders' funds, corporate funds taxed at the company tax rate and a fourth fund for the balance of the assurer's assets, to be taxed at the corporate rate.

□ Our political staff reports that Keys announced that all social pensioners would receive an increase of about 7,5% from July 1. This applied to other social allowances and would cost the state R521,5m.

The equalisation of pensions will take place on September 1, and will cost R694,1.

Keys said that although inflation had fallen greatly, it continued to erode the purchasing power of pensions. An increase in civil pensions was therefore required. These would be raised by 5% from July 1.

This applied to civil pensioners whose last working day was July 1 1992. Those retiring between this date and July 1 1993, would have their pensions raised by 0,42% for each month since retirement.

With regard to military pensions, Keys said a backlog had to be made up and these pensions would be increased by 9%.

□ Sapa reports that the provisional tax threshold for some people older than 65 would be raised from the start of the 1994 tax year, Keys said.

He said some individuals older than 65 were now exempt from paying provisional tax if their annual taxable income did not exceed R25 000 and consisted exclusively of remuneration, interest or rent from the lease of fixed property.

Since the tax threshold for married people older than 65 had already reached R24 881 for the 1993 tax year, it was proposed that the exemption threshold be raised from R25 000 to R35 000. This should mean that from the start of the 1994 tax year, a smaller number of the elderly in the lower income brackets would need to make provisional tax payments.

centage points on VAT will hurt the most — and the impact will be immediate. Living standards will plunge

such assurances have been given in the past...

This time, however, business-sector observers are op-

ular would have a ripple effect on all commodity prices.

Syfrets economist Elmien

welcomed the measures to promote growth and discipline as well as the incentives for job creation.

Star 18/3/93

Consumers bear the brunt

By Peter Fabricius and Sven Lünsche

CAPE TOWN — Consumers will bear the brunt of Finance Minister Derek Keys's bad-news R114 billion Budget, with a 40 percent increase in VAT and a 16c/l rise in the petrol price.

Keys squeezed drinkers and smokers with a wide range of increased excise duties, ranging from 4,8c a litre on beer to 2,45c more for 10 cigarettes.

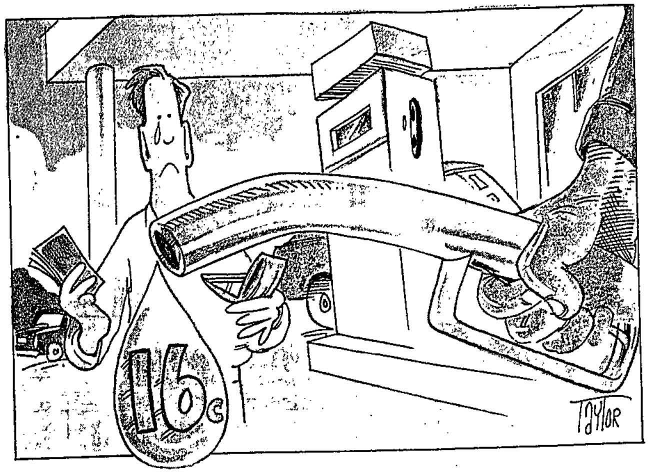
But he offered some relief to the very poor, with full social pension parity among different races, and announced a number of job-creation and other welfare benefits.

His increase in the VAT rate from 10 to 14 percent provoked an outcry.

The new rate will net the Government an extra R7,5 billion, to bring total VAT income to R24,9 billion in the 1993/94 fiscal year.

Although personal income tax rates were not increased, individual taxpayers will make an even larger contribution because of fiscal drag — adding another 15,5 percent to bring their contribution to R37,6 billion.

Companies were given some relief with a reduction in the corporate tax rate from 48 to 40 percent. But this was coupled to a new tax of 15 percent on dividends and other income distribution.



For motorists . . . petrol price is going up 16c a litre on regular and premium.

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The increases in excise duties on alcohol and cigarettes included:

- An extra 37,7c on a 750 ml bottle of spirits.
- An extra 4c per 750 ml of fortified and unfortified wines.
- An extra 1c a litre on sorghum beer.

And the defence budget fell even in nominal terms by 4 percent — part of a general reduction in spending on protection services from 22 percent of last year's Budget to 18 percent of this one.

Main items of social spending are:

- Education: R22,7 billion, up 19,2 percent on last year.
- Housing: R1,6 billion, up 27 percent.
- Health: R11,07 billion, up 10,9 percent.
- Social security and welfare: R10,6 billion, up 5,7 percent.

Keys kept the overall Budget increase to 8,8 percent above last year's spending of R104,9 billion.

Social pensions of different races are to be equalised by September 1.

White pensions will go up from R345 a month to about R370 in July, coloured and Indian pensions will rise from R318 to about R342 and black pensions from R293 to R315.

By September 1, all pensions will be raised to the white level of about R370.

- More Reports - Pages 2, 6, 7, 18 and 21

Company tax cut, but shareholders will pay

Star 18/3/93

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By Derek Tommey

The dual company tax system announced in yesterday's Budget was an interesting development and could well be a very productive innovation, Marius van Blerck, Anglo American group tax consultant, said last night.

The system is aimed at stimulating new investment.

Finance Minister Derek Keys said the present company tax rate of 48 percent was to be reduced to 40 percent.

However, to offset the resultant loss of taxable income from this measure, a 15 percent tax will be levied at source on all dividends paid.

Van Blerck said that the tax cut in itself would give companies more funds to reinvest. And more funds — both from company resources and reduced tax payments — would become available for investment if shareholders accepted smaller lower dividends.

Roy Andersen, chairman of the Johannesburg Stock Exchange, said Keys had done a good job in difficult circumstances. But he added that the JSE was disappointed the market securities tax had not been abolished, as promised.

He said the new dual tax structure would help growing companies. But it would probably deter certain companies from paying dividends.

This might result in investors switching to fixed-interest securities in the corporate bond market.

Keys said the dual rate should prove an important incentive for the new and fast growing company.

The more a company exploited investment opportunities and financed itself, the lower its tax rate would be.

Job-creation

"Such investment is not only important from a job-creation perspective, but can also serve to stimulate domestic demand."

The tax rate would be cut to 40 percent on taxable income for the years of assessment ending on or after April 1 1993.

A company tax of 15 percent would be levied on all profits distributed by companies from March 17, except for those distributions declared by listed companies before this date, but payable only subsequently. This declaration should have been made public.

Keys said the tax on distributed profits would apply irrespective of the recipient.

The tax is in no way a tax on shareholders, inasmuch as the lower rate of 40 percent on taxable income enhances any company's ability to distribute more profits.

"A fast-growing company observing a 3:1 ratio of earnings to profit distribution can pay the same dividend as before and plough back more profits."

Under the dual tax rate such a company would pay a de facto rate of 43 percent.

Keys said the proposed dual company tax system would also apply to mining companies. Gold mines would have a choice between the existing and the new system to ensure that this important sector, with its own tax formulae, was not disadvantaged in any way.

Marginal mines whose profits are less than 5 percent of revenue do not pay tax, but can pay dividends.

The new system would mean that they would have to pay tax on their dividends, so they are better off as they are.

The tax rate on gold mines which adopt the dual tax system and pay tax on their dividends will drop from 58 prcent to 49 percent.

The Budget also benefits non-gold mining companies as their tax rate drops from 49,44 percent to 40 percent.

He pointed out that within the company sector, double tax would be avoided by giving credit to companies for profit distributions that attracted the 15 percent tax.

As a transition measure, this credit would also be given for similar revenue received since September 1 1992 or any later distribution date.

The first payment of the tax on distributed profits would fall due on July 31 and would cover distributions that became payable between March 17 and July 1 this year. Thereafter the tax would be payable within 30 days.

Keys said he assumed that offshore companies would now find SA a better tax proposition too.

"Indeed, this measure reinforces the incentive already available for foreign companies to reduce their tax liability through loan financing and the resultant tax-free interest.

"The new tax dispensation also meets the important criterion of non-selective tax treatment of domestic and offshore companies."

More tax applied to car allowances

Star 18/3/93

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By Leigh Hassall

Employees with travel allowances structured into their salary packages will take home less pay after yesterday's Budget.

A greater portion of the monthly allowance, 35 percent as opposed to 28 percent previously, will now attract the Paye withholding tax.

Peter Todd, tax manager at Arthur Andersen, says: "This is not a significant change for taxpayers; it is merely an advance form of tax. If the taxpayer is entitled to the claim, he will still be able to deduct the full amount in his income tax return."

On the question of whether the higher withholding portion will influence the ongoing debate between a company car or travel allowance, Todd says it will have no real effect.

He adds that the fundamental differences between the alternatives remain and the decision should rest on personal circumstances.

Chris Moerdyk of BMW says the announced change should boost car sales at the top end of the market as it provides an incentive for the full amount of the employee's car allowance to be used in buying a new car.

Gold price seen rallying to stabilise at $340 an ounce

Star 18/3/93

By Neil Behrmann

LONDON — Gold prices are forming a base and the price could rally to $340, according to Morgan Guaranty Trust, one of the leading players in the bullion market.

Morgan says that for the present, gold prices remain locked in a narrow trading range of $327 to $332.

"At levels below $330, the gold price is very well supported by exceptional physical demand from the jewellery industry and from private investors in the Far East, notably China, India and Vietnam."

On the other hand, when prices rise to $331 to $332, producers hedge their production by selling forward.

Moreover, Northern Hemisphere investment, which was noticeable in January, has almost totally disappeared because rumours of further central bank selling persist.

Despite that, gold prices have remained in a narrow range for some time and the volumes traded have been unusually large.

Considering that gold has failed to slide in the face of this volume, Morgan believes the price is bottoming out.

A modest rebound to $340 is a distinct possibility, Morgan says.

This relatively optimistic view assumes there will be limited central bank sales.

But according to informed European bullion sources, the 400-ton Bank of Netherlands sale went both to the Peoples' Bank of China and the Singapore Monetary Authority.

So any Northern Hemisphere central bank sales may be absorbed off the market by Far East monetary authorities.

Most market participants, however, are expecting only sporadic rallies, rather than a strong bull market.

The best hope is the Far East.

Nevertheless, gold analysts Andrew Smith of Union Bank of Switzerland and Ted Arnold of Merrill Lynch caution that Far East buyers are price-sensitive.

A price change of about 10 percent might reduce or increase Far East imports by 400 tons from the current level of 900 tons, Smith estimates.

He forecasts gold will fall to $310 in the second quarter before reviving to $340 towards the end of the year.

Arnold's trading range is $315 to $350. He says the market has been bolstered by purchases of 24-carat Chuk Kam jewellery by Chinese people in China itself, Taiwan, Hong Kong and Singapore.

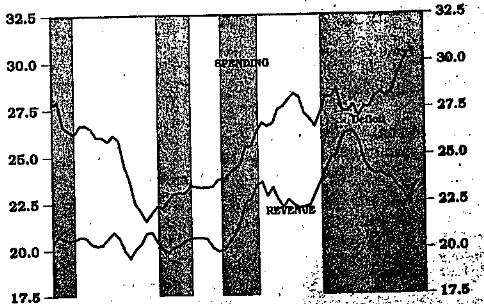
This jewellery sells at a mark-up of 2 percent to 4 percent above the London fixing price, in stark contrast to the 200 percent to 300 percent mark-ups on jewellery in Europe and North America.

Chuk Kam jewellery is viewed by the Chinese as both a luxury and an investment.

If the gold price were to rise sharply, much of this gold would come back to the market, according to European and Asian dealers.

Most Asian dealers are prepared to buy back this gold at a 2 percent discount to the London price, so Far Eastern investors would be happy to take profits.

"One Swiss refiner we know, estimates that a 10 percent price rise from current levels would reduce Asian and Middle Eastern investment jewellery demand by 30 to 40 percent," Arnold says.



Public finance as percentage of GDP and recessions shaded

Keys steers a stringent course

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Star 18/3/93

By Sven Lünsche

CAPE TOWN — Finance Minister Derek Keys has put the Government firmly on the course of greater financial stringency.

This is most visible in a small but significant reduction in the deficit before borrowing from 8,6 percent of GDP in 1992/3 to 6,8 percent in the current fiscal year.

At the same time, Keys has taken the first steps in achieving the targets he set in his recently released Normative Economic Model (NEM).

The Budget should also receive a cautious welcome from the Reserve Bank, which has been calling for conservative measures as a pre-condition for a further loosening of monetary policy.

The total expected expenditure of R114,15 billion for 1993/4 is 8,8 percent above the revised estimate of R104,9 billion in 1992/3.

Assuming an inflation rate of about 10 percent for the period, it indicates a real decline of 1,2 percent in government spending.

While this is below Keys's stated target of a three percent decline in state spending, the burgeoning demands of social services made a larger cut impossible.

Social services — education, housing, health and social security — account for R56 billion of total budgeted spending, more than offsetting the declining share taken up by protection services.

Income from taxes is budgeted to rise from R75,2 billion in 1992/3 to R88,2 billion this year, a rise of 17,3percent.

The increase will largely be derived from two sources — individual income tax and VAT.

Following the rise in VAT from 10 to 14 percent and including the previously announced exemptions, income from VAT is budgeted to rise from R17,4 billion to R24,9 billion.

Income tax revenue is set to increase by 15,5 percent to R37,6 billion from R32,6 billion.

The resulting deficit before borrowing of R26 billion is economically sensible as a larger deficit would have raised even further the share of government spending devoted to interest payments, which are already high at 17,4 percent in 1993/4.

On the other hand, a larger cut in the deficit would have entailed further tax hikes or slashing government spending, which the economy cannot afford, given its fragile state.

Nevertheless, this is a medicine Keys will have to administer over the next few years.

Government dissaving — the excess of current government spending over current revenue — weakened last year and could decline further as salaries of civil servants are budgeted to rise by 11,8 percent this year.

However, in other areas of state spending the Minister has set the tone for the future. The current expenditure component of the Budget is budeted to rise by a mere 6,5 percent in 1993/4 and capital spending by 23,9 percent.

Star 18/3/93

Cosatu, ANC slam increased VAT rate

By Mike Siluma

The Budget received mixed reaction from the Congress of SA Trade Unions and the ANC yesterday.

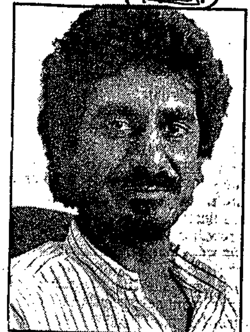
Cosatu said Minister of Finance Derek Keys's presentation contained both "regressive" and "progressive" measures.

The ANC said the Budget was a product of the National Party, drawn up with an eye on the proposed general elections.

Cosatu general-secretary Jay Naidoo deplored the increase in VAT from 10 to 14 percent, which would have "a major impact on South African society".

But the introduction "of a system of taxation which encouraged investment, growth and job creation" was welcomed.

"The Budget addresses only revenue collection and budgetary allocations to State departments, yet during the last 12 months there has been evidence of widespread corruption, inefficiency and mismanagement of public funds in the TBVC states and the rest of South Africa," said Naidoo.



Jay Naidoo . . . Budget both regressive and progressive.

"The fuel increase will be inflationary. We believe that the unilateral imposition of a 5 percent salary increase for public servants undermines collective bargaining and shifts the problems of deficit reduction on to workers in the public sector."

But Cosatu welcomed the exemption of taxation on retrenchment packages, as proposed by unions, and the attention to social services.

The ANC added: "The average citizen will find his disposable income further undermined by the effective increase in income tax as a result of continuing bracket creep. And the consumer will be able to buy less for his money because of the increase in the VAT rate and higher excise duties.

"There is no indication in the Budget that discipline goes beyond aggregate expenditure cuts. Poorly targeted and inefficient delivery of social services will, by and large, continue through wasteful apartheid structures."

It also called for the immediate equalisation of social pensions, rather than in September as proposed by the Government.

● The Pan Africanist Congress and the Azanian People's Organisation will issue their responses today, but both were critical of "an apartheid Budget" unilaterally decided upon by the Government.

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Star 18/3/93

Budget 'sends encouraging signals'

By Michael Chester

Though tax bills threaten to increase over the next 12 months and there is a risk of inflation — at least temporarily — returning to double digits, the Econometrix think-tank said the Budget had sent out "encouraging signals" about the longer-term economic outlook.

Econometrix director Dr Azar Jammine estimated that individual taxpayers faced an increase in collections from R31,3 billion to about R36,2 billion.

While actual rates had not been increased, heavier income tax demands were inevitable as inflation pushed taxpayers into higher marginal brackets — deeper into the fiscal drag syndrome.

Government income from VAT, with the rate lifted from 10 percent to 14 percent, would climb to about R23,5 billion.

However, the Budget had been correct in bringing direct and indirect taxation into better balance.

Jammine, who has sounded repeated warnings about growing government debts and the dangers of State overspending on bureaucracy, applauded moves to check the sharpness of increases in the budget deficit — leaving room for more government investment in productive resources.

The new dual system on company taxes should also encourage an increase in private-sector fixed investment, the main key to overall economic growth and job creation.

The Minister of Finance, in his first Budget, had shown a deep understanding of South Africa's economic problems and the route towards longer-term solutions.

"Most of the basic structural weaknesses in the economy have now been addressed," said Jammine.

"There are encouraging signals that we may well have set course towards the objectives of the new five-year economic model. At least we are striking off in the right direction.

"The increase in VAT and higher fuel prices may add a few notches to consumer prices and nudge inflation back into double digits as an immediate impact. However, it is possible that inflation will continue an overall downward trend by the end of the year — as long as tight discipline is maintained."

The Small Business Development Corporation welcomed new cash injections of R75 million, the bulk of a total of R112,6 million ploughed into development programmes to assist the launch of small enterprises.

"Countering unemployment remains a top priority," said an SBDC spokesman.

The Johannesburg Chamber of Commerce and Industry said the restructuring of the company tax system had sent business powerful new signals about a restart of the economic motors.

Star. 18/3/93

Some glad tidings for the retrenched taxpayer

By Leigh Hassall (320)

The Budget offers a glimmer of good news to those taxpayers who have lost their jobs through the vagaries of the recession in the past year.

In a proposal retrospective to March 1 1992, taxpayers will be allowed the first R30 000 of any lump sum payment from their employer as a taxfree amount.

This could turn into a saving of as much as R10 000, depending on the taxpayer's income level.

Previously, this deduction was limited to male taxpayers aged 55 years and over and female taxpayers aged 50 years and over.

In terms of the relevant section of the Income Tax Act, a taxpayer is only entitled to this taxfree amount if he or she receives the lump sum through the loss of office — usually retrenchment or the liquidation of the employer.

Beric Croome of accountants Kessel Feinstein says the proposed amendment is to be welcomed because it will provide relief to the many employees who have lost their jobs in the current recession.

He adds that the move is significant because it is indicative of the Minister taking heed of the representations made to him.

Croome says that taxpayers will be able to get a refund of taxes already paid on lump sums through the rendering of their annual returns.

Site taxpayers, who are not required to render returns, will have to await word from the Receiver.

Gerald Lambert of accountants Deloitte & Touche says that accrued leave pay and bonuses from the employer may be included in the taxfree portion of the lump sum.

Star 18/3/93

Smokers' tax 'too low'

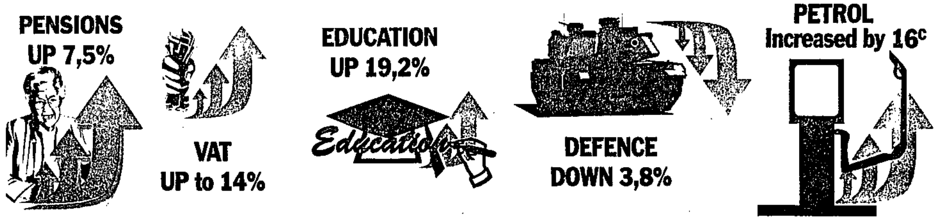
(8.1)

The Government's decision to increase tax on cigarettes by only 5c for 20 was a "pathetic response", according to the Medical Research Council's group executive, essential health research, Dr Derek Yach. (320)

"Our recommendation was that a R1 increase would have raised an estimated R1 billion in extra revenue, which is desperately needed for health and social services," he said.

South Africa had among the lowest excise tax for cigarettes in the world, he added. — Medical Reporter.

Bad news



(And little good news . . .)

Soweten
18/3/93
320

A VAT HIKE, INCREASES in fuel and excise duties on liquor and tobacco, a tiered company tax and pensions parity are the main features of the Budget presented by the finance minister yesterday.

"To be successful in an environment undergoing fundamental change requires that one should choose one's guiding principles with great care. "The two which have guided the construction of this Budget are the need for discipline and the need for growth," Finance Minister Derek Keys said.

The increase in VAT would yield an estimated R5 080 billion for the Exchequer after allowing for the R1,9 billion which will be forfeited in the zero ratings.

Increases in customs and excise duties on liquor and tobacco products, which come into effect immediately, will generate R320 million and additional revenue amounting to R740 million will be obtained from the increase in fuel levy.

Dual tax system

Mr Derek Keys said it was important that company tax be reduced and a means of doing this was by introducing a dual tax system, one part of the tax being levied on the taxable income and the other on distributed profits.

The present rate of 48 percent will be reduced to 40 percent while, at the same time, a tax of 15 percent on distribution profits will come into effect. Civil pensions will increase by 5 percent on July 1 for all civil pensioners who retired on or before July 1 1992 and on September 1 the final equalisation amount of all social allowances will take place to place pensioners of all races on parity. - *Sapa.*

The inside story . . .

The role of the Budget in a plunging economy See page 8

Thumbs down from the major political parties See page 9

Equal pénsions for all See page 17

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Star 18/3/93

Scrapping of Sixth Schedule welcomed

(320)

By Sven Lünsche

CAPE TOWN — The Sixth Schedule of the Income Tax Act will be scrapped in the current parliamentary session, paving the way for the life insurance industry to issue policies with no life cover and a minimum investment period of five years.

The move has been applauded as an improvement on the current system, which is an administrative nightmare.

Finance Minister Derek Keys said in his Budget speech yesterday the Sixth Schedule would be replaced with "simplified provisions under the Insurance Act".

Simultaneously, the Government would implement the "four-fund" approach to life assurers' taxation.

He said the four-fund approach would be introduced in such a way that tax income from insurers would, during the first two years, remain the same as under the current dispensation.

In terms of this approach, insurers' assets will be divided into four separate funds:

- Retirement funds of which the income will be exempt from tax.
- A fund for individually owned life policies, of which the income will be taxed at the rate of 30 percent, being the average marginal rate of tax paid by individuals.
- A fund for corporate life policies, of which the income will be taxed at the corporate rate.
- A fund representing the balance of the assets, to be taxed at the corporate tax rate.

The industry's umbrella body, the Life Offices Association (LOA), last week issued a code of conduct to its members outlining policies to be followed between now and the official scrapping of the Sixth Schedule.

Desmond Smith, newly appointed MD of Sanlam, has welcomed the four-fund approach and the scrapping of the Sixth Schedule of the Income Tax Act, "because it holds large benefits for the industry and policyowners".

"For the first time there is now a just and defensible tax basis for financial institutions. Thus the playing fields are also made equitable," he says.

Star 18 3 93 (320)

Some benefits seen in proposed dividend tax

By Stephen Cranston

The proposed 15 percent tax on dividends has been welcomed by tax attorney Professor Michael Katz who, as a member of the Margo Commission, recommended the abolition of dividend tax.

Katz says this is not a reintroduction of the old dividend tax because it used to be levied on taxpayers.

Instead, it would be paid by the company and represented a dual company tax, combined with the 40 percent standard company tax.

"The lower standard tax will encourage companies to get into new projects, without favouring either capital-intensive or labour-intensive projects.

"It will also reward those companies that retain a greater proportion of their earnings and encourage them to fund projects through retained earnings."

Katz says that foreign-controlled companies, which do not have to pay tax on interest earned, will be more likely to retain funds to earn interest, rather than taking money out in dividends, which would be liable to tax.

Katz says he was impressed by the tax neutrality of the Budget and that it involved a healthy change in the ratio of direct to indirect tax towards the latter.

The removal of the fiscal disincentive against unbundling was also beneficial as it would lead to the voluntary spin-offs of assets and more financial efficiency.

Malbak MD Grant Thomas says he expects that the legislation to allow unbundling would enable the delisting of the Malbak pyramid Malhold, which serves no purpose. It would also make the sale of Malbak by Gencor more likely.

Thomas says he is not excited by the dampening of consumer spending from increased VAT, petrol prices and excise taxes but welcomes the reduction in corporate tax which will enable the group to create more jobs.

Malbak itself was unlikely to unbundle itself of assets, however, as it traded at a premium to the market value of its underlying assets, unlike Gencor and the other mining houses which traded at a discount to their underlying assets.

Star 18/3/93

New tax office for big business

(320)

A new office of the Receiver of Revenue is to be established in Johannesburg to deal with corporate taxation, said Minister Keys. An extra R40 million had been set aside for this and other measures to improve tax collection. — Political Correspondent.

Assistance for retrenched

Sowetan 18/3/93 320

Sowetan Correspondent

■ **Back-dated exemption for pay-outs up to R30 000:**

HARD-PRESSED unemployed people who have lost their jobs through retrenchment are to get a tax exemption on lump-sum pay-outs of up to R30 000, back-dated to March last year.

Up to now this concession has applied only to men of 55 or women of 50 years old.

However, Finance Minister Mr Derek Keys said that, after negotiations with the Chamber of Mines, the National Union of Mineworkers and other trade unions, the Government had accepted that the R30 000 exemption be extended to all victims of retrenchment, irrespective of age.

Star 18/3/93

VAT ripple to push up local rates

CAPE TOWN — After coughing up more on VAT, fuel, and a range of taxed goods, municipal taxpayers can expect a rise in their local rates.

The chairman of Pretoria's management committee, Dr Pieter Smith, said in Cape Town yesterday that the increased VAT rate would be applicable to municipal services accounts.

The increases in the VAT rate and fuel prices were "not good news" for city councils throughout the country, he said.

The increased VAT rate would mean an additional expenditure of at least R12 million for Pretoria while the increased fuel price would add R1,5 million to the city's fuel bill. — Sapa.

Star 18/3/93

Personal income tax unadjusted

(320)

Personal income tax rates would not be adjusted, Finance Minister Mr Derek Keys said in the Budget yesterday.

"The fiscal position is unfortunately such as to preclude any adjustment to personal tax rates this year.

"Once economic growth is on course and state expenditure more firmly contained, progress can be made in reducing this tax. — Sapa.

Pay rises mean tax increases

(148) (320)

Staff Reporter

ALTHOUGH individual income taxes and rebates remained unchanged in the 1993/94 tax year, the man in the street will be forced into a higher tax bracket by rising salaries.

In this regard, economists pointed out yesterday that the private sector was likely to follow the benchmark set in the public sector of a five percent increase in salaries in 1993. CT 18/3/93

Fringe benefits tax has one addition, with the lifting of the tax on travel allowances from 25% to a higher 35% of the full allowance.

Spending spree

Consumer rush to beat April 7 rise in VAT expected

32D ARGT 18/3/93

BRUCE CAMERON
Business Staff

HARD-PRESSED consumers hit by a range of tax, tariff and levy increases in the Budget are expected to go on a 20-day spending spree to beat the April 7 deadline for the rise in VAT to 14 percent.

Retailers are expecting the splurge to be followed by the harshest trading conditions since the start of the recession more than four years ago as inflation pushes back into double digits and the wide range of increases start to bite into the pockets of the person in the street.

Apart from the VAT increase, fuel prices have gone up by 10 percent and duties have been increased on a range of consumer products, particularly alcohol and tobacco, while the effect of inflation on individual tax brackets will quietly take more than R5 billion out of taxpayers' pockets.

In all, Finance Minister Mr Derek Keys will get more than R13 billion extra from consumers this year, substantially reducing disposable income.

The surprise increase of VAT to 14 percent was defended by Mr Keys in an interview as necessary to meet the zero-rating on a range of basic commodities.

A rumpus erupted today over the full effect of the additional taxes the government is snatching from consumers with the Department of Finance insisting that the effect will be to push up inflation, running at 9,7 percent a year, by two percent.

Economists were predicting rises of up to three percent today but Finance Director-General Mr Gerhard Croeser stuck to his two percent prediction.

"People are forgetting government expenditure has been curtailed. In the eyes of some people, this could be deflationary."

Reaction to the Budget has ranged from compliments for it being "visionary" to brickbats for the way it hits the consumer as well as claims that it does not sufficiently meet the demands of the poor.

Most economists appeared to be in agreement that the short-term effect of the Budget would be tough on the consumer and the retail industry but in the longer term it would boost growth and job creation.

The African National Congress, although sympathetic to the problems faced by Mr Keys, was highly critical of what it saw as the Budget's failure to tackle the needs of the underprivileged with a cohesive, all-embracing development plan.

There was confusion over the effect of the new company taxing system today and the impact it would have on the Johannesburg Stock Exchange. The new system reduces company tax from 48 percent to 40 percent while imposing a new dividend tax of 15 percent deducted at source.

Mr Keys expected the new system to bring in about the same amount of overall tax but its main effect in his view was that it would help struggling and new companies and stimulate investment.

● See pages 8, 22 and 23

Hike in VAT, fuel 'big blow'

(320) CT 18/3/93

Staff Reporter

THE sharp hike in VAT and fuel prices was a "big blow" to consumers and could postpone the economic recovery, consumer and business organisations warned.

Housewive's League spokesman Ms Lyn Morris said consumers should check prices do not go up unnecessarily.

The increase in VAT and petrol prices would be a "big blow" to consumers, Pick 'n Pay chief Mr Raymond Ackerman said. The Budget was "too tough" he said, predicting a decrease in the sale of meat.

Shoprite Checkers marketing director Mr Brian Weyers slammed the "unreasonably high increase in VAT". Coupled with the petrol price hike, it would have a damaging ripple effect on prices, he warned.

OK group managing director Mr Mervyn Serebro said more foodstuffs should have been zero-rated.

Medical aid payments would increase and private health care would become even more difficult to obtain, a spokesmen for the Representative Association of Medical Schemes, Mr Rob Speedie, said yesterday.

Mr Leslie Howard of Bergvliet, who spends a large portion of his pension on medical bills, called the increases "immoral".

Concerned business groups have predicted the increases will postpone the economic recovery.

People will have less purchasing power which "will exacerbate present harsh trading conditions", South African Chamber of Business spokesman Dr Ben van Rensburg said.

The Cape Town Chamber of Business said it would have a direct effect on consumer spending.

The National Association of Automobile Manufacturers said the VAT increase was higher than expected.

"It will inevitably result in higher inflation, lower growth and ultimately lower levels of new vehicle sales," warned president Mr Bert Wessels.

The VAT rate hike could lead to a wave of sales before April 7, he said.

"However, this would be followed by an inevitable slump."

How VAT will hit your pocket

WHAT the VAT hike means for consumers in Rands.

ITEM	PRICE EXCL VAT	10% VAT	14%VAT	DIFF
1) Toyota Corolla sedan 1600 GL	R39 817	R44 242	R45 391	R1 149
2) Mercedes 200E	R125 887	R139 875	R143 511	R3 636
3) Colour TV	R1 169	R1 299	R1 332	R33,60
4) Fridge/freezer	R1 439	R1 599	R1 640	R41,47
5) Double bed	R1 349	R1 499	R1 537	R38,80
6) Newly built house	R148 500	R163 350	R169 290	R5 940
7) Telephone account	R100	R110	R114	R4
8) Electricity account	R100	R110	R114	R4
9) Mens' jeans	R62,99	R69,99	R71,80	R1,81
10) Mens' leather shoes	R107	R119	R121,9	R2,90
11) Mens' work shirt	R31,49	R34,99	R35,89	90c
12) Long-sleeved blouse	R56,69	R62,99	R64,62	R1,63
13) Scotch whisky	R30,58	R33,98	R34,86	88c
14) Six beers.	R9,62	R10,69	R10,96	27c
15) Compact Disc	R63	R70	R71,80	R1,82
16) Doctor consultation	R45	R50	R51,30	R1,30
17) Disprin	R13	R14,45	R14,80	35c
18) Movie ticket	R7,2	R8,00	R8,20	20c
19) Paint 25 litres.	R188,9.	R209,99	R215,34	R5,40
20) SAA economy air ticket C Town to JHB std fare	R918	R1 020	R1 046	R26,50

SA initiates double tax agreements

4KR (320)
CT 18/3/93

Political Staff

DRAFT double taxation agreements had been initiated by South Africa with France, Hungary, Namibia, Poland, China and Rumania, Finance Minister Mr Derek Keys said.

He said negotiations were also taking place with Lesotho, Mauritius and Russia.

South Africa's greater international acceptance had also paved the way for more active involvement by the World Bank and the International Monetary Fund.

Mr Keys said a request for IMF assistance for drought aid would be considered should the level of South Africa's foreign reserves become a cause for concern.

Improved international relations had also helped combat fraud and smuggling as officials had greater access to other countries and more assistance from other Customs & Excise administrations.

Rates will rise

CT 18/3/93

MUNICIPAL taxpayers can expect a hike in municipal rates. (320)

The chairman of Pretoria's management committee Dr Pieter Smith said yesterday the increased VAT rate would be applicable to municipal services accounts. — Sapa

VAT: Date rules still to be set out

CT 18/3/93 By LINDA ENSOR (320)

THE increase in VAT to 14% from April 7 would require legislation defining the circumstances in which the existing 10% rate or the new rate would be applicable to transactions concluded between yesterday, when the new rate was announced, and April 6.

This was announced yesterday by Inland Revenue Commissioner Mr Hannes Hattingh.

Under existing VAT legislation, VAT becomes payable on the date of supply, which is the date the invoice was issued or payment made — whichever is the earlier.

Mr Hattingh said the legislation would be designed to ensure that a supply of goods or services was taxed at the existing rate where the goods were provided or the services performed before April 7. This would be the case even though the time of supply might technically fall on or after April 7.

● Anglo American Property Services (Ampros) said yesterday it would absorb the four percent increase in VAT on all residential land sales countrywide until the end of June.

● Hike in VAT, fuel 'big blow' — Page 8

FM 19/3/93 (320) [redacted]

"Keys is trying to get growth and investment going, and I think he's doing it imaginatively. His example of a company paying the full tax rate with dividends covered three times shows that, under the revised structure, earnings will increase by 10%.

"Companies now paying a much lower effective tax rate and generously distributing dividends will be adversely affected, but I don't know if that's a bad thing."

Jesse believes that overall the Budget could have a mildly stimulative effect on the market, with the possible exception of consumer stocks — where p:e ratios often exceed 20 — because of the implications for consumer spending. If so, shares most vulnerable are those in the food, retail and durables sectors.

Liberty Asset Management chairman Roy McAlpine feels most parts of the Budget were expected and discounted, the exception being corporate tax. "The new structure will have different ramifications for different companies; the 15% tax on distributable income could be a shock for some. But I don't expect a material effect on the market."

Frankel Pollak Vinderine CE Sidney Frankel finds the Budget well constructed. He believes the cut in corporate tax rate gives encouragement to companies, while the tax on distributable profits should not have a dramatic effect on investors.

"It should not really affect shareholders because of companies' ability to increase earnings. Overall I think that, in the context of Keys's five-year plan, it's the best Budget we could expect."

Effects of the new tax structure on corporate profits will be influenced by companies' present effective tax rates, the amount of

FM 19/3/93 (320) [redacted]

dividend paid and the dividend cover. Though most are expected to benefit, those which already have very low effective tax rates could be faced with unexpected additional demands on cash flow.

An obvious possible casualty is Sappi, which last year had a tax rate of 1% and a tax charge of R3,2m, but paid a dividend of R225,4m. Iscor's tax rate was 0,1% and its tax charge R3,3m; it paid a dividend of R112,1m. Highveld Steel's tax rate was 4,8% and its tax charge was R39,8m; it paid a dividend of R39,8m.

On the other hand, many companies have been paying high tax rates while distributing a limited proportion of earnings. These could enjoy significant improvements in cash flow.

Anglovaal Industries (AVI) had a tax charge last year of about R290m, an effective rate of some 43% on the R681m pre-tax profit. A rate of, say, 35%, could reduce the tax charge by around R52m. AVI maintains a high dividend cover (5,2 times last year), so tax at 15% of the R52,4m ordinary dividend would have been only about R8m.

Plate Glass last year posted pre-tax profit of about R217m, on which it paid tax of about R100m, at 47%. If this rate were dropped to, say, 39%, an additional R18m would have been retained. The 15% tax it would have incurred on the R34,2m dividends would be about R5m.

There was some disappointment in the market that there is still no further progress in phasing out MST, as some had expected it might be cut from 1% to 0,5%, for example.

The announcement that legislation will be introduced to assist unbundling, including a qualified exemption from stamp duties on share transfers by listed companies, is seen as one more step towards restructuring corporate SA. But brokers note that the practical steps have yet to be taken. ■

JSE REACTION [redacted] [redacted]

Mild stimulation

320

FM 19/3/93

Stockbrokers and investment managers generally feel that the Budget contains no nasty shocks which could send the market into decline and, with some exceptions, the revised tax structure should benefit corporate profits and cash flow.

Martin's Richard Jesse agrees the Budget will dampen consumer spending but believes the cut in the corporate tax rate will favour rapidly expanding companies.

BUDGET

New tax plan still 'discriminates'

ANDREW KRUMM 320

THE planned new company tax dispensation will continue to discriminate against foreign owned companies in SA — despite Finance Minister Derek Keys's statement to the contrary in his Budget Review, sources say.

The reason, the sources add, is simple: the new dispensation does not do away with non-resident shareholders' tax (NRST) — a tax on dividends paid to foreign investors. NRST is applied at a rate of 15%. BDAY 19/3/93.

Deloitte & Touche tax partner Willem Cronje said the new dual tax system would be grafted on top of NRST, which obviously favoured domestic companies over foreign owned companies. "Fundamentally, this amounts to a continuation of selective tax treatment, and will tend to counter the benefit of the reduction in the tax rate to 40%," he said.

Meanwhile, Kessel Feinstein tax partner Ernest Mazansky said applying the new company tax dispensation on top of NRST did not mean that foreign companies would pay more tax than they were paying now. "Using the worst case scenario, foreign companies will still be slightly better off."

Under the proposed dispensation a foreign company distributing its entire taxed profit to its parent (the worst case scenario) faced a 55,66% nominal tax rate — still marginally better than the 55,8% rate under the old system.

Yet, should the foreign owned company declare less than its total taxed profit as a dividend, the benefits increased markedly, Mazansky said.

For example, a company distributing one-third of taxed profit, would face a nominal tax rate of 45,2% under the new system, against the 50,6% rate applicable under the old.

"It appears that the new dispensation will achieve what Keys intended. All companies, both foreign and local will be better off; more so if they do not distribute profits and go for growth," Mazansky said.

Revenue outmanoeuvres dividend tax dodgers

BDAY 19/3/93 (320)

LINDA ENSOR

CAPE TOWN — Private companies which attempted to preempt the introduction of a dividend tax in this week's Budget by declaring dividends in advance have been outmanoeuvred by the taxman.

Inland Revenue Commissioner Hannes Hattingh said in an interview at the Nedbank/Old Mutual Budget forum yesterday he had been aware that a large number of private companies had tried to avoid paying the anticipated tax by declaring dividends before the Budget. In some cases 100% dividends were declared and the funds then loaned back to the companies.

However, in terms of Hattingh's ruling on secondary tax on companies (STC), all dividends declared before March 17 and paid after that date would be subject to a 15% tax, except those of listed companies where the declaration had been publicised.

Hattingh conceded that companies with financial year-ends after April 1 when the new 40% company tax rate takes affect would benefit sooner than those with February year-ends. This advantage was unavoidable.

He said companies worst affected by STC would be those which did not pay tax — because of assessed losses or incentives — but which declared huge dividends.

Finance director-general Gerhard Croeser told the forum the 15% STC acted as a minimum tax on companies.

Hattingh said wide consultations would take place with business in compiling draft legislation for STC. No decision had been taken regarding scrip dividends, but in terms of the present definition of dividends in the Income Tax Act, they would be excluded from STC. However, Inland Revenue would "definitely be looking into this".

Old Mutual legal services manager Abri Meiring said the definition of dividends in the Income Tax Act covered loans to directors. This, he felt, would have to be retained to prevent the creation of a loophole.

Business has expressed concern about the possibility of double taxation of dividends passing up a pyramid structure but Hattingh said only the net dividend received less the dividend declared would be taxable. Credits would be allowed for taxes paid by subsidiaries.

Wooltru financial director Jon Lavis said clarity would have to be given to the declaration of dividends by a subsidiary where the parent company used the funds for investment. He felt such dividends should be untaxed.

Life assurers have been concerned that STC would favour proprietary companies — which would pay tax on dividends declared — over mutual life companies which do not declare dividends.

However, Old Mutual chief operating officer Gerhard van Niekerk said yesterday an initial study had indicated STC would be neutral towards life assurers. Proprietary companies would be able to obtain credits for dividends paid out of their corporate funds, whereas this would not be possible for mutual societies.

FILM SCHEMES

Rough justice

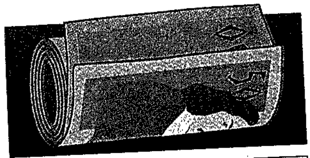
(320) FM 19/3/93

Keys plans to achieve rough justice in the great movie mess. As soon as the Appeal Court rules on the judgment of the Transvaal Income Tax Special Court, the Commissioner for Inland Revenue will put forward a formal offer of settlement to taxpayers who relied on movie schemes as a tax shelter.

Claims for deductions based on concessions to movie makers have given rise to numerous, often serious disputes. Some assessments have been delayed for years, giving rise to possible large claims for interest. It is believed the potential loss to Revenue, had all deductions been allowed, could have reached R2bn, plus a further cash-flow deficit caused by low provisional payments.

Underpayments of provisional tax have arisen because taxpayers based provisional payments on the assumption that they would be allowed deductions on a multiple basis, through the special incentives.

KPMG Aiken & Peat tax partner Patrick McGurk says it is widely expected the offer



SPENDING RISE

(Rbn)

Fiscal year	Budgeted spending	Actual spending	†Percent increase
93-94	114,15	—	8,8
92-93	100,68	104,88	21,4
91-92	84,98	86,39	15,6
90-91	72,93	74,73	14,7
89-90	65,02	65,18	16,5
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

FM 19/3/93 (320)

will allow a deduction only on a ~~one-to-one~~ basis — one rand for each rand invested. It seems it will include a waiver of interest on underpayment of provisional tax.

McGurk says taxpayers who believe they have a good case will retain the right to reject the offer and go to court. But if — eventually — they lose, they could face a large interest bill, which almost certainly won't be waived.

Deloitte & Touche tax manager Greg Boyd asks why action on movie-related assessments must wait for the judgment on *Jake Speed*, as this will be decided on its own facts. He points out that tens of thousands of movie-related assessments are outstanding. If only 10% reject a settlement and fight through the courts, the system will be clogged up for years. This points to the logic of settling everything through legislation.

The whole mess confirms the folly of introducing special incentives into a tax system for no objective economic advantage. ■

Company tax could aid growth

(480) (320)

By HILARY JOFFE

w/ucl 19/3 - 25/3/93

A RADICAL change in company tax was the major innovation of this week's Budget - and if it works, it may turn out to have been one of Finance Minister Derek Keys' smarter moves.

By reducing the company tax rate from 48 to 40 percent, Keys will delight the business community. But by introducing a new "dual tax system" for companies, Keys reckons he can maintain an unchanged company tax burden — and provide an incentive for companies to reinvest their profits, so contributing to growth and, he hopes, job creation.

To the traditional company income tax is added a Secondary Tax on Companies (STC) system. This essentially taxes profits if they are distributed as dividends to shareholders. Companies choosing to be generous with the dividends will pay for this in higher tax rates. Those preferring to retain plenty of profit to finance expansion will benefit.

Said Keys: "The dual tax rate should prove an important incentive for the new and fast growing company: the more a company exploits investment opportunities and finances itself, the lower will its tax rate be."

Keys has in a sense reintroduced the tax on dividends which was abolished in the 1990/91 Budget — but this time as a tax on companies rather than on individual shareholders.

Take a company with 1 000 shareholders earning R100 000 in taxable income: it pays R40 000 in income tax, leaving R60 000 or earnings per share of R60. If it then decides to pay a dividend of R20 per share (an earnings to dividend ratio of three is regarded as prudent) the company becomes liable for STC of R3 a share or R3 000 in total. That gives it a total tax rate (income tax plus STC) of 43 percent.

A board of directors choosing, instead, the path of "dividend stripping" — paying out all the profits to shareholders without reinvesting — takes the company's tax rate up to 48 percent.

Tax experts note that dividend stripping has been fairly common in the past couple of years, particularly in private companies where shareholders have taken advantage of tax-free dividend money.

Keys said loss of state revenue from cutting basic company tax rate would be neutralised in the 1993/94 fiscal year by STC collections. It's not precisely clear how the arithmetic will work but the key is probably in the difference between the accounts companies draw up for the receiver of revenue and for the shareholders. Very few companies actually pay tax at 48 percent — the average effective rate is far lower because of a variety of tax allowances and the like. A company could, for example, have accumulated an assessed tax loss in previous years and be paying no income tax but would now be in profit and paying dividends — so would be liable for STC.

Trading places ... Hard-pressed middle-class wage earners now have reason to envy the poor
Photo: GUY ADAMS

Cosatu chides and praises

W/Mail 19/3-25/3/93 (320)

By FERIAL HAFFAJEE

ITS response to the Budget was classic Congress of South African Trade Unions stuff — at once full of quotable quotes, fury and fuming but not without some praise for Finance Minister Derek Keys, one of its newest friends.

Perhaps Cosatu, like others, expected greater creativity from Keys, the first finance minister to enjoy at least a conciliatory relationship with the labour movement.

The sop the minister threw to labour last week (the Value-Added Tax zero-rating of basic foodstuffs) did not work.

The federation christened his day-old baby "an apartheid Budget drawn up by an illegal, unrepresentative white government".

Predictably, the sharp increase in the VAT rate raised the greatest ire. It would fall heavily on the poor, it was inflationary and would dampen any consumer confidence sending the recession into a flat spin, said Cosatu.

The petrol price increase was "unacceptable" after revelations of enormous graft in the Multilateral Motor Vehicle Fund.

Cosatu railed at Keys' general failure to do anything about corruption and mismanagement. And more specifically, it criticised the Budget's silence on calls for an independent tax audit and a tax commission.

"The minister missed his mark," said Cosatu general secretary Jay Naidoo. "The Budget lacks a clear development path and feeds into an enormous bureacracy that absorbs an enormous amount of money."

On the other hand, company tax cuts, job-creation plans and tax exemption on retrenchment packages won Keys some kudos.

'March' companies face hefty tax bill

Star 19/3/93

(320)

By Leigh Hassall

Companies whose financial years end in March are viewing the Budget proposals with alarm.

In addition to losing out on the lower tax rate they will also bear an extra 15 percent tax on their declared dividends.

The Budget proposals allow the new corporate tax rate of 40 percent (previously 48 percent) to be applied to financial years of assessment ending April 1 1993 or thereafter.

Companies with year-ends before this date will not benefit yet from the reduction in rate.

The Budget's proposed secondary tax on dividends (STC) adds insult to injury for March and February year-end companies.

Their dividends, which are declared after the year-end, will bear the 15 percent tax on dividends without the relief afforded by the lower tax rate.

The tax rate for some affected companies could be pushed as high as 55,8 percent compared with the new range from 40 percent to 47,8 percent depending on the extent of dividends declared.

Contrarily, companies with an April year-end will receive a windfall in that the lower corporate rate will be applied to a full year's taxable profits despite still being taxed on their dividends.

A spokesman from the Department of Inland Revenue says the issue of March year-end companies being taxed at the higher rate was not an oversight.

Transitional problem

This transitional problem had been identified "but with every change in the tax system all transitional problems cannot be addressed", he said.

The transitional measures offered by the STC implementation will afford some relief however, to investment holding companies.

Dividends received from September 1992 or even an earlier date of declaration can reduce the amount of STC payable on the current year's dividends.

March is a common year-end for companies and the list includes such as SAB and Anglo American.

Mark Bower, financial director of Edgars Stores, which is in the SAB stable, says: "The situation is inequitable; affected companies should not have to pay 48 percent tax on their income as well as the 15 percent tax on dividends."

While Finance Minister Keys' Budget corporate proposals have generally been lauded as innovative and brave a number of anomalies are emerging.

Willem Cronje of accountants Deloitte & Touche says: "The lower tax rate and installation of STC is an excellent development which is economically sound provided that there are no further attempts to tax dividends in the hands of the individual."

Cronje notes that the non resident shareholders tax on dividends was not abolished despite Keys saying he would like to level the playing fields between local and foreign investors.

Non residents currently pay a 15 percent withholding tax on dividends unless a Double Tax Agreement exists and a lesser amount is paid.

Cronje adds that companies paying dividends out of accummulated reserves will end up paying an effective tax rate in excess of 50 percent.

Ernest Mazansky of accountants Kessel Feinstein foresees that clarification is needed in limiting the cascading effect of the STC in a three or more tier company group.

He adds that in a two-tier group there is a specific relief provision to prevent the top company paying STC a second time on the dividends passing through it from the bottom company. It is not clear however whether the relief will continue to apply if there are higher companies in the chain.

Further clarification was needed on the definition of the term "dividends paid" in the implementation of the STC.

Mazansky queries whether reserves which had previously been converted to a loan account in a private company could now be attacked as a dividend when the loan is repaid, either in whole or in part, and argues that they should not be.

Budget /93

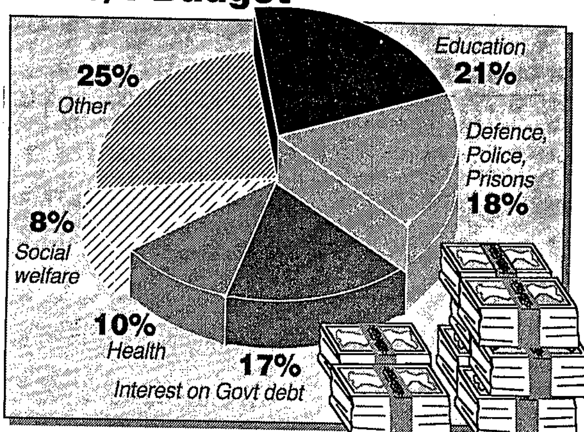
★ How your money is spent
★What the new figures mean
★ What could have been different

Bourgeoisie bears the burden

W/Mail 19/3- 25/3/93. (320)

Middle-class individuals are being squeezed by the government for the sake of future growth. But business has heaved a sigh of relief.
REG RUMNEY *reports*

1993/4 Budget



Key to Keys' plan ... Where the Budget money goes

TAXPAYERS might be puzzled by the first part of this year's Budget theme — "discipline and growth". They might be tempted to remember poet Roy Campbell's condemnation of some South African women novelists and say of Finance Minister Derek Keys' Budget: "He's got the snaffle and the curb alright — but where's the bloody horse?"

Indeed, Keys' business-like supply side Budget this week overtly favoured only the very poor and the corporate sector. The rest will have to wait for the longer-term benefits of discipline to come through, if they do.

For the hard-pressed individual salary earners of the middle class the Budget was bad news indeed. And in this sense it has hampered the economy's ability to grow this year, as personal consumption expenditure crumples further under the weight of a heavier tax burden.

For the biggest blows were the failure to adjust the individual tax tables for inflation in any way at all, and an increase in the Value Added Tax rate of four percentage points.

Relying on "fiscal drag" or "bracket creep", the phenomenon whereby inflation drags taxpayers into higher tax brackets merely by virtue of cost-of-living increases, will bring in around R5-billion or 15,5 percent more revenue in the 1993-94 fiscal year than in the 1992-93 year.

The increased VAT rate, despite zero rating, will garner almost R6-billion or 43 percent more than in the previous year. Without the big VAT increase income tax rates themselves would have had to go up quite a bit.

The so-called "sin" taxes on liquor and tobacco were also increased, but only slightly, for an increase in revenue of R320-million.

For the poor, the VAT increase was offset by previously announced zero-rating of a broader range of basic food.

Old age pensions will be increased by 7,5 percent on July 1. The effect of equalising pensions — presumably at the new "white" level of R371 — in September will then mean the amount African pensioners acutally receive, for example, will increase by 27 percent. It must be noted, however, this bonus will be delayed by six months.

While there are no obviously "demand-management" measures, these and other government hand-outs will maintain some consumption expenditure.

Keys has desisted from cracking down too hard on spending for fear of sinking the economy.

Also for the very poor, the much-criticised Nutrition Development Programme, renamed the National Nutrition and Social Development Programme, will get another R400-million.

Money will also be pumped into the economy through, for example, the additional R60-million provided for job creation, and the extra R200-million for housing.

Corporations at first glance did not get much of a Budget windfall. After all, the cut from 48 percent to 40 percent in company tax is designed to gain the same revenue. The loss will, says Keys, be made up by a tax on distributable profits. A company will only gain if it ploughs money back into the business and invests in productive capacity. And successful companies must pay dividends.

But if a company plays its cards right the change will be a boost. Econometrix chief economist Azar Jammine reckons that it might seem to favour medium-size companies, but even small companies whose owners are tempted to pay themselves more out of profits will find it more profitable to keep the money in the business.

That way they will pay 40 percent tax rather than the top marginal rate of 43 percent.

Other favourable implications for business of the Budget was what Keys omitted to do. Southern Life chief economist Mike Daly notes there was a sigh of relief when the Budget was presented. There had been talk of levies on life assurers, but instead Keys adopted the mild "four-fund" approach and even scrapped the somewhat restrictive Sixth Schedule to the Income Tax Act. This basically prevented life assurers from selling pure investment products without any life insurance thrown in, in competition with banks and building societies for short-term investment funds.

Daly says there had also been talk of a company loan levy. There had even been a suggestion Keys might introduce some levy or surcharge on high earners to finance abolishing bracket creep for lower income earners. Keys shied away from touching the income tax tables to cater for fiscal drag at all.

While not taxing business, the Budget gives around R2-billion to the General Export Incentive Scheme, whose efficacy has been questioned as a stimulus for exports. This is in line with the Normative Model, whose authors believe the scheme cannot be scrapped in the short term.

Whether one can separate the economic interests of individuals and companies is a moot point: companies employ individuals.

In any case an extra R15-million — of a total of R112,6-million — is voted for small business, which is an efficient job provider.

Also, the labour-intensive tourist industry has been given a boost through reducing the depreciation period for hotel refurbishment cost to five years from 20 years and an extra R25-million, of a total of R110-million, is provided for aid to tourism this fiscal year.

Nonetheless the Budget message for the taxpaying middle class is that for another year the struggle to maintain living standards continues.

Star 19/3/93

What the ANC wanted in the Budget

(320)

CAPE TOWN — An increase in value-added tax to 12 percent, enlarging the basket of zero-rated goods and a two percent reduction in the company tax rate were some of the alternatives African National Congress economist Tito Mboweni proposed to Finance Minister Derek Keys' Budget.

Responding to a question at the Old Mutual/Nedbank Budget Forum in Cape Town yesterday Mboweni said VAT, after its initial increase, would be raised over two to three years "to 15 percent but with a differentiated basket of commodities".

A multiple-rate system would be introduced, keeping VAT on essential goods lower and increasing the tax on luxury goods.

The company tax rate would be reduced from 48 percent to 46 percent, and not by eight percent as announced in the Budget.

However Mboweni said the direction of company tax rates would be downward over a number of years.

He said Keys's handling of the deficit to reduce it from 8,6 percent to 6,8 percent was commendable, but there was no clear mechanism to restrain government expenditure within the set R114 billion.

He was against raising government expenditure but there needed to be clear mechanisms for monitoring and ensuring that state spending remained within its Budget estimates.

"The problems which have bedevilled public finances are still there," he said.

In addition to setting up an independent fiscal commission to monitor state spending, Mboweni also proposed a different approach to the Budget.

The Budget would not focus on a single year of fiscal planning but would rather approach fiscal expenditure and revenue over a three or four year period.

This multi-year Budget would set the imperatives for yearly budgets and would also outline government's approach "so that people can see what my development strategy is," he said.

Mboweni believed this would create policy consistency and encourage business and investor confidence.— Sapa.

At the same seminar, reports Sven Lunsche, the Reserve Bank's senior deputy Governor, Jaap Meier described the budget as "mildly deflationary".

He said inflation could rise by up to two percentage points in the short-term following the rise in VAT to 14 percent and the 16c per litre increase in the petrol price.

"In the longer term, however, this Budget follows the monetary guidelines set by the Normative Economic Model and should be slightly deflationary," he said.

His analysis was supported by a number of economists who argued that the Budget would serve to suppress consumer spending over the next few months, thereby reducing demand inflation.

Despite the deflationary scenario, Meier indicated a further cut in interest rates was not on the cards.

"The recent sharp decline of the gold and foreign exchange reserves and the dwindling surplus on the balance of payments are a new constraint on our interest rate assessment," Meier said.

Keys' calculated risk on taxes

WMail 19/3 – 25/3/93.

(320)

By HILARY JOFFE

ANY Budget which raises taxes runs the risk that this will stifle economic growth and so limit the increase in total tax revenue.

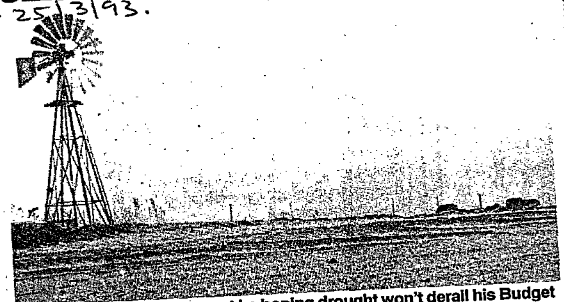
Finance Minister Derek Keys is taking a calculated risk in this week's Budget: he has to deal with the huge gap between government spending and revenue. But if his tax increases lead to "overkill" of the economy, the Budget deficit may turn out higher than the R25,3-billion he has estimated for 1993/94.

It's not that the Budget assumes a sparkling economic outlook: it forecasts growth in gross domestic product (GDP) for this year of 0-0,5 percent. The Budget estimates tax revenue will rise by 16,5 percent to R88,9-billion and government spending by 8,8 percent to R114-billion. The expected deficit should therefore drop to 6,8 percent of GDP, from the 8,4 percent represented by the 1992/93 deficit of around R28-billion. And budgeted capital (investment) spending, for which it's considered generally acceptable for governments to run into deficit and borrow, will be at least R7,5-billion, or two percent of GDP in 1993/94.

But the ballooning deficit for the fiscal year just past is in large part the result of over-optimistic economic growth estimates by the Budget drafters. This time last year, along with most private sector economists, they were expecting a GDP growth rate of around one percent for 1992. Instead, drought and slow growth in the international economy contributed to a GDP decline of 2,1 percent. As a result, government revenue was R10-billion below Budget and expenditure was inflated by R3,4-billion in drought aid to farmers.

Keys must be hoping that no droughts, floods or other unanticipated disasters derail his Budget.

And he has to hope that the increase of the VAT rate to 14 percent and rise in the personal tax burden because of fiscal drag will not cause the economic growth picture to be even worse than assumed.



Praying for rain ... Keys must be hoping drought won't derail his Budget

On the spending side, the government is aiming at cost savings of R5-billion over the next two years and so Keys' Budget estimates a real fall in central government expenditure of around two percent, taking into account inflation, which private-sector economists forecast at about 11 percent).

Defence spending by central government, for example, is to fall by two percent in money terms, while the police vote rises by 22,7 percent, education by 16,2 percent, health by 15,5 percent and social security and welfare by 22,2 percent. Interest on the government debt increases by 21,8 percent.

However, Keys chose to emphasise general government spending, giving gross expenditure figures which include the budgets of the TBVC territories, provincial administrations and self governing homelands. These show spending increasing by 7,6 percent to R127-billion.

Education is the largest single item on the general government budget, increasing by 12 percent to R27-billion or 21 percent of total spending. Of the education total, R23-billion or 88 percent is on pre-primary, primary and secondary education while the rest is on tertiary education.

The second largest spending item is interest on debt, which government's mounting debt burden will take up to R22-billion in 1993/94 — 17,4 percent of total spending and a full six percent of South Africa's GDP.

The health budget of R12,9-billion will account for 10 percent of total government spending in 1993/94; defence for a further 8,4 percent; social security and welfare for 8,3 percent and police for 6,7 percent.

ON THE FOLLOWING PAGES: What the ANC thinks ★ Will money solve education's problems?

CLOSE CORPORATIONS

FM 19/3/93

Death knell?

Close Corporations are also subject to the new secondary tax on companies (STC). Deloitte & Touche tax partner Anne Pappenheim says private companies have been distributing reserves in anticipation of the reintroduction of tax on dividends. But advisers of CCs generally have not, because their dividend distributions have not been taxed.

To make matters worse, STC is payable even if there is no taxable income. So even tax-aware CC members will be worse off.

CCs typically draw up their accounts well after their year-ends. Many have February year-ends and so will not be able to establish 1993 profits until after Budget day. They will have to pay corporate tax at 48% (the old rate) and STC on dividends on top.

Where there is no existing loan from the member to the CC, will the threatened reintroduction of section 8B deem a loan by the CC to the member a dividend? On the old S8B, shareholders in private companies were fortunate if they had capitalised the company with nominal share capital and large shareholders' loans. They could withdraw funds within the limits of their credit loan accounts without falling under S8B's dividend-deeming effect. How many CCs were set up in this tax-efficient way?

Pappenheim says the [illegible] sions struck a major blow at CCs. Will STC be the death knell for this business entity, introduced in 1984 specially to assist small business but obviously now seen by the authorities as just a tax avoidance vehicle? ■

FILM SCHEMES

(320)

Rough justice

FM 19/3/93

Keys plans to achieve rough justice in the great movie mess. As soon as the Appeal Court rules on the judgment of the Transvaal Income Tax Special Court, the Commissioner for Inland Revenue will put forward a formal offer of settlement to taxpayers who relied on movie schemes as a tax shelter.

Claims for deductions based on concessions to movie makers have given rise to numerous, often serious disputes. Some assessments have been delayed for years, giving rise to possible large claims for interest. It is believed the potential loss to Revenue, had all deductions been allowed, could have reached R2bn, plus a further cash-flow deficit caused by low provisional payments.

Underpayments of provisional tax have arisen because taxpayers based provisional payments on the assumption that they would be allowed deductions on a multiple basis, through the special incentives.

KPMG Aiken & Peat tax partner Patrick McGurk says it is widely expected the offer

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will allow a deduction only on a ~~one-to-one~~ basis — one rand for each rand invested. It seems it will include a waiver of interest on underpayment of provisional tax.

McGurk says taxpayers who believe they have a good case will retain the right to reject the offer and go to court. But if — eventually — they lose, they could face a large interest bill, which almost certainly won't be waived.

Deloitte & Touche tax manager Greg Boyd asks why action on movie-related assessments must wait for the judgment on *Jake Speed*, as this will be decided on its own facts. He points out that tens of thousands of movie-related assessments are outstanding. If only 10% reject a settlement and fight through the courts, the system will be clogged up for years. This points to the logic of settling everything through legislation.

The whole mess confirms the folly of introducing special incentives into a tax system for no objective economic advantage. ■

SPENDING RISE

(Rbn)

Fiscal year	Budgeted spending	Actual spending	†Percent increase
93-94	114,15	—	8,8
92-93	100,68	104,88	21,4
91-92	84,98	86,39	15,6
90-91	72,93	74,73	14,7
89-90	65,02	65,18	16,5
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

REVENUE COMPARISONS

	1992-93 Budgeted Rm	1992-93 Revised estimate Rm	1993-94 Budgeted at existing rates Rm	1993-94 Budgeted at new rates Rm	% Change on 1992/93 revised
Inland Revenue					
Income tax on:					
Individuals	35 511	32 572	37 680	37 627	15,5
Non-mining companies	13 356	10 796	11 101	11 101	2,8
Gold mines	472	482	500	500	3,7

What Keys should have done ...

W/Mail 19/3 - 25/3/93. (320)

By REG RUMNEY

FINANCE MINISTER DEREK KEYS dispelled a lot of criticism by leaking a fair amount of the Budget's bad news before actual Budget day. For instance, most commentators expected Value-Added Tax to rise, though not by as much as four percentage points.

Keys attracted praise for an imaginative approach to company tax and for addressing the Budget deficit, though there is some feeling he did not cut government spending enough.

But what did Keys leave out? Here are some omissions:

●The most outstanding omission was any alleviation of fiscal drag, a "secret" tax which the Normative Economic Model released last week thoroughly condemned.

●Capital and current expenditure on road infrastructure declines for another fiscal year, at R2,430-billion, or 32 percent of what the fuel levy brings in.

Calls for the redirection of the fuel levy to a dedicated national road fund have been ignored.

The Budget review says a high priority is given to capital spending on existing roads, as against new roads. This implies a continuing reliance on toll roads for new road building.

●Privatisation is not mentioned as a source of income in the Budget speech, for obvious political reasons. This is despite the pending privatisation and listing of state abattoir utility Abakor, and a vow by the government that privatisation is going ahead.

●It is not, as has been pointed out by the Democratic Party, desirable that a much larger proportion of the Budget be spent on education than in the previous fiscal year. Value for money is as important as absolute sums.

●Unemployment was the big issue that deserved some creative thinking but was not imaginatively addressed. Special job-creation programmes which might play a role in kick-starting the economy were not considered.

Though an extra R60-million was voted in the Budget for job creation, it is not clear whether this and other money will be integrated in the provision of essential capital works.

●A state lottery, which the DP suggested could have raised around R800-million this fiscal year, was once again passed over.

●Retired people have received no further exemption on interest income.

●Medicine is still subject to VAT.

●A capital gains tax was not implemented, but this tax or something similar probably waits in the wings.

Tax nightmare for private companies

(320) CT 20/3/93

By MAGGIE ROWLEY, Deputy Business Editor

HUNDREDS of unlisted companies could find themselves paying an effective tax rate well in excess of 48% for the year ending March 31.

The affected companies are those whose year end is on or before March 31 and who have declared a dividend but have not yet paid it.

Finance Minister Derek Keys announced last week that the present tax rate of 48% for companies would be reduced to 40% for years of assessment ending on or after April 1 this year.

At the same time he announced the introduction of a new 15% tax on companies for income distributed in the form of dividends which came into effect from March 17.

Kevin McManus, a tax consultant with Price Waterhouse Meyernel said problems would arise when private companies whose year ends were before or on March 31 and had been taxed at the 48% corporate rate and had declared a dividend but had not yet paid it.

"I have at least four major corporate clients who will be affected.

"Many of the companies affected have foreign shareholders and have not paid the dividend although it has been declared because they are awaiting clearance from the Reserve Bank," he said.

Effective tax rate

He said the maximum effective tax rate companies under these circumstances could face would be 55,8%.

"However that would only be if they paid a 100% dividend."

"A dividend based on a 3:1 ratio could see an effective tax rate for these companies of about 52%," he said.

VAT architect Trevor van Heerden confirmed that hundreds of companies could be affected.

"But let one of them show me that they have been paying 48% of their accounted profits. I don't believe there is one company in South Africa doing that."

He said the Department of Inland Revenue had been inundated with requests from private companies wishing to back date their dividends.

"They claim because it is credited to their loan account it has in fact been paid.

"But the Minister was very clear on the matter. And we had to have a cut-off date. While they may be affected this year, they stand to receive the benefits down the line," he said.

Van Heerden said the Department had managed to keep the introduction of the dual tax system very quiet.

"It did take people by surprise. We also wanted to avoid what happened last year when a number of unlisted companies declared dividends ahead of the Budget and then filed them away in a drawer. When a tax on dividends was not forthcoming last year, they did not pay the dividend.

"This was one reason that listed companies, who did not have this option available to them, will not have to pay the 15% tax on dividends declared but not distributed."

Money down drain again

Revenue earmarked for same old follies

Star 20/3/93

JOHN PERLMAN
Chief Reporter

WHEN your government announces that it plans to spend some R114 billion this year — R32 billion less than it expects to earn through crippling new taxes — you can be forgiven for throwing up your hands and saying: "Spare me the details."

But if you had the time and the patience to pore over the Estimates of Expenditure, a document as thick as a telephone book, you would certainly find plenty to make your eyes roll and blood boil. For a start, corruption uncovered last year doesn't seem to have affected the money-flow at all.

In November, the De Meyer Commission issued a 750-page indictment of the Lebowa government for squandering millions. This year, with no assurances that the situation has been rectified, Lebowa has been given a total of R[illegible],34 billion to spend, which is an increase of R501 million.

Last month, the t[illegible] Auditor-General, Peter Wronsley, told Parliament that the "independent" homelands were in debt to the South African taxpayer by more than R3 billion. He criticised the South African Government for failing to arrest this headlong slide into debt. This year's allocation to these homelands — still part of the foreign affairs vote — is R6,2 billion, up R1,1 billion from last year.

DEREK KEYS: He might be smiling now that Budget day is over, but are we?

The homelands will have R16,9 billion to spend this year, more than 20 percent up from last year, plus allowances made by other departments for "manpower assistance" to "neighbouring territories".

Wronsley also told Parliament that he was unable to audit the books of the Human Sciences Research Council. This year, the HSRC will have nearly R75 million from the Department of National Education to spend — a nice increase of R7 million.

PETER WRONSLEY: He exposed corruption, but homelands are to get more money.

So too with the ongoing controversy surrounding the misuse of the subsidy system in the film industry. More than R24 million of Department of Home Affairs money will again be spent on "financial assistance for the promotion of a viable local film industry", just like last year.

Wronsley and others have also expressed concern that secret projects and funds create openings for financial abuse. This year's Budget provides for R434 million, under the Department of State Expenditure, "to finance secret services undertaken by State departments". This amount has been increased by R32 million from last year's allocation.

More than a third of the R9,3 billion allocated to defence — a total of R3,7 billion — has been budgeted for a "special defence account" for the financing of "special defence activities and purchases". A number of secret defence projects have been exposed in recent months, including the Directorate of Covert Collection and an operation aimed at discrediting the African National Congress by linking it to the Irish Republican Army.

There is other defence spending buried elsewhere in the Budget. The Department of Public Works will be acquiring land for defence at a cost of R83 000, and providing buildings at a cost of R121 million — rather more than the amount of R62 million budgeted for "hospitals and clinics".

Most curiously, the Department of Manpower budgets a total of R8,2 million for various boards to deal with the ins and outs of conscientious objection to military service, an issue receding in both importance and complexity with every call-up.

In some departments, allocations seem to fly directly in the face of policy considerations. The Kassier report into agricultural control boards found them to be inefficient and wasteful. The agriculture vote allocates R405 000 for "boards, commissions and committees" which will do "liaison between the different agricultural industries and production promotion".

The department has also budgeted R4,6 million to "regulate the marketing of agricultural products". Of this, R2,5 million is for the National Marketing Council for "reporting and making recommendations in respect of controlled marketing to the Minister of Agriculture" — which is what many thought the Kassier report had done. More than R4 million of all this spending is for salaries.

Finance Minister Derek Keys opened his Budget speech by saying this was probably "the last Budget that will be entirely the product of the present Government". But the Budget still bore the marks of some of the stranger bits of National Party policy.

The Department of Defence will still spend R3,3 million subsidising school cadet programmes. Some R2,8 million will still be spent on publication control, down from last year, partly due to a cut in the Appeal Board's budget. And the Department of Local Government and National Housing will still spend part of its community development budget on "ethnological services".

Not everything has gone up. The State's contribution to the Unemployment Insurance Fund has stayed at R7 million. The Department of National Health's budget for research into air pollution control has also been pegged, and the allocation for water and waste control research is actually down.

It is not clear what one should make of the Department of Correctional Services' decision to cut its budget for "escapes" — from R37 000 to R28 000. Perhaps they have released the most dangerous prisoners anyway.

Salaries for the Cabinet are up. President de Klerk takes a rise from R218 000 a year to R254 000, while Ministers must make do with R219 000 a year, an increase of R20 000. All in all, this Government is costing us quite a bit more. The "salaries, allowances and other benefits of office-bearers and other members of Parliament" will cost R78,5 million this year, and the President's Council — which apparently still provides "advice to the State President" — will cost another R10,7 million.

And finally, there is the "prestige accommodation and furniture" payout. This is described as "compensation to political incumbents for prestige accommodation, the provision and maintenance of prestige furniture, other furniture, works of art and equipment to certain Government departments and administrations for own affairs". With just R8 million available for this, times are clearly tight.

Some cheer in new tax

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Arg 20/3/93

A NEW tax on dividends could lower the share prices of some companies on the Johannesburg Stock Exchange.

But others will benefit from a drop in the tax rate if they can take the bait offered by Finance Minister Mr Derek Keys, hold on to profits and go for increased investment and job creation.

Reaction by the share market to the Budget has been positive, with the overall index gaining 53 points on the week and the industrial index rising 35.

The proposal to introduce legislation to support the unbundling process of the country's large corporations had also been welcomed, said dealers.

A 15 percent tax on dividends or distributed income — to be known as the secondary tax on companies (STC) — will start in July.

■ Companies which retain profits will benefit under the new dividends tax.

TOM HOOD
Business Editor

"The minister has reintroduced a tax on dividends which will benefit a company retaining its profits and help to stimulate economic growth," said Mr Martin Walbeck, tax manager at Ernst and Young, Cape Town.

"The smaller company or entrepreneur could make a considerable saving of eight percent in tax and pay only 40 percent."

A company which distributes a third of its earnings would pay a corporate tax rate of 43 percent. Where no dividends were paid the effective tax rate would fall to 40 percent.

If a company decided to pay out all its income the rate would be 47,8 percent.

Company taxes are expected to raise R11,1 billion, a rise of 2,8 percent on the past year's R10,8-billion.

■ Companies whose financial years end in March are viewing the Budget proposals with alarm, reports **LEIGH HASSALL** from Johannesburg.

In addition to losing out on the lower tax rate they will also bear the extra 15 percent tax on their declared dividends.

The Budget proposals allow the new corporate tax rate of 40 ercent (previously 48 ercent) to be applied to financial years of assessment ending April 1 1993 or thereafter.

Companies with year-ends before this date will not benefit yet from the reduction in rate.

The Budget's proposed secondary tax on dividends (STC) adds insult to injury for March and February year-end companies.

Their dividends, which are declared after the year-end, will bear the 15 percent tax on dividends without the relief afforded by the lower tax rate.

The tax rate for some affected companies could be pushed as high as 55 percent compared to the new range from 40 to 47,8 percent ,depending on the extent of dividends declared.

Contrarily, companies with an April year-end will receive a windfall in that the lower corporate rate will be applied to a full year's taxable profits in spite of still being taxed on their dividends.

March is a common year-end for companies and the list includes SAB and Anglo American.

The 1993 Budget at a glance ...

By Lynda Loxton

SOUTH 20/3 - 26/3/93

(320)

Value-Added Tax (VAT) to increase from 10 to 14 percent on April 7.

(Zero ratings apply to mealie meal, brown bread, mealie rice for human consumption, dried beans and lentils, tinned sardines, milk powder, rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheat, flour, eggs, edible legumes and legume seeds).

Customs and Excise duty increases from April 7:

Beer: 4,8 cents per litre

Spirits: 37,7 cents per 350ml

Cigarettes: 2,45 cents per 10

Cigarette tobacco: 5 cents per 50g

Pipe tobacco and cigars: 5 cents per kilogram

Cold drinks and mineral water: 2 cents per litre

Unfortified wine, fortified wine and sparkling wine: 6 cents per litre

Other fermented drink: 10 cents per litre

Sorghum beer: 1 cent per litre

Sorghum beer powder: 5 cents per kilogram

No changes in **personal tax.**

Company tax reduced from 48 to 40 percent to encourage investment.

Petrol price to increase by 15-16 cents a litre from April 2.

Transfer duty adjustments in line with VAT increase.

Checks on zero-rated foodstuffs

ARG 20/3/93 (320)

■ Hard pressed consumers will have to use consumer-clout to ensure that the benefit of zero-rated foodstuffs will in fact be passed on to them after April 7 when a number of new items are exempted from VAT.

WILLEM STEENKAMP, Weekend Argus Reporter

THE government and consumer bodies have admitted they are powerless to ensure that the recent zero-rating of several basic foodstuffs from value added tax will be passed on to hard-pressed consumers.

In fact, it is quite possible the price on zero-rated foodstuffs will rise as a result of the 15-cents-a-litre petrol price increase from April 2.

This could be used as an excuse to push up prices across the board — including zero-rated foods.

Although there is no legal recourse against retailers who raise prices on zero-rated goods, the Consumer Council of South Africa is to announce a massive monitoring operation in conjunction with a host of other consumer bodies on Monday in an effort to ensure that the benefit of zero-rated food is passed on.

The best way to ensure you are not ripped off by unscrupulous retailers, say consumer advice experts, is to compare prices, shop carefully, and vote with your feet.

The Consumer Council, with the Consumer Union, the National Black Consumer Union, the Housewives' League, the Black Housewives' League, the Congress of South African Trade Unions, the National Coucil of Trade Unions, the Vroue Federasie and several women's agricultural unions, will monitor closely the prices of food to be zero-rated from April 7.

Consumer Council spokesman Mr Paul Roos said prices on these foods would be checked before and after April 7 and if increases were found, retailers' names would be published.

"We call on consumers who find that prices on zero-rated foods have increased to contact any of our branches with this information.

"But apart from this action there is basically nothing else we can do.

"If one shopkeeper wants to charge R1 000 for a loaf of brown bread and people are prepared to pay that price, there is nothing we can do. It is after all a free market system," said Mr Roos.

Earlier, Finance Minister Mr Derek Keys said the Food Logistics Forum (FLF), which was appointed in August last year to investigate unbridled rises in food prices, had played a valuable role in bringing prices under control.

He called on the FLF to play an equally important role ensuring that the prices of zero-rated food would reflect their changed VAT status from April 7.

But FLF convenor Mr Norman Fowler said his organisation was powerless to ensure this.

"This is a free market system and it is up to the consumer not to buy at places that push up their prices or fail to heed the zero-rating — it is as simple as that.

"Also, competition between retailers should ensure that prices on these foods are kept low to reflect the zero-rating."

Mr Keys, however, did warn of further action if the required response was not forthcomming on zero-rated foods.

A spokesman for the Ministry of Finance, Ms Lesley Lambert, admitted that there was not much that could be done.

She could not explain what "further action" meant.

"South African consumers should become less complacent, vote with their feet and simply not buy at places where prices are too high," she said.

Mrs Sheila Baillie, vice-chairman of the Housewives' League, said it would be difficult to ensure that food to be zero-rated was sold at the new lower price.

"Consumers should now go around and write down the prices of zero-rated foods and compare them after April 7 to ensure they are not ripped off.

"It is also of great concern to us that the pending rise in the fuel price may in some instances be used to justify a rise in the price of zero-rated foods.

"But the consumer should apply pressure on retailers and ensure also that they (the consumers) know exactly which foods are exluded from VAT.

"If they find the prices of the zero-rated foods are put up before April 7, they should complain to the manager of each and every store where this happens."

Rewarding shareholders

S Times (Buss) 21/3/93.

320

By JULIE WALKER

THE cut in corporate tax rate from 48% to 40% and the introduction of a 15% company tax on dividends might prompt companies to follow the method of shareholder-reward adopted by Sondor, the Cape-based manufacturer of polyethylene and vinyl acetates and rubber and plastic converter.

On Wednesday, Sondor proceeded to issue 24-million unsecured, indivisibly linked non-interest-bearing redeemable subordinated bonus debentures of 15c (the bonus debentures) one per ordinary share held.

No separate bonus debenture certificate is issued and shareholders' rights will be recorded by endorsing existing share certificates or new ones issued after March 29.

Sondor intends to repay the bonus debentures in half-yearly instalments equal to 25% of its pre-tax profits. It will not declare dividends until the bonus debentures are repaid in full. Sondor has adopted this procedure before, and R8,22-million is still outstanding on the first issue; it will be repaid before the second tranche of repayments begins. Sondor believes that the bonus debenture will save the company an effective 15% in tax.

Private companies widely use the bonus debenture method every year and public companies can be expected to follow, tax-rulings permitting.

Maxine refuses to pay her taxes because of corruption

(320)

ST Times 21/3/93.

By EDYTH BULBRING and SHARON CHETTY

MAXINE CAINER has had enough. She is refusing to pay her taxes this year — and in the future — unless major changes take place.

She would rather go to jail, she said, than contribute to the coffers of a corrupt government.

Last month, Mrs Cainer, of Algernon Road in Norwood, Johannesburg, informed the Receiver of Revenue and Finance Minister Derek Keys of her decision.

She has two reasons — government corruption and lack of accountability, and her message to Mr Keys was: take my money by force because you will not get it with my consent.

BUDGET BLUES

Mrs Cainer told Mr Keys and the Receiver she considered it morally reprehensible that the government could demand her to pay tax when it did not take responsibility for how the money was spent.

She also objected strongly to the lack of action taken against corruption in government departments.

As the former owner of a factory manufacturing computer dust covers, she felt the return on her taxes was negligible. Her objections are:

- SA faces a collapsing health service;
- Costs are rising and standards are declining in education;
- She has no freedom to trade, facing endless red tape;
- There is no monetary stability. She blames the government for the inflation rate.

Persuade

Despite having honoured her tax commitments for years, she has no peace of mind that her money is feeding the needy.

The government's response to her stance was swift. Within a week, she received a letter from Mr Keys's office saying a reply to her correspondence would be forthcoming.

Then a representative from the Receiver's office paid her a visit.

Assistant receiver Sid Pope and a colleague spent two-and-a-half hours at Mrs Cainer's home, trying to persuade her to pay her taxes.

She was an isolated case, but if more people took her stand, it could be a threat to the government, they told her.

She was also told what action would be taken against her. The Receiver's office would issue a summons demanding payment. If she did not comply, she would have to appear in court and take the consequences of being found guilty — a fine or imprisonment.

Coffers

The divorcee, a regular taxpayer for more than 29 years, is now resigned to going to jail.

"The sooner they do it, the happier I will be," she said.

Mrs Cainer paid up to R70 000 a year in taxes while she ran her own business.

The tax she has refused to pay is the provisional amount due at the end of last month, Mrs Cainer said she had refused even to assess the amount she owed.

Her contribution to the state coffers last year was R22 000.

Mrs Cainer, now retired, does administrative work for her sister's company on a freelance basis.

She insists that her sister does not pay her a salary as she refuses to contribute PAYE from her earnings.

Mrs Cainer is taxed on the income she receives from property and investments.

Mr Pope said he was precluded by provisions of section four of the Income Tax Act from divulging any information about Mrs Cainer.

New tax system 'will help firms'

B/DAY 22/3/93. (320)

TIM MARSLAND

THE new system of corporate tax was intended to help companies rather than penalise them, Finance Department director-general Gerhard Croeser said on Friday.

He was reacting to criticism at a Sacob meeting on the Budget that some firms could be disadvantaged by the new ruling because they had done their dividend planning under the old system.

Finance Minister Derek Keys announced on Wednesday that there would be a new 15% tax on distributable income while the nominal company tax rate would be decreased from 48% to 40%.

Croeser also called on the private sector to indicate to government which of its services should be cut back. He believed government should aim at relinquishing services that could be run better by the private sector.

Referring to the Budget, he said the Finance Department had little room to manoeuvre when drawing it up. It had to accept that while there was a need to cut the deficit, SA was in recession, so it had settled on a deficit of just below 7% of GDP.

Croeser said the additions to the zero-rated list would lead to "additional leakage" in terms of VAT collection. However, SA was among the top five countries in the world in terms of its success at collecting VAT. A recent study by the IMF indicated SA collected about 86% of possible collection.

He cautioned against businesses seeking loopholes in VAT collection as the department was employing more staff to police VAT collection.

"This is one area of government we don't mind expanding," he said.

Croeser said the VAT rate would have been 13,25% if it were not for the additional zero-rated items.

He blamed the sharp increase in the VAT rate on the tax having been implemented at too low a rate.

Political considerations had been an important factor behind the implementation of the VAT rate at 10%, which had given SA a "tax holiday for 18 months", he said.

VAT gobbles up small relief

By CLAIRE BISSEKER

CONSUMER relief will amount to about one percent on a basket of basic foodstuffs once new VAT zero-rating is in place. But this gain will be eliminated with the hike in VAT to 14%.

A Cape Times survey yesterday found a basic monthly shopping basket, which now costs R222,38, will increase by R6,13 (2,76%) with the implementation of 14% VAT on April 7.

The full four percent increase is softened by a R2,77 saving (1,24%) on the new zero-rated foodstuffs announced last week by Finance Minister Mr Derek Keys.

Rice, fresh fruit and vegetables, vegetable cooking oil, fresh milk and eggs are items that will no longer be subject to VAT.

At present only brown bread, mealie meal, mealie rice, samp, dried mealies, dried beans, lentils, canned pilchards, milk powder and dairy powder blends are zero-rated.

The red meat industry has expressed grave dissatisfaction with the absence of zero-rating on meat and has requested a meeting with Mr Keys to discuss the depressed sate of the industry.

Red Meat Producers' organisation manager Mr Gerhard Skitter said consumers would save R725m annually if red meat was zero-rated.

Blue Ribbon Meat Corporation chief executive officer Mr Gareth Ackerman said: "We have strongly objected to meat remaining subject to VAT at all, since there is no question it is a basic foodstuff. And we are naturally even more alarmed at the 14% increase in VAT which can only further exacerbate the 16,4% decrease in meat retail sales."

Housewives' League national vice-president Mrs Sheila Baillie said that meat, fish and cheese should have also been zero-rated because VAT placed an unbearable burden on the poor.

Tax-free payments plan for VIPs' insurance policies

BDAY 23/3/93 (320)

LINDA ENSOR

CAPE TOWN — Inland Revenue had suggested that company payments to insure key executives be made tax-free in the event of death or disability, the annual congress of the Institute of Life and Pension Advisors (ILPA) heard yesterday.

Old Mutual legal services manager and Life Office's Association policyholders' taxation committee convenor Abri Meiring said the change would affect key man insurance policies. Key man insurance is taken out for executives who are considered vital to the company.

Meiring said if implemented this concession could lead to the life industry focusing on true key man insurance. He welcomed the suggestion and said it would probably be incorporated into this year's Income Tax Bill.

At present premiums are deductible and final payments are taxed.

Meiring argued against the removal of Section 11(w) of the Income Tax Act which places limits on the premiums which can be deducted on policies on employees or directors.

He said it should be left as it was because it had built-in safeguards against abuse. For instance, deductions could be made only in respect of 10% of the renumeration and there had to be a limited amount of life cover.

If Section 11(w) was abolished, taxpayers would attempt to claim deductions on premiums in terms of Section 11(a), making control by the Receiver extremely difficult.

Meiring said the Tax Advisory Committee had recommended estate duty and donations tax be replaced with a capital transfer tax.

The contribution of estate duty to the fiscus had dwindled after the introduction of the R1m threshold in 1986 from R186m to R60m in 1991.

Meiring said that without the R1m exemptions estate duty could be generating about R600m for the fiscus by now. SA did not compare at all well with other countries in terms of the taxation of capital transfers and there was huge scope for more taxes from this source. They were relatively easy to collect.

He concluded by saying that wealth taxes would have to be addressed and this would have enormous implications for products of the life assurance industry.

● See Page 7

Host of 'March' companies to lose out on lower tax rate

BDAY 24/3/93 320

TIM COHEN

CAPE TOWN — The host of companies whose financial years finish at the end of March would be hit by the new 15% secondary tax on companies (STC) but would not benefit from the lower 40% company tax rate, Commissioner for Inland Revenue Hannes Hattingh confirmed yesterday.

The anomaly arises from the fact that STC comes into effect for many companies on March 17 — the date the dual system was announced — while the lower company tax rate kicks in only on April 1.

Hattingh confirmed that "numerous" companies whose financial year ended at the end of March had already lobbied his office, requesting a special relief because they believed they were prejudiced by this "anomaly".

Hattingh said this, and the possibility that so-called "March" companies could shift their year of assessment one month forward to bypass the situation, was being considered by his office.

"March" companies are the second largest group and they could end up paying 8% more tax each year.

The group embraces many large companies, including SAB and its associates.

According to the supplementary notes issued by the commissioner on the dual tax system, the rate of normal tax imposed on companies whose year of assessment ends during the 12 months ending March 31 next year would be reduced from 48% to 40%.

This formulation implies that companies whose year of assessment ends before March 31 this year will have to pay the 48% rate.

The notes also say the tax liability for STC will apply to any dividend declared on or after March 17 this year, or which was declared before that date and paid after it.

Dividends declared by listed companies before March 17 and which are payable after that date will not be subject to STC if the dividend declaration was made known publicly before March 17, the notes say.

DP MP Geoff Engel said the situation was "patently unfair", especially as Finance Minister Derek Keys had said he wanted to decrease the rate of companies' tax.

Tax credits slashed for key new projects

(320) CT 26/2/93

Own Correspondent

JOHANNESBURG. — Reduction in company tax will knock hundreds of millions of rands off tax credits available to backers of the multibillion rand Alusaf, Columbus and Namawka Sands projects.

Lowering the company tax rate from 48% to 40% has complicated intricate project finance arrangements for the ventures, which have a combined capital cost of more than R11bn.

The effect will be the projects' financing needs rising more than R250m.

Alusaf's R7,2bn smelter expansion project, the R3,5bn Columbus stainless steel expansion project and the R1,1bn Nawakwa mineral sands venture in the Western Cape have qualified for concessions in terms of Section 37E of the Income Tax Act.

They allow for accelerated write-off of capital spending during construction rather than after the projects are commissioned.

Section 37E tax concessions, applicable to projects adding value to base minerals, were not altered in the Budget. But the tax base of groups financing the projects, against which credits would be set, has been reduced significantly.

The reduced tax credits will add to the peak funding requirements of all three projects.

But they will not materially affect their progress in the long term because the lower company tax rate will improve the projects' cashflow and profitability.

One analyst said yesterday: "Rands today are worth more than rands tomorrow, so the net result of the lower available credits is on the negative side, although the higher start-up costs will be considerably offset in the longer run by improved profitability."

New Bill alters VAT interest

320

CT 26/3/93

THE Finance Department yesterday published a Bill to alter the rates of interest on late VAT payments and refunds and to limit the scope for rate manipulation around a VAT rate change.

The VAT Amendment Bill proposes to change the calculation on interest payable on late VAT collections from 18% a year to 1,2% a month.

The rate of interest payable by Inland Revenue on VAT refunds will drop from 20% a year to 16% a year.

The bill also proposes changes, backdated to March 17, to the existing rules concerning VAT rates applicable to deals just before or after a rate change is announced.

The date of supply of a product or service rather than the date of invoice would determine the rate applicable to a transaction.

New tax not an incentive

Bdoy 26/3/93. 320

JOHN DLUDLU

THE secondary tax on companies (STC) — announced by Finance Minister Derek Keys last Wednesday — will provide neither an impetus for growth nor be an economically efficient incentive for business. Instead, it is the antithesis of a market where individuals freely choose how they organise their companies.

This is the view of Wits University business economics lecturer Sinclair Davidson on Keys's dual tax proposals. The STC — which comes into effect on April 1 — is a 15% tax rate on distributed income and is accompanied by a reduction in the company tax rate from 48% to 40%.

The STC, Davidson says, will result in a decrease in dividends and so increase retained earnings.

"This constitutes a source of cheap finance for the firm, but is expensive for shareholders and ultimately society."

And it would remain relatively cheap only in the short term, he said.

"Keys seems to think that investment from retained earnings is free. This is the only explanation for the STC that is consistent with the view that firms should be self-financing and so reduce their tax burdens. His idea is to channel funds into 'productive' investment rather than into the 'unproductive' hands of owners."

Davidson argues that the use of retained earnings is not free. He points out that this system may encourage the entrenchment of existing managements which may well be inefficient. It does this by reducing the need for incumbent managements to compete for outside funds, which they normally do on the basis of their firm's efficiency.

Automatic reinvestment also increases the costs of capital to new firms by denying shareholders the opportunity to invest those foregone portions of their dividends in new firms. Those dividends, Davidson argues, are rather invested on their behalf in existing firms. This can be construed as a barrier to entry for new, potentially innovative, firms. The foregone shareholders' returns, which would be greater than those offered by the existing firm, are a further cost of retained earnings.

He says Keys, as a corporate insider, cannot appreciate that investors may wish to use their money in other ventures apart from reinvestment.

Companies that have fewer or no new investment opportunities are penalised by the STC for paying out excess cash as dividends.

"Also penalised are those individuals who chose to buy traditionally high dividend shares in order to earn income. Now those individuals bear the cost of the growth that this measure will bring forth."

Anglo American group tax consultant Marius van Blerck recognises the validity of Davidson's argument. He adds, though, that it is only one side of the coin.

Van Blerck said these negative effects would apply strongly only if the STC encouraged the retention of funds by companies that had no productive use for them. "I'll be surprised if this resulted."

The positive aspect of the STC, he points out, is that companies with possible investment opportunities are encouraged to invest retained earnings in such projects.

"Ultimately the shareholders will benefit handsomely if these investment decisions are correct."

With the improvement in the political climate and with many parties committing themselves to growth and productivity, he feels that the STC will give further impetus to potential investment opportunities.

"In the final analysis, the positive effects of the STC far outweigh its negative effects."

Hofmeyr van der Merwe tax partner Elim Brincker believes that although the overall lowering of the tax rate may serve as an incentive for economic growth, the imposition of STC will certainly create a tendency in companies to reduce dividends. "Well-established companies are unlikely to venture into new fields incompatible with their existing business operations. History shows that new ventures are conducted in separate entities due to the risks involved."

He believes the imposition of the STC will result in firms overcapitalising on existing business structures or reverting to capital intensive projects as opposed to labour-intensive projects — a tendency that is in direct conflict with Keys's objectives.

Brincker further argues that, depending on the dividend cover, a tendency may develop to declare only a certain percentage of profits to shareholders and then channel funds to shareholders by other means.

larch 26 1993

Lower tax hits project backers

(320)

B/DAY 26/3/93

MATTHEW CURTIN

REDUCTION in company tax will knock hundreds of millions of rands off tax credits available to backers of the multibillion-rand Alusaf, Columbus and Namawka Sands projects.

Lowering the company tax rate from 48% to 40% has complicated intricate project finance arrangements for the ventures, which have a combined capital cost of more than R11bn.

The effect will be the projects' financing needs rising more than R250m.

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The reduced tax credits will add to the peak funding requirements of all three projects.

But they will not materially affect their progress in the long term because the lower company tax rate will improve the projects' cashflow and profitability.

One analyst said yesterday: "Rands today are worth more than rands tomorrow, so the net result of the lower available credits is on the negative side, although the higher start-up costs will be considerably offset in the longer run by improved profitability."

Alusaf smelter expansion project finance director Paul Snyman said lower tax rates would result in pre-commissioning Section 37E credits to Alusaf's R7,2bn project being reduced by about R120m.

The funding package in place at Alusaf — made up of debt and equity raised by Gencor, Eskom and the IDC — was flexible enough to compensate for the increase, he said.

Columbus CE Fred Boshoff said the Samancor/Highveld Steel and Vanadium/IDC joint venture's peak funding requirement would rise in the order of R120m, but Columbus would benefit from the lower tax rate in the future.

He said any decision to increase the company tax rate after the Section 37E credits had run their course would severely prejudice the project's prospects.

Spokesmen for Namakwa Sands were unavailable for comment.

Interest on late VAT payments decreased

BDAY 26/3/93 TIM COHEN (320)

CAPE TOWN — Legislation was introduced in Parliament yesterday that decreases the rate of interest payable on late VAT payments by vendors from 1,5% a month to 1,2%.

The amount payable according to the Value-Added Tax Amendment Bill by Inland Revenue to vendors when refunds are due is to be 16% per annum, a reduction of 4%.

The legislation also empowers the Finance Minister to change the rates of interest from time to time, which may become necessary when prevailing interest rates in the financial sector increase or drop.

The laws comes into effect as from the beginning of the calendar month following the month during which the amending Act is promulgated.

The legislation also clarifies what VAT rate is applicable when the rate is changed, stating that according to the principle Act, liability arises on the date on which a supply of goods or services is made.

TAX DEDUCTIONS FM 26/3/93

Double take

(320)

Expenditure deductions for tax purposes will be more closely controlled in future. The effects will be felt in particular by taxpayers who have not yet been assessed for tax years before 1992.

In the past it was possible to deduct the same expense twice:

- ☐ Under the general deduction formula in section 11(a); and
- ☐ In terms of the many specific deductions provided in the Act.

This followed an unreported judgment in the Cape Special Income Tax Court, in 1987, which held that double deductions were permissible under the Act (except where the wording of the Act specifically prohibited them).

In 1991 the Income Tax Act was amended (section 23B) to end double deductions, but the new requirement applied only from the tax year ending February 1992. It did not take account of taxpayers who might present

continue

claims for double deductions for previous tax years and overlooked the possibility that, subject to certain technical criteria, taxpayers could apply for the reopening of an assessment — provided they acted within three years of the assessment.

Coopers Theron tax partner Koos van Wyk says, in principle, taxing retroactively is the worst type of tax policy as it undermines business confidence in the consequences of a transaction. He adds that, with double deductions Revenue could, on balance, have a reasonable case.

Kessel Feinstein tax partner Ernest Mazansky argues that if the change had been made after the 1987 judgment of the Special Court, retroactive legislation would not have been needed. The case related to R&D ex-

FM

26/3/93 (320)

penditure. The relevant subsection (Section 11(p)) was amended in 1988 to bar a double deduction for R&D. Section 23B could have been introduced then, barring double deductions totally.

The real concern, says Mazansky, is not the closing of the loophole, which is justified, but that Revenue is allowed to rectify a sloppy approach by retroactive legislation, instead of living with the consequences of not getting it right the first time.

Another issue raised by the practice of deducting twice for the same expense is that some consultants have taken their reward in the form of a percentage (20%-50%) of the tax saved. Chartered accountants who take remuneration this way probably breach professional ethics, even though contingency fees are treated more leniently now. ■

SA tax burden is a big fiscal drag

WMail 26/3 - 1/4/93.

(320)

Taxpayers should be more vocal in their discontent about automatic increases in income tax courtesy of inflation, argues **REG RUMNEY**

ONE of the questions that lingers after the Budget Day fever has dissipated is: why did Finance Minister Derek Keys leave the tax tables unadjusted for inflation?

And why wasn't more fuss made of the continuance of the secret tax which is "bracket creep" or "fiscal drag"? Both terms refer to the way cost-of-living salary adjustments simply lift taxpayers into a higher tax bracket.

The Normative Economic Model states quite clearly: "Inflation must not be used as an unexplained source of government revenue, which means that the result of inflation on personal income tax (so-called fiscal drag) be removed as an annual routine."

Finance Department director general Gerhard Croeser was asked by *The Weekly Mail* at the Old Mutual Budget Forum the day after the Budget had been presented why the tax tables had not been adjusted this year. He suggested disingenously: "We simply could not afford to give away R3-billion by cutting fiscal drag." Cutting fiscal drag this year would have meant another two percentage points increase in the Value Added Tax rate.

He then admitted that the government could not continue relying on fiscal drag. "We would soon be the only country in the world with a single tax rate."

Croeser also said spending cuts had gone as far as they could, and suggested that further cuts would mean cutting back on services provided by government departments.

At the same forum University of Cape Town economist Brian Kantor got to the nub of the matter, pointing out that it is all too easy for a government to raise taxes and rather harder for it to cut spending. Kantor suggested that what South Africa needed was a "taxpayers' movement".

Spending this year, noted Kantor, may have been up only 8,8 percent but it comes after last year's increase of 22 percent, and so is off a high base.

"The major problem is what we're getting for spending is not very good. It's not something Keys can do much about."

Ernst & Young tax expert Ian Henstock notes that fiscal drag will hit those taxpayers in the lower brackets hardest. For example someone earning R200 000 a year and who gets a 10 percent pay increase to R220 000 a year will only pay 1,9 percent more in tax.

However, a taxpayer earning R50 000 who gets a 10 percent increase will pay 9,9 percent more in tax, says Henstock.

The burden on the middle class has been growing because certain items such as education, health and roads are no longer subsidised as heavily.

Reaction to the Budget's heavy burden on taxpayers may not have been vocal, reckons Henstock, but there is a lot of unhappiness among ordinary people about tax and the lack of perceived benefit.

That perception cannot have been helped by Keys playing down the issue of corruption. The parliamentary opposition will no doubt concentrate its attacks on the R18-billion that goes to the independent and non-independent homelands. That still means Keys effectively cannot control around 16 percent of the budgeted spending this year.

On the other hand, business reaction to the Budget has generally been favourable because of the new dual tax rate, which appears to favour the corporate sector by cutting the nominal tax rate to 40 percent and taxing dividends by 15 percent.

The idea is that the new system will encourage investment by locking in growth for bricks-and-mortar investment that otherwise gets recycled into higher share prices or goes into consumption.

Henstock believes there has to be a trade-off in the state's dual tax system. "Individuals can live with being taxed more heavily. But companies must start employing more people."

Not only the broad band of the middle class will be hit. Aiken & Peat tax partner Pat McGurk notes that individuals will be hit by the increase in the VAT rate, no reduction in the marginal rate as well as the income tax tables, and that the new 15 percent Standard Tax on Companies will reduce the dividends companies pay.

Not only wealthier individuals receive income in dividend form, however. Moreover, individuals reach the top marginal rate of tax in South Africa at a much lower level than in any other countries, as shown in the Platform for Investment scenario exercise.

In the previous fiscal year South Africans reached the top marginal rate of 43 percent at R80 000 a year income, for instance, compared with 33 percent in the US at R240 000 or 47 percent at R100 000 in Australia.

The scenario quotes International Monetary Fund calculations for the net tax burden in South Africa, that is total tax revenue minus government spending on social welfare, health, education and housing. On this basis South Africa's tax burden as a percentage of gross domestic product is 10,64 percent, on a level with the industrialised world average but higher than, say, Argentina's 6,23 percent, Singapore's 3,44 percent or even France's 7,76 percent.

INDIVIDUAL TAX RATES
COMPARISON OF 1992/3 MAXIMUM AND AVERAGE RATES

COUNTRY	MAXIMUM MARGINAL RATE	INCOME LEVEL RAND	RATES ON R150 000 TAXABLE INCOME	
			MARGINAL	AVERAGE
South Africa	43	80 000	43	35
USA	33	240 000	28	20
Germany	53	480 000	26	21
Netherlands	60	146 000	50	31
UK	40	116 000	40	28
Japan	50	470 000	30	19
Australia	47	100 000	47	36

(IMF *Government Finance Statistics*)

Zimbabwe in credit squeeze

WMail 26/3 - 1/4/93. (362)

Weekly Mail Correspondent: Harare

LARGE and small corporate and individual clients of Zimbabwe's finance houses are defaulting on loans due to the current tight credit squeeze facing the economy.

A model export plan

WMail 26/3 - 1/4/93.

By REG RUMNEY

PROPOSALS in the government's Normative Economic Model to boost exports strongly resemble those in a recently released draft document emanating from the southern Africa department of the World Bank.

The document on South African trade, drafted by World Bank economists Pedro Belli, Michael ...

ing sector is a close-knit microcosm of big companies and exporters mostly do not pay domestic prices for their inputs, but buy them at producers' export prices.

This does not apply to smaller companies, who cannot bargain down the domestic price of inputs and have to pay the full domestic ...

Star 27/3/93

Race to beat VAT increase

(320)

DAVID CANNING reports on the ways in which the higher VAT rate will be applied and impact on everything from property transactions and insurance to hotel bookings.

Housing likely to lead way

FINANCIAL institutions could experience a lift over the next two weeks as buyers of residential property from registered vendors (mainly developers and builders of new units) rush to beat the 14 percent VAT deadline on April 7.

According to Peter Maxwell, a tax specialist with Deloitte and Touche, transitional rules published by Inland Revenue regarding the VAT change to 14 percent have a number of implications for business and consumers.

Condemned

Consumers need to be aware of these rules to avoid any risk of being ripped off, while business people must take care they implement the relevant regulations properly.

The rules allow "concessions" to residential property not accorded to non-residential property.

Registered sellers of residential property (which includes residential land and contracts for the construction of dwellings) need account for VAT at only 10 percent if the sale is concluded on a date prior to April 7.

However, sellers of non-residential property need to pay VAT as at the date of registration of transfer of the property.

In effect, this condemns any of the deals now being concluded to a 14 percent tax rate.

Maxwell feels many people "on the edge" of making deals for residential property will be pushed into making up their minds before April 7 — thus "saving" 4 percent and creating more business than ususal for the financial institutions.

The changes with regard to short-term insurance are confusing in some respects, and consumers are advised to read the policy wording very carefully.

For example, an annual short-term insurance contract falling due for renewal before April 7 incurs VAT at only 10 percent, even though it may be paid in equal monthly instalments through to March 1994.

However, a policy based on the notion of delivery of the service over 12 months would be levied differently. The portion of service levied to April 7 1993 would be levied at 10 percent and the portion delivered thereafter at 14 percent.

Meanwhile, prior bookings of hotel and other accommodation could also cause confusion.

Maxwell says the rules are clear — there are no VAT advantages to be obtained by early payments, or from prior payments of deposits.

The relevant date for VAT purposes — and this is a thread that runs generally through the transitional rules — is that VAT is applied "when the goods are delivered or services provided".

In other words, a holidaymaker may now pay a deposit on a hotel booking for July. In July the hotelier will add 14 percent to the bill, and take off deposit already payed.

Turning to shopping, he says consumers may find it difficult to check whether shops are "playing the game" by charging the 14 percent VAT rate only from April 7, particularly where prices are "inclusive".

In theory shopkeepers should keep to changeover schedule, marking up only on April 7. In practice, for practical reasons some shops may include two price tags, one with VAT at 10 percent and the other at 14 percent.

When in doubt, shoppers should query the way prices are made up.

Invoice changes

Maxwell says the VAT changes will have far-reaching effects on vendors, particularly those who supply non-vendors.

"Besides resulting in price increases, it will mean system adjustments, changes to documentation, cash flow implications and planning opportunities. In general, invoices have to be amended to reflect the increased rate of VAT.

"Inland Revenue will no doubt allow vendors simply to use rubber stamps, stickers or similar measures to alter the old VAT rate on existing stocks of invoices."

OK quizzes Receiver on VAT rate confusion

BDAY 29/3/93

KELVIN BROWN

THE OK had made a representation to the Commissioner for Inland Revenue regarding the VAT rate which applied to transactions entered into between Budget day and April 6, but which were delivered after the new VAT rate came into effect, an OK spokesman said on Friday.

Under the interim VAT rules introduced in Parliament this week, the new VAT rate would also apply to transactions entered into between March 17 (Budget day) and April 6 if the goods were delivered or the services performed on or after April 7.

The interim rules covered hire purchase agreements but did not apply to the supply of residential property.

Sellers would be liable to pay the extra 4% for transactions that fell under these interim VAT rules, a spokesman for the department of Inland Revenue said.

However, under section 67 of the VAT Act vendors could ask customers to pay the extra amount if they had been charged the old rate.

The OK had been charging customers the old VAT rate on purchases made before 7 April that were only going to be delivered after the new VAT rate came into effect, the OK spokesman said.

"It would not be fair to go back to these customers and ask them to pay an extra 4% VAT," he said.

Suppliers to the OK were charging them the old VAT rate on purchases that would only be delivered after April 7.

(320)

The situation was similar at Dions, MD Jannie Els said.

However, Pick 'n Pay's suppliers were charging them the new VAT rate if the items were only going to be delivered after April 7.

Pick 'n Pay were also charging customers 10% on purchases that fell within the interim VAT rules, financial director Chris Hurst said.

Government inspectors would be out in full force from April 7, and they would want to see the date on the delivery notes.

Even if goods were purchased for cash but delivered on or after April 7, sellers would be liable to pay 14% VAT to government.

'Wives pay 117% more income tax'

(320)
CT 30/3/93

By BARRY STREEK
Political Staff

MARRIED women must pay 117% more in tax than their husbands, Democratic Party finance spokesman Mr Geoff Engel said during the Budget debate yesterday.

He charged that the government's failure to address gender-based tax discrimination demonstrated the shallowness of its commitment to its own draft bill on the Abolition of Discrimination against Women.

Mr Engel said the draft bill excluded specific steps to end tax discrimination against married women.

"A married man earning R20 000 taxable income will pay R1 450 in tax.

"Unmarried persons will pay R2 100 and a married woman will pay R3 150, a whopping 117% more than her male counterpart," Mr Engel said.

He said this discrepancy made a mockery of the government's pledge to abolish discrimination against women, which he called "a cheap vote-catching ploy produced at taxpayers' expense".

He asked when the Minister of Finance would address the issue.

"Until one single tax table is produced, the National Party's commitment to the abolition of discrimination against women is nothing more than lip service.

"Or perhaps the minister would like to justify to this chamber why married women must pay him more than their male counterparts?" Mr Engels asked.

Tax dodge for rich investors appears to have turned sour

Star 31/3/93

(320)

By Derek Tommey

A great many of Johannesburg's tycoons must have been in a sombre mood last night.

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.

Minister of Finance Derek Keys said in his Budget speech that once the court had issued a ruling, the Commissioner of Inland Revenue would propose a formal offer of settlement with those who had invested money in the film financing schemes.

For all these reasons there has been tremendous interest in the case.

The appeal of the schemes to the rich was that they purported to save them in income tax several times the amount they invested.

In one instance, the promised savings were reputed to be equal to seven times the investment.

And the rich, advised by some leading accountants that the schemes were legal, plunged heavily into them.

Keys, himself an accountant, said in his Budget speech: "I should be failing in my duty if I did not express an adverse view of the role played by certain professional advisers in preparing and marketing a number of dubious tax schemes."

A tax expert said yesterday that the scheme which the Appeal Court is believed to have ruled illegal was one of the more legitimate ones.

There is a view that the Receiver of Revenue should first have taken to court one of the schemes with less pretension to being legal.

"However, if the Appeal Court has definitely found illegal the scheme it was asked to rule on, then the others have no chance at all of being found legal," he said.

Because of the schemes, the investors have been paying far less in tax than they should have done. Now they will have to make good the difference.

However, the Receiver of Revenue is not expected to be too hard on them.

Market talk is that he will allow them to claim a deduction of R1 from their income tax for every R1 invested in a film scheme. Accrued interest will also be waived.

So, overall, they will not be out of pocket. But if they have already spent the money they should have paid in tax, they will still have a problem.

Thaba'Nchu Manpower centre		48 494
Winterveld: Schools ...		9 091
	R	6 487 623

D. *Technical and other assistance***

Manpower provision ...	R	11 751 000
Technical assistance ...		1 052 676
Salaries of Judges		199 000
	R	13 002 676
Grand Total		R2 308 595 792

** No financial transfers in respect of item D were directly made to Bophuthatswana.

I note that the hon member's question only deals with Bophuthatswana, but I would nevertheless like to add that similar assistance, as listed below, was also rendered to Transkei, Venda and Ciskei:

Transkei	R2 231 365 023
Venda	R 665 562 235
Ciskei	R 914 122 978

All figures are unaudited.

Ministers: tax deducted from home allowances

*19. Mr P G SOAL asked the Minister of Public Works:

320

(1) Whether, with reference to the reply to Question No 33 on 5 February 1993, tax is deducted from the allowances payable to Ministers occupying their own homes instead of accommodation provided by the State; if not, why not; if so, (a) by whom is this tax deducted and (b) how is it calculated;

(2) whether the manner in which this tax is deducted and calculated has been changed in any way since 1 January 1990; if so, (a) why and (b) what are the other relevant details? B580E

The MINISTER OF PUBLIC WORKS:

(1) Yes.

(a) By the Department of Public Works.

(b) It is calculated at the maximum rate on two-thirds of the total compensation.

(2) Yes. 320

(a) On the advice of the Department of Finance.

(b) From 1 December 1992 the full compensation payable for the maintenance or purchase of kitchenware is taxable, which was not the case prior to that date.

Recycling of plastic/paper

*20. Mr R F HASWELL asked the Minister of Environment Affairs:

(1) Whether he intends introducing legislation and incentives to promote the recycling of paper, plastic and other products; if not, why not; if so, (a) when and (b) what is envisaged in this regard;

(2) whether his Department is committed to the concept of recycling; if not, why not; if so, to what extent;

(3) whether he will make a statement on the matter? B582E

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) No. Specialised national and international advice obtained, as well as national and international experience, suggest that legislation is not effective in this regard. Recycling should be regulated by market forces and direct incentives by the Government would not only mean interference with the free enterprise system, but cannot be considered in the present economic situation. South Africa, however, is making good progress with regard to recycling and re-use. The percentage tonnage recycled to total tonnage produced for the various categories is as follows: Paper and board 33%, plastic 13%, tin-plate 16%, aluminium 84% and glass 70%. This represents an increase of about 73% in the recycling effort over the past five years.

(2) Yes. In the 1993 White Paper on the Policy on a National Environmental Management System for South Africa the following goal is set:

Deploy a national strategy for *waste management* and develop *integrated pollution control* in which the elements of responsibility, accountability, prevention, treatment and re-use must enjoy priority. Disposal in the atmosphere, land and water environments should be considered as a last option only. Protection against toxic waste, the control of environmentally detrimental agricultural and industrial practices, as well as the combating of littering and the promotion of recycling will be included in the strategy. Industry-based programmes to achieve the above-mentioned objectives will have to be introduced.

(3) No.

SAA: Civil Aviation examinations for pilots

*21. Mr W U NEL asked the Minister of Transport:

(1) Whether any (a) pilots and/or (b) former pilots of the South African Air Force holding civilian, commercial, senior commercial or airline transport pilots' licences were not required to write and pass the applicable examinations set by the Directorate for Civil Aviation; if so, (i) how many and (ii) why were such licences issued to these pilots;

(2) whether he will make a statement on the matter? B584E

The MINISTER OF TRANSPORT:

(1) (a) and (b) Yes.

(i) During the period April 1989 to November 1990 civilian pilot's licences were issued to 54 pilots who were at that stage in the service of the South African Air Force, by the Chief Directorate: Civil Aviation.

(ii) All applicants met with the requirements for the civilian licences issued after the successful completion of an additional course including work which is related to civil aviation.

(2) No. The matter is *sub judice* at present because of a pending appeal case.

SAA: foreign pilots/aircraft

*22. Mr W U NEL asked the Minister for Public Enterprises:

(1) Whether the South African Airways have entered into any lease agreements to use (a) aircraft belonging to foreign countries and (b) pilots who are foreign nationals in the course of its business; if so, (i) what are the details of these agreements and (ii) on what basis were the licences of such foreign pilots accredited;

(2) whether any practical difficulties or safety problems have arisen as a result of these agreements; if so, what are the relevant details? B585E

The MINISTER FOR PUBLIC ENTERPRISES:

The Managing Director of Transnet Limited has furnished the following reply to the hon member's question:

(1) (a) Yes.

(b) Yes.

(i) The South African Airways leases aircraft and operates them in SAA's fleet which are piloted by SAA pilots. SAA operates a freight service with an Ukranian company using Ukranian aircraft, pilots and technical assistance.

(ii) The foreign pilots are properly accredited in terms of the standards applied by the Department of Civil Aviation.

(2) No.

INTERPELLATION

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

Own Affairs:

Filling of vacant places at schools

1. Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether he intends taking steps to ensure that, as far as possible, all

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