TAXATION — 1995

JANUARY — MAY

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(320) ST(BT) 22/1/95

Company tax rate 'scaring off investors'

By JEREMY WOODS

SOUTH Africa is one of the least attractive locations for foreign investment, says a study by Eskom which blames "one of the highest tax structures among countries looking for fresh capital".

The study shows that for every R100 earned, foreign investors lose as much as R70 to taxes and inflation.

"Secondary taxes on companies and withholding taxes are key reasons why investors are being deterred from coming to South Africa," says Guy Joubert, corporate business development consultant at Eskom.

"We have completely ignored the tax system as a way to attract foreign investment and South Africa must put that right, before the big corporates will come here and invest in our economy," says Mr Joubert.

"They come over, like what they see, do their calculations and go home. Every other country serious about attracting new capital offers a much better deal.

"Direct taxes on foreigners putting capital into the economy and creating employment are over 60%. When you add inflation into the calculation, the position looks even worse," says Mr Joubert.

His team has compared the incentives to invest in South Africa with every other country in the world "seriously interested in attracting capital". These include the US, France, Germany, Britain, Japan, Italy and Canada as well as a host of emerging economies.

"Our basic corporate tax at 35% is not too far out of line with other countries, but a major problem is the secondary tax on companies. Foreign tax authorities allow basic tax here to be written off against tax there, but when it comes to secondary taxes other countries do not have them, so no allowances can be made against them."

Secondary tax on companies was introduced two years ago at 15% and then increased to 25% in 1994.

But, Mr Joubert maintains, the government could significantly improve South Africa's competitiveness in the "global capital market" by small changes to the tax laws which would not severely bite into government tax revenues.

David Bridgman, chief executive of Wesgro, the Western Cape growth organisation, also cited high taxes as a major deterrent to foreign investment here.

"If we change our tax structures and make them more competitive the big investors will come. Our infrastructure is better than that offered by the Asian tigers but if investors can't make profits the best infrastructure in the world is not good enough.

"US-based Diamond Electronics is a classic example. The company closed up a pilot manufacturing scheme on the West Coast in Atlantis, dashing the chance of 2 000 new jobs, a R130-million manufacturing plant and annual exports of R230-million. The major problem was prohibitive tax rates."

Unemployment in Atlantis is now 46%.

"This was a crying shame for the unemployed in Atlantis. The pilot scheme showed the local labour force was capable of high-quality production."

Cabinet ignores the alarms

COMMENT

THE formula appears simple enough and has been successfully tested around the world: lower tax rates, provide a stable political environment and the dollars will come trickling in.

Judging from recent events this message has not reached South Africa. Certainly it didn't find its way on to the agenda of the Cabinet's *bosberaad* this week.

Both corporate and personal tax rates are unsustainably high. The accompanying report, quoting a study by parastatal Eskom, shows that for every R100 earned by foreign investors in South Africa they lose R70 to taxes and inflation.

If this figure doesn't set off the alarm bells, nothing will. The authorities need not look any further to discover why we have not had one major foreign investor exploiting the opportunities of the new South Africa.

If the government is concerned, it is doing a good job of not showing it. The Department of Health's proposal for a national health insurance fund are nothing short of suicidal. Many doctors are already stretching out their feelers across the Indian Ocean.

If accepted — and none of Dr Zuma's colleagues have yet voiced any objections — the transitionary 5% payroll levy will be replaced with a more permanent 3% tax, raising R5,1-billion. In return, many taxpayers will get a poorer service.

Other, more insignificant actions, do not inspire confidence. This week Finance Minister Chris Liebenberg told the electronics industry that surcharges and ad valorem duties on electronic imports would not be abolished because of a loss in revenue.

The need to pursue additional taxes and tariffs to fund spending is not only economically unsound but also surprising given that tax and customs revenues in the current fiscal year are running well ahead of Budget.

Mr Liebenberg's much-publicised intention of running South Africa in line with international economic standards is certainly not yet in evidence.

Sven Lünsche

Integration 'could take years' BD 23/1/95

Homeland tax bureaucracies hamper Katz

(320)

CHAOS in the TBVC and former homelands' tax systems, which are being integrated with the national system, could make the Katz commission's goal of enhanced tax administration far more difficult, tax experts warned at the weekend.

They said the absorption of more than 1 000 TBVC and former homeland "undertrained and underworked" employees would hamper the national tax administration's efficiency.

Michael Katz

While in some cases senior national staff had been seconded to the former states, the majority of the TBVC and former homeland employees had never had the experience of working in an organised revenue department. "And these are the people who have to be absorbed into the national system."

Katz commission member Dennis Davis said the commission had said before it made its recommendations that integrating the 11 tax administrations was a matter of concern.

Commissioner for Inland Revenue Trevor van Heerden said only three administrations had been brought into the main system so far — KwaZulu, Ciskei and

SAMANTHA SHARPE

Transkei — with the others still outside the control of the national revenue department. Only once the administrations had been harmonised could the process of training staff and dealing with the old systems get under way — a process that could take several years.

Staff rationalisation as a result of reintegration was further dependent on processing 82 000 applications for the 420 internal revenue posts advertised by government last year. Van Heerden said an option — which expires in March — that allowed all revenue employees over fifty to choose retirement could further deplete inland revenue's experience pool.

Ernst & Young partner Charles McKenzie said the inland revenue department was labouring mightily with limited resources, and restaffing and upgrading was pivotal to SA's economy. "Revenue in the past few years has been denuded of experienced people and their staffing levels are very thin." Absorption of inexperienced staff into this pool would probably add to the problem rather than alleviate it.

SA Institute of Chartered Accountants tax committee chairman and Kessel Feinstein tax partner Ernest Mazansky said it would be optimistic to expect the integration process be completed in the next few years. "The problem facing inland revenue is the same one facing the entire public service," he said. "The TBVC and former homelands are bloated with undertrained and underworked public servants that have been given promotions way beyond their qualifications."

Katz reassuring on impending tax changes

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Wealthy have little to fear

Star 25/1/95

Wealthy South Africans should not fear recommended changes to the country's tax regime, according to Michael Katz, chairman of the Katz Commission on Taxation.

Speaking at the annual tax seminar of accountants KPMG in Johannesburg yesterday, Katz said wealthier taxpayers in South Africa were generally better off than their counterparts in many developed countries.

He said they would remain that way, despite major tax restructuring planned for later this year.

Burden

"I really don't believe that there is a burden, where the wealthy of this country should feel their incentives have been destroyed," he said.

According to the commission's recommendations, released late last year, the recommended higher tax rate for those earning over R150 000 per annum would be offset by the absence of a transitional levy, no capital gains tax and low rates of donations tax, he said.

Michael Katz ... focus should be on helping those who were forced to live on a day-to-day basis.

An estimated total of between R10 billion and R15 billion would be generated by implementing more efficient tax collection, which would involve overhauling the Department of Revenue and the Department of Customs and Excise.

Katz told the seminar the commission was shocked by the chaos endemic in South Africa's tax administration.

This was particularly true at the Beit Bridge border post "where there has been a complete breakdown".

"Unless the issue of tax administration is comprehensively addressed, none of the commission's recommendations can be taken further," he said.

However, the country could not rely on the yield from tax administration alone to finance various "imperative reforms".

These included tax relief for poverty-stricken communities, reducing the tax burden on the R20 000 to R80 000 tax bracket and scrapping of all tax distinctions based on gender or marital status.

As a result, tax rate increases for top-income earners were unavoidable.

Elaborating on reports of overseas enterprises taking fright at the country's tax rates, he said commission surveys showed that potential investors were more concerned about political stability and tax consistency than with actual rates.

"I haven't found a single case where tax was a factor that put off a foreign investor," Katz said.

"If we didn't go the route we did with our recommendations, there'd be no stability, and investors would be out," he said.

Criticism

Responding to criticism about the proposed "cap" on tax-free payments to retirement schemes, Katz said the country's focus should be on helping those who were forced to live on a day-to-day basis.

"There is an island in our society which has been singled out for hugely beneficial treatment in a country with such huge needs.

"The pension industry makes an important contribution to South Africa, but there is a huge amount of generosity of treatment," Katz said. — Sapa.

Public hearings on proposals to be held

Cape Town — The parliamentary select committee on finance will hold public hearings on the Katz Commission's tax proposals from February 2 to 4.

The hearings could still influence the Budget, chairman Gill Marcus said yesterday.

Marcus said she had been given an assurance by the Finance Ministry that her committee's recommendations would be taken into account when finalising the March 15 Budget.

"They have asked us to comment on the proposals and that is exactly why there is such a hurry on this," she said.

Marcus on Monday called for written submissions to be sent by January 28 on the Katz Commission's interim report, which was released late last year.

She said oral evidence, which could include alternative ideas on meeting the state's fiscal requirements, would be heard in the course of the public hearings.

"If we were to propose something that would affect the bottom line, it would not be able to go into this year's Budget.

"But if we can come up with some other ways to raise the same amount, they will listen to us.

"They are ready to hear from people on this critical question," she said. — Reuter.

Certain tax recommendations found wanting

Sacob picks holes in Katz proposals

Star 25/1/95 (320)

BUSINESS STAFF

The SA Chamber of Business (Sacob) has slammed the Katz Commission Report's top marginal tax rate and retirement fund deductibility proposals.

While lending its qualified support to the Katz recommendations, Sacob, in a meeting with Finance Minister Chris Liebenberg in Johannesburg yesterday, said of the report's proposed tax rate structure:

- The proposed top marginal rate of 45 percent is high when compared to top marginal rates in comparative jurisdictions.
- It ignores the need to align the top marginal rate with the corporate rate, so that the tax system does not overly favour incorporated businesses over unincorporated one.
- It would appear, in fact, to place a greater burden on taxpayers in the R10 000 to R20 000 income range.

Contributions

On the commission's recommendations regarding the deductibility of contributions to retirement funds, Sacob could find no basis for supporting them.

Sacob regarded the existing limitations as adequate protection for the Fiscus against any abuse which could possibly arise.

"The proposed cap on the deductibility of contributions to pension and retirement annuity funds would adversely affect a significant number of taxpayers and greatly increase their already heavy tax burden.

"Introducing measures of this nature will unavoidably prejudice the long-term ability of citizens to make adequate provision for retirement.

"This will result in an increased burden on society and the government to provide for pensioner care.

"It will also impair the ability of the economy to encourage and generate domestic savings."

Further, the tax treatment of benefits derived on withdrawal or retirement in the light of the proposals had been ignored.

"This is a serious oversight and the resultant uncertainty is causing wariness to take decisions about retirement because of insufficient knowledge about possible tax changes in this respect."

Sacob noted that the commission's recommendations would have the effect of widening the gap between the tax treatment of pension and provident funds.

"The report is silent as to the reasons for this step."

These and other objections to the commission's recommendations highlighted the danger inherent in the ad hoc treatment of an issue which was highly emotive and which had important implications for the economy in the long term.

Sacob was scathing over the current culture of non-payment, which posed a very serious threat to society in general and specifically the "promotion of economic growth" principle.

Accordingly, the commission's recommendations on improved tax collection and administration had to be given serious attention.

At the same time, Sacob expressed two caveats:

- Enhanced tax collection and administration must be implemented and would only succeed if the guideline principle of "the rule of law" was fully complied with.
- Failure to reverse the culture of non-payment which existed not only in the area of taxation and non-respect for the overall rule of law, would result in an increasing tax burden being carried by the law-abiding section of the business community.

Detriment

"A decline in tax morality would inevitably result and be to the economic detriment of the country."

Sacob stressed that meaningful tax reform had to result in an overall reduction in the tax burden, rather than the shifting of emphasis from one tax to another.

"Sacob is of the view that meaningful tax reform can only occur with smaller, more efficient government."

It accepted that corrective action by the government through the Reconstruction and Development Programme was of great importance.

"However, Sacob believes that the large pressures for increased tax spending, together with the relatively narrow tax base, has the potential to create significant distortions in our tax system, and indeed our economy."

Nothing to fear from tax changes, says Katz

WEALTHY South Africans should not fear recommended changes to the tax regime, according to Katz commission chairman Michael Katz.

Speaking at accountants KPMG's annual tax seminar yesterday, Katz said SA's wealthier taxpayers were generally better off than their counterparts in many developed countries, and would remain that way despite major tax-restructuring later this year.

"I really don't believe that there is a burden, where the wealthy of this country should feel their incentives have been destroyed," he said. (320)

The recommended higher tax rate for those earning more than R150 000 a year would be offset by the absence of a transitional levy, no capital gains tax and low rates of donations tax. BD 25/1/95

Between R10bn and R15bn would be generated by revamping the Revenue and Customs and Excise departments. The commission was shocked by the chaos in the tax administration. At Beit Bridge border post there was a "complete breakdown".

"Unless the issue of tax administration is comprehensively addressed, none of the commission's recommendations can be taken further," he said.

However, the country could not rely on the yield from tax administration alone to finance various "imperative reforms".

These included tax relief for poverty-stricken communities, reducing the tax burden on the R20 000-R80 000 tax bracket and the scrapping of all tax distinctions based on sex or marital status.

As a result, tax rate increases for top-income earners were unavoidable.

Elaborating on reports of overseas enterprises taking fright at the country's tax rates, he said commission surveys showed that potential investors were more concerned about political stability and tax consistency than with actual rates. "I haven't found a single case where tax was a factor that put off a foreign investor," Katz said. — Sapa.

Affluent need not fear, Katz (320)

WEALTHY South Africans should not fear recommended changes to the country's tax regime, according to chairman of the Katz Commission Michael Katz. Speaking at an accountants' tax seminar this week Katz said wealthier taxpayers in South Africa were generally better off than their counterparts in many developed countries and would remain that way despite major tax restructuring later this year. Sowetan

"I really don't believe that there is a burden, where the wealthy of this country should feel their incentives have been destroyed," he said.

According to the Katz Commission's recommendations, released late last year, the recommended higher tax rate for those earning over R150 000 a year would be offset by the absence of a transitional levy, no capital gains tax and low rates of donations tax, he said.

An estimated total of between R10 billion and R15 billion would be generated by implementing efficient tax collection, which would involve revamping the Departments of Revenue and Customs and Excise. 26/1/95

Katz said the commission was shocked by the chaos endemic to the country's tax administration, particularly at the Beit Bridge border post "where there has been a complete breakdown". "Unless the issue of tax administration is comprehensively addressed, none of the commission's recommendations can be taken further," he said.

However, the country could not rely on the yield from tax administration alone to finance various "imperative reforms". These included tax relief for poverty-stricken communities, reducing the tax burden in the R20 000 to R80 000 tax bracket and scrapping of all tax distinctions based on gender or marital status. As a result, tax rate increases for top-income earners were unavoidable. — *Sapa.*

(320)

INCOME TAX FM 27/1/95

Commissioner clarifies

The Commissioner for Inland Revenue has over the past few months issued official practice notes on a wide range of issues. They confirm practice relating to:

- Excessive remuneration to company directors, including executive members of CCs, and other employees. Before 1990, it was standing practice to disallow as a deductible expense some or all of the remuneration paid to a director or employee who holds shares where the pay was considered excessive for services rendered.

As a concession, the amount disallowed was treated as a dividend. When dividends were exempted from tax, the practice was stopped. Since March 1 1990, the excessive pay has been taxed as earnings. This also applies to interest and rental charges, administrative and other fees.

The situation should be avoided as the expense will be disallowed to the company and the shareholder will have to pay tax on everything received at the full rate for earned income.

Whether remuneration can be considered excessive depends largely on the nature of the business and of the services rendered as well as the employer-employee relationship, says Ernst & Young tax partner Ian MacKenzie. Companies should be able to justify the pay levels and should not just accept Revenue saying they are excessive;

- Self-employed taxpayers must base their claims for vehicle expenses on actual costs incurred over business distances travelled.

If a proper log of distances has not been kept, Revenue accepts the addition, as a taxable fringe benefit, of 1,2% a month of the cost of the vehicle (excluding Vat);

- Employers' contributions to employees' pension, provident and medical aid funds will be not be deemed dividends declared by the company. So such payments do not create a liability for secondary tax.

The interpretation was needed because Section 64C(3) of the Income Tax Act is loosely worded and could have been construed as imposing liability.

The Commissioner has now allowed the word "remuneration" in that section to be read in broader terms than generally in the Act. And various types of payments are covered.

MacKenzie says treating the contributions in any other way would have been inequitable and beyond the scope of secondary tax;

- For interest paid on borrowed money to qualify as a deduction, the expenditure must be incurred in the carrying on of a trade. Intention is important here.

A taxpayer who borrows money to relend at higher interest has always been deemed to have engaged in a money-making venture, even if his ordinary business is not money lending. So he may deduct the full amount of interest paid.

But what if someone who is not a money lender earns interest on capital or surplus funds invested? Though there is no basis in strict tax law, the Commissioner has confirmed the long-standing practice of allowing a deduction for expenditure incurred in the production of the interest — up to the amount of the income earned on the funds. This includes interest paid if the funds are borrowed.

FM 27/1/95 (320)

Katz Commission's wrong caps

It should have been guided by economic needs rather than political correctness

Limiting the tax relief enjoyed by those who are saving towards their pensions is both an economically perverse and ineffectual way of squeezing out more tax revenues. Yet that is what the Katz Commission is planning to do by capping the tax deductibility of contributions to pension, retirement annuity and related funds.

The reason SA is in such critical need of foreign capital is that it does not save enough to finance the exploitation of its resources and thus provide consistently rising prosperity for its people.

That situation will certainly be aggravated by the capping proposals, which amount to a sustained and ill-considered onslaught on those sufficiently prudent to husband their resources and save them. If they are adopted, the consequences for personal savings and thus for investment will be serious.

Ultimately they will hit the savings not only of the rich, but of fund members and even pensioners. Far from being an innocuous sop to radical egalitarianism, they would be a fundamental and destructive interference with a system of retirement benefit structures and incentives that has worked well for a long time.

Those hardest hit would be executives and self-employed professionals whose skills are critically needed in a modern economy and who will leave if they are unable to provide reasonably for their old age and protect themselves from government-induced inflation.

But the detrimental consequences do not end there. The gains in revenue — or for that matter, the sop to radical sentiment — seem hardly worth the candle.

The proposals, however advantageous they seem politically, suggest that the commission was far more concerned with the political implications of taxation rather than with the economic ones.

To the extent that there is a clash — either real or imaginary — between social and economic objectives, this should be resolved by parliament.

Momentum Life's Martin Khourie adds that the proposals will upset the workings of defined benefit ("final salary") pension schemes — which rely on periodical cash injections by the employer to ensure that the fund can meet the promised benefits in the form of a percentage of projected salary at retirement. These are contractual obligations by the fund.

Defined benefit provident funds are a rare arrangement designed mostly to serve high earners.

The real casualties if the recommendations go through would be members of defined-benefit funds across the entire earnings spectrum, including retired members.

The reason is that the incentive to save, from both employee and employers, will be substantially reduced, especially during periods of rising inflationary pressures, and the pool of investment funds whose returns are used to increase pensions annually will be substantially reduced.

As things stand, the Income Tax Act provides an elaborate structure of deductions on contributions to pension funds and related forms of contractual savings. An employer may claim a tax deduction for contributions to approved pension, provident and benefit funds (including medical aid schemes).

The employer's deductible contributions are added together and subject to a minimum deduction of the lesser of 10% of each employee's remuneration and actual

ident funds, no change in concessions is proposed. Investment income would remain tax-free and employers' contributions continue to be deductible. The commission views these funds as "fiscally privileged savings accounts".

However, the commission ignores the current practice of aggregating for tax purposes employers' contributions to approved funds, so its intention in relation to contributions to provident funds and benefit funds is obscure.

Khourie argues this oversight will upset the delicate balance of taxation between pension, provident and RA funds. Still worse, there is no clear indication of how, if at all, benefit fund contributions would be capped within the aggregate rules.

Perversely, if government accepts the recommendations, there will be less tax neutrality between pension and provident funds. For higher paid executives, it would be beneficial to contribute more to a provident fund after the capped limit has been reached for a pension fund.

The switch-over point would be on pensionable salary in excess of R120 000 per year, where the maximum deduction of R9 000 per year is reached at the allowed 7,5% of pensionable income.

Retirement annuity (RA) funds have their own structure for deductions, with some

... on retirement	... tax regime	... introduced
Pension fund lump sum	**R426 683**	**R328 218**
Provident fund lump sum	**525 148**	**0**
	951 831	**328 218**
Tax on lump sums	**141 411**	**71 211**
After-tax balance	**R810 420**	**R257 007**

Income during retirement	**Current tax regime**	**If Katz proposals are introduced**
Pension	**R68 269**	**R52 515**
At a 10% return on investments	**81 042**	**25 701**
Total income before tax	**149 311**	**78 216**
Tax on income	**52 279**	**21 725**
Net income after tax	**R97 032**	**R56 491**

Assumptions: •Age 40 •Salary of R180 000 per annum •Member contributions to pension fund=7,5% •Company's contributions to pension fund=12% and to provident fund=8%

Source: FINCORP

At present, there is no percentage limit to deductible contributions on behalf of State employees, nor is there a limit on the amount of their tax-free lump-sum benefits — in contrast on both issues to private sector funds. Egalitarianism doesn't appear to apply between the sectors.

What happens if the commission's proinflation. Any tax rule expressed in money terms will be eroded by inflation.

The commission is silent about the need to index the level of the proposed caps, to preserve their value in real terms.

The commission has also urged that the tax-free status of pension funds be re-examined. If the income of pension and RA funds is itself to be taxed, this would be a double blow against contractual savings.

The capping that was implemented abroad, notably in Britain in the Eighties, had some justification because it applied mostly to supplementary pension schemes and was done at a time of moderating inflation.

Neither phenomenon is evident here and, indeed, as inflation rises, so will the impact of fiscal drag on pensioners' incomes as a result of the Katz proposals.

Gill Marcus told Reuters this week that the parliamentary select committee on finance will hold public hearings on the Katz proposals next month.

Be warned: a failure to point out their weaknesses could lose the argument by default, with costly consequences to the entire economy. ■

contributions. The onus is on the Commissioner to disallow the tax deduction on contributions he deems excessive.

The Commissioner normally allows deductible employer contributions of up to 20% of employees' remuneration. He is often more lenient with medical aid contributions, as these are normally expressed as a rand amount. For lower paid employees with dependants, medical aid contributions are often in excess of 20% of remuneration.

The commission has proposed important restrictions grouped by type of fund. In the case of pension funds, employees' deductible contributions are now 7,5% of pensionable income, without any ceiling. The commission proposes a cap of R9 000 in deductions in each tax year. Higher contributions would still be allowed, but not be deductible.

Employers' deductions for contributions to pension funds would be restricted to twice the aggregate of employees' capped contributions. Higher contributions would still be allowed. The commission proposes a period of grace for non-contributory pension funds to adapt to the new dispensation, presumably because employers' deductions would be determined in relation to employees' contributions.

The commission proposes that all tax deductions for employers' contributions to defined benefit provident funds be disallowed, except that investment income of these funds would remain untaxed, and concessions on disability, withdrawal, death or retirement would continue.

In the case of defined contribution provident funds, no change in concessions is proposed. Investment income would remain tax-free and employers' contributions continue to be deductible. The commission views these funds as "fiscally privileged savings accounts".

However, the commission ignores the current practice of aggregating for tax purposes employers' contributions to approved funds, so its intention in relation to contributions to provident funds and benefit funds is obscure.

Khourie argues this oversight will upset the delicate balance of taxation between pension, provident and RA funds. Still worse, there is no clear indication of how, if at all, benefit fund contributions would be capped within the aggregate rules.

Perversely, if government accepts the recommendations, there will be less tax neutrality between pension and provident funds. For higher paid executives, it would be beneficial to contribute more to a provident fund after the capped limit has been reached for a pension fund.

The switch-over point would be on pensionable salary in excess of R120 000 per year, where the maximum deduction of R9 000 per year is reached at the allowed 7,5% of pensionable income.

Retirement annuity (RA) funds have their own structure for deductions, with some special rules for married women subject to separate tax.

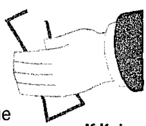
At present, the tax-deductible contribution is the greatest of: 15% of nonpensionable net income; R3 500 per year less pension fund contributions; or R1 750. The commission proposes increasing the 15% to 22,5%, subject to an annual cap of R27 000. Also, gender discrimination should be removed, so the formula would apply to all taxpayers.

There is no recognition that the percentage basis for RA contributions was designed to allow for wide variation in the annual income of members of the free professions. An architect or consultant engineer should be able to provide tax-free for retirement during the fat years, which may be infrequent. To cite annual incomes based on those years is to overlook other periods, during which a practice may even make a loss.

Khourie draws attention to yet another inconsistency — the recommendation that State institutions should be exempt from the cap on employers' contributions.

EFFECT ON INCOME IN RETIREMENT

for someone earning a salary of R180 000 a year



...if contributions continue at the tax effective limit

Capital available on retirement	**Current tax regime**	**If Katz proposals are introduced**
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What happens if the commission's proposals are applied to representative examples of executive remuneration?

The chart takes a 40-year old executive with a total package of R180 000 per year. The effect on his capital accumulated by age 60 is catastrophic — shrinking to less than one third of what it would be without caps. On top of that, his retirement income would almost halve.

What would be the reward to the fisc for this assault on contractual savings?

The commission estimates that the cap on employees' pension fund contributions would increase the tax yield by some R200m. The cap on employers' contributions would show up in a gain in company tax paid, but the commission did not attempt to quantify this.

If the gain here is comparable to the gain through capping employees' contributions, we are discussing a total gain in tax of less than R500m — less than 0,5% of total tax revenues.

And what is the price that will be paid for this modest contribution to the fisc?

First, the proposals detract from taxpayers' current rights under existing schemes. This is tantamount to retroactive tax legislation — which all fiscal systems condemn and recognise to be more undermining of taxpayer confidence than anything else.

Thus, RA members' financial planning is often based on a target of a particular percentage of anticipated income at retirement.

There is also the problem of inflation. Any tax rule expressed in money terms will be eroded by inflation.

The commission is silent about the need to index the level of the proposed caps, to preserve their value in real terms.

The commission has also urged that the tax-free status of pension funds be re-examined. If the income of pension and RA funds is itself to be taxed, this would be a double blow against contractual savings.

The capping that was implemented abroad, notably in Britain in the Eighties, had some justification because it applied mostly to supplementary pension schemes and was done at a time of moderating inflation.

Neither phenomenon is evident here and, indeed, as inflation rises, so will the impact of fiscal drag on pensioners' incomes as a result of the Katz proposals.

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Tax gain for married women

(320)

ARG 27/1/95

Business Editor

MARRIED women will no longer have to pay more tax than their spouses — a move that will cost R2,1 billion in lost revenue.

After years of debate, the hand of the Receiver of Revenue has finally been forced by the interim constitution which prohibits discrimination by gender.

Commissioner for Inland Revenue Trevor van Heerden has announced that from March 1, a temporary blanket taxation table which taxes all employees as married people without dependents, will be applied until the new budget is passed by parliament.

For the first three months of the budget year — March, April, May — married women and single people will pay less, while most married people with dependents will pay slightly more.

However, the additional amounts paid by people with dependents will become recoverable over the full year of the tax when parliament approves whatever new tax rates are proposed by the Minister of Finance when he presents his budget in March.

Pay packets of married people with dependents will be reduced by 27 cents a day for each child over the three months.

An employee over the age of 65 will be taxed at the rate applicable to married people over 65 with no dependents.

The transitional tax of five percent, which has been collected over a shortened period since September, will continmue to be collected at the same rate of 6,6 percent of taxable income.

Depending on what Finance Minister Chris Liebenberg does in the budget, taxpayers could see their monthly pay packets swell from June as the transition tax drops away.

Deputy Director in the Commissioner's office Aiden Keanly said today it had been decided to apply the new tax table to Paye taxpayers from March 1 for efficiency and easier collection.

Same rate for all from March 1

(320)

BD 27/1/95

Sweeping tax change to be introduced

SAMANTHA SHARPE

TAX discrimination on the basis of sex or marital status will be removed at a stroke on March 1 when all earners will start paying income tax at the same rate, says Inland Revenue.

Commissioner for Inland Revenue Trevor van Heerden said yesterday that while the Katz commission's recommendations for a unitary tax system had not yet been accepted by government, "what is already beyond doubt is that the discriminatory rates applied on the basis of marital status cannot continue".

Employees would, therefore, be taxed according to the rates paid last year by married people with no dependent children, despite their sex, marital status or actual number of children, he said.

Van Heerden said the "interim arrangement" would probably apply until the end of May when new deduction tables, based on the tax rates announced in the 1995/96 Budget in March, would come into force.

The use of this year's tax tables for the first three months of the 1996 tax year would ensure an accelerated collection of the 1,67% transition levy. In terms of last year's Budget, the 1996 transition levy was to have been collected over the first six months of the year.

Inland Revenue warned against viewing the single tax rate for all as a move to anticipate tax changes in the March Budget. It said the move was "merely a temporary measure to remove discrimination in the collection of employees' tax".

But tax experts said the interim rate was compatible with the Katz recommendation for a unitary personal income tax system. "It will lighten the load of unmarried people and married women," said one.

The temporary rate was clearly a pre-emptive recognition of the commission's recommendations.

"Revenue's arrangement goes beyond the simple desire to remove the unconstitutionality of the current tax system," another expert said. "There is an implicit assumption that the Katz commission's recommendations to abolish child rebates will be carried through at Budget time."

Experts said even though a basic principle of the Katz commission's report had been accepted, it was most unlikely that the whole package would make its way into the Budget.

The SA Chamber of Business (Sacob) said it was concerned about the time lag between the commission's major thrust to tighten up revenue collection and the revenue shortfall from the personal income tax relief recommended.

The commission argued that massively improved tax collection and administration could raise billions of rands in revenue to offset the cost of tax relief.

Sacob said implementing the Katz proposals would see "significant net revenue shortfalls" until the gap between tax levied and tax raised had been sufficiently narrowed. "We are concerned that such a situation could lead to increased deficits before borrowing during this period, and urge the government to guard against this eventuality."

Taxman will settle for less from beginning of March

Respite for women taxpayer

(320) Star 28/1/9

SINGLE and married women employees can rejoice — they'll be giving less to the taxman from March 1.

But married taxpayers with dependent children will be paying slightly more.

The Department of Inland Revenue announced this week that a new table for PAYE (pay as you earn) — used to calculate an employee's monthly tax deduction — will be effective from March 1.

The new PAYE table is an interim measure reflecting the quandary of Inland Revenue.

On the one hand, taxing employees in the new tax year with the existing PAYE tables would be unconstitutional because they are discriminatory on the basis of gender and marital status.

On the other hand, the proposals of the Katz Commission — it recommended a single, non-discriminatory table for all taxpayers — have not yet been passed by Parliament and an announcement from the minister of finance on the proposals is expected in his 1995 Budget speech in mid-March.

The new PAYE table issued by Inland Revenue is a mix of old and new: there is one tax table applied to all employees but set at the tax rates of the existing PAYE table applicable to a married taxpayer with no dependent

THE newly issued interim tax table for PAYE reflects the quandary currently being experienced at a Department of Inland Revenue in a state of transition. The new table is a mixture of both old and new, reports LEIGH ROBERTS.

children.

As the figures in the accompanying table show, single and married women taxpayers will pay much less PAYE.

The reason married persons will pay more is due to the expected abolition of the existing child rebate of R100 per child.

The new table will not apply to the remuneration of part-time employees. It will apply to employees over 65 but the old age rebate will still be included in the calculation.

Employees, however, should not get too used to paying less PAYE each month.

If the tax rates recommended by the Katz Commission are accepted by Parliament and enacted as they stand, taxpayers will generally end up paying more tax than under the new PAYE table.

In addition, the harsh clamping down on travel allowances and retirement contributions recommended by the Katz Commission will further increase one's tax bill.

Syd Pope, public relations officer of Inland Revenue, says any under or overprovision for tax occurring under the new PAYE table will be corrected in the next PAYE table — to be issued to take effect from June 1 and incorporate the changes made in the March Budget.

An interesting — and perhaps unfair — aspect of the new PAYE table is that it incorporates a too-high portion of the transition levy. The rates of the new table have been taken from the old PAYE table (for a married person with no children).

These rates were loaded to collect the first part of the transition levy (at 3,33 percent of taxable income in excess of R50 000) over the six-month collection period.

The second part of the transition levy (at 1,67 percent) was to be collected in the first six months of the tax year starting March 1.

In effect, the new PAYE table forces employees to pay off the second half of the levy in three months instead of six.

Also, most married women, (provided they earn more than R50 000) will be paying the transition levy for the first time under the new PAYE table.

Annual Taxable Income	OLD PAYE		
	Married 2 kids	Singles	Married Women
R	R	R	R
20 000	1 275	2 100	3 150
40 000	6 175	8 500	9 550
60 000	13 875	16 840	17 350
80 000	22 275	25 440	25 350
100 000	30 875	34 040	33 350
120 000	39 475	42 640	41 350
140 000	48 075	51 240	49 350
160 000	56 675	59 840	57 350
180 000	65 275	68 440	65 350
200 000	73 875	77 040	73 350
220 000	82 475	85 640	81 350
240 000	91 075	94 240	89 350
260 000	99 675	102 840	97 350
280 000	108 275	111 440	105 350
300 000	116 875	120 040	113 350

Katz on tax gets Sacob's ire

(320) ARG 28/1/95

Business Staff

THE SA Chamber of Business (Sacob) has slammed the Katz Commission Report's top marginal tax rate and retirement fund deductibility proposals.

While lending its qualified support to the Katz recommendations, in a meeting with Finance Minister Chris Liebenberg in Johannesburg this week, Sacob said of the report's proposed tax rate structure:

■ The proposed top marginal rate of 45 percent is high when compared torates in comparative jurisdictions.

■ It ignores the need to align the top marginal rate with the corporate rate, so that the tax system does not overly favour incorporated businesses over unincorporated ones.

■ It would appear, in fact, to place a greater burden on taxpayers in the R10 000 to R20 000 income range.

On the commission's recommendations regarding the deductibility of contributions to retirement funds, Sacob could find no basis for supporting them.

Sacob regarded the existing limitations as adequate protection for the Fiscus against any abuse which could possibly arise.

"The proposed cap on the deductibility of contributions to pension and retirement annuity funds would adversely affect a significant number of taxpayers and greatly increase their already heavy tax burden.

"Introducing measures of this nature will unavoidably prejudice the long-term ability of citizens to make adequate provision for retirement.

"This will result in an increased burden on society and the government to provide for pensioner care.

"It will also impair the ability of the economy to encourage and generate domestic savings."

Further, the tax treatment of benefits derived on withdrawal or retirement in the light of the proposals had been ignored.

"The report is silent as to the reasons for this step."

These and other objections to the commission's recommendations highlighted the danger inherent in the ad hoc treatment of an issue which was highly emotive and which had important implications for the economy in the long term.

Sacob was scathing over the current culture of non-payment, which posed a very serious threat to society in general.

Accordingly, the commission's recommendations on improved tax collection had to be given serious attention.

At the same time, Sacob expressed two caveats:

■ Enhanced tax collection and administration must be implemented and would only succeed if the guideline principle of "the rule of law" was fully complied with.

■ Failure to reverse the culture of non-payment which existed not only in the area of taxation and non-respect for the overall rule of law, would result in an increasing tax burden being carried by the law-abiding section of the business community.

Sacob said meaningful tax reform had to result in an overall reduction in the tax burden, rather than the shifting of emphasis from one tax to another.

"Sacob is of the view that meaningful tax reform can only occur with smaller, more efficient government."

ST(BT) (320) 29/1/95

Katz defiant over tax proposals

Married woman - current tax payable compared to tax payable from March 1 1995

Monthly taxable income	Current tax payable	New tax payable	% change in tax
2 000	355	193	-45,63
3 000	675	438	-35,11
4 000	1 050	769	-26,76
5 000	1 445	1 226	-15,16
6 000	1 845	1 713	-7,15
8 000	2 645	2 702	+2,16
10 000	3 445	3 695	+7,26
12 000	4 245	4 688	+10,44
14 000	5 045	5 681	+12,61
16 000	5 845	6 675	+14,20

Rebates currently available to married women (R900) and married persons (R2 225) have been used in the above calculations.

Graphic: FIONA KRISCH — Source: ERNST & YOUNG

By SVEN LUNSCHE

THE recommendations of the Katz commission into taxation are coming under fire from key financial and industrial sectors.

The criticism is likely to spill over into Parliament this week when Professor Michael Katz, chairman of the commission, will be questioned by the standing committee on finance.

After the hearing Finance Minister Chris Liebenberg will have to decide whether to include the recommendations, which range from a unitary personal tax rate to capping pension fund contributions, in the 1995/6 Budget.

Questioned on Friday Professor Katz said he was confident the government was committed to tax reform although it might differ with the commission on details.

The government has been lobbied by numerous business interests to change key aspect of the Katz recommendations.

The life insurance industry has been the most vociferous. It charges that the recommendations on capping employer and employee contributions to pension funds would seriously limit the ability of individuals to plan for retirement.

The Katz proposals recommend that employees' deduction limit of 7,5% of pensionable income be capped at R9 000 a year, increasing the tax yield by R200-million. Employers contributions should be capped at R18 000.

Professor Katz defended the recommendation at a Sacob seminar on Friday, arguing that he had to recommend priorities in line with the government's overall economic development programme.

"The reality is that 80% of South Africans are not looking at retirement planning as their basic need. Housing, health and other basic amenities come first," he said.

At Friday's seminar Professor Katz also came under fire for not addressing the high overall corporate tax rates, which were deterring foreign investors.

Standard Bank economist Nico Czypionka said the Katz recommendations would not solve structural obstacles to economic growth.

"The tax burden has progressively increased over the past 20 years to a level where we are considered a high-tax country," he said.

Contrary to the assumptions of the Katz report, a corporate tax rate in excess of 35% coupled with the secondary tax on companies would frighten off potential foreign investors, he added.

In his address Professor Katz said World Bank studies showed that foreign investors were primarily concerned with political stability and exchange controls and only to a lesser extent with tax rates.

In its response to the recommendations Sacob also warned that the 25% STC rate was acting as a deterrent to foreign investment.

Meanwhile, the Receiver of Revenue has taken up one of the main themes of the Katz recommendations and announced non-discriminatory tax rates with effect from March 1 (see table).

These rates look set to be replaced with new personal tax rates, recommended by the Katz commission, by June.

From March 1 all taxpayers will pay the same rate of income tax irrespective of sex or marital status. The table includes the transition levy of 1,67% to be paid on all income above R50 000.

March end to sex-based taxes

CT 30/1/95 (320)

By BARRY STREEK
Political Staff

PUBLIC hearings on the Katz Commission's proposed tax reforms are to begin this week, the chairperson of Parliament's Joint Committee on Finance, Ms Gill Marcus, disclosed yesterday. She said the committee hoped to complete its investigations into the tax proposals by the opening of Parliament on February 17.

This means the tax reforms could be included in the budget for the 1995/6 financial year to be tabled before Parliament on March 15.

Ms Marcus also said a working group of her committee was examining ways to make the budget process more open and to allow participation.

Written representations on the Katz Commission's proposals closed on Saturday. Ms Marcus said her committee's oral hearings would begin on Thursday February 2, and continue through Friday and Saturday.

The first of the proposed reforms – the scrapping of discriminatory tax on married women – will be introduced on March 1 when all earners will start paying income tax at the same rate.

The Commissioner of Inland Revenue, Mr Trevor van Heerden, said that while the commission's recommendations for a unitary tax system had not yet been accepted by the government, "what is already beyond doubt is that the discriminatory rates applied on the basis of marital status cannot continue".

Since the new constitution was implemented, with its prohibition of discrimination on the basis of gender, women's groups have demanded the abolition of discriminatory taxes. The Black Sash threatened to take the government to court.

Ms Marcus said she was not aware of any move to repay married women for tax illegally collected during the past year.

She said her committee would examine whether taxation could be used to meet the government's objectives. "I don't mind being taxed as long as it is a fair tax because then you are getting something back for it. If tax is utilised to build society, I am more than willing to make a contribution to that."

Katz cool on VAT hike

320

Business Staff

A VAT increase is out of the question at present, says Katz Commission chairman Michael Katz.

Addressing a SA Chamber of Business (Sacob) tax seminar over the weekend, he said such an increase would be morally unacceptable, given the unequal distribution of wealth.

Defending his proposals, which many see as soaking the rich, Mr Katz said a tax system without the right degree of progressivity would be perceived to be inequitable and without credibility.

"There are suggestions that it was a populist report, but one of the most important issues for the commission was the huge poverty in South Africa."

Although everyone believed in lower corporate and personal tax rates, something had to take place at the upper end, he said.

But the transition levy and the increase in the top marginal rate from 43 percent to 45 percent should be seen in the context of a very low capital transfer tax, no capital gains tax, no tax on dividends and a low rate of indirect tax.

"This is what international investors look at."

Mr Katz defended the capping of pension fund contributions, saying there was a lot of abuse in the retirement industry. "There are huge take-outs tax-free at the end." ARG 30/1/95

He said it was a question of priorities and of how much the State should contribute to any one industry.

About 80 percent of the population was not worried about retirement, but rather where they were going to live and find food for their families.

"The pensions industry should be making a contribution to the larger well-being and needs."

Mr Katz said bad tax administration was responsible for losses in revenue of R10 billion to R15 billion a year.

Standard Bank group economist Nico Czypionka said the commission had failed to address the need to promote vigorous growth.

"Instead of tinkering and trying to adjust the tax system for social needs, the commission should have been bold enough to tackle the real problems."

Mr Czypionka said it was obvious the commision had faced upfront political constraints and had been forced to fit in with the fiscus' needs, "just like the Margo Commission".

But the sequencing of priorities was questionable, he said.

"The poor might have been better served by an increase in public-sector efficiency and a reduction in waste."

Cuts in personal and corporate taxes might have generated faster growth and provided more jobs.

South Africa's tax burden had increased over the past 20 years to levels where the country was now labelled a high-tax country, in spite of a decline in the economic growth rate from six percent in the 1960s to its current one percent.

Mr Cyzpionka said that had the commission really believed it possible to increase efficiency in tax collection in the near term, it would have matched this by tax cuts to serve growth objectives.

He warned against the proliferation of small taxes, which were increasing the overall tax burden.

Cross-subsidisation of user charges to benefit the poor at the expense of the rich had not been taken into account.

"These things count as part of tax collection."

He said the luxury of a tax system which kept on yielding reduced the pressure on the goverment to cut its size and its losses.

"We have to decide what comes first — the ability of the economy to deliver the funds in the short term, or the sustainabilty of growth in the long term."

Morally unacceptable, tax commission chairman tells Sacob

Increase in VAT out of question, says Katz

(320) Star 30/1/95

BY CLAIRE GEBHARDT

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Warning on shortfall in revenue

320 SAMANTHA SHARPE

INLAND Revenue's sweeping tax reforms, which would see the implementation of a single tax rate for all South Africans on March 1, could lead to a R2,5bn hole in government's 1995/96 Budget, Inland Revenue sources warned at the weekend.

But they said the introduction of the single tax rate at the same rates paid last year by married people with no children was only an interim measure.

Commissioner's office deputy director Aidan Keanly said a new set of rates would probably be in place in May. "The R2,5bn shortfall would be applicable only if the rate was imposed for a full tax year.

"Any marginal loss from the interim measure would be outweighed by the chaos of retaining an essentially discriminatory system," he said. BD 20/1/95

There were several options should there be a shortfall. Two of those — to increase the budget deficit before borrowing or raise tax rates — were beyond consideration, he said. The only way to stop the gap would be to increase the efficiency of the tax administration system.

The Katz commission said in its interim report that introducing a new schedule of rates and reform of the SITE system would result in a R3bn revenue shortfall, which would have to be sought outside the personal income tax system.

The major thrust of the report was on enhancing current tax administration, which would lead to at least an additional R5bn in revenue.

Reintroduce fuel levy, says Maharaj

(320)

■ OWN CORRESPONDENT

Durban — Transport Minister Mac Maharaj has proposed that a dedicated fuel levy be reintroduced to provide for the management, maintenance and improvement of the national road network.

Addressing delegates at a transportation summit in Durban, Maharaj said the fuel levy was in line with similar actions taken other countries.

He also said toll roads would probably be a feature of South Africa's primary road network in the future. These toll roads could be set up on primary roads with a high traffic volume.

"This incidentally opens the doors for the build, operate and transfer concept involving the private sector, and which is extensively used overseas, to be brought into play," he said.

There were up to 100 000 km of secondary and tertiary roads, including many tens of thousands of kilometres of roads in rural and urban townships, which urgently need repair.

"This will be the major, if not primary, duty — as we approach the 21st century — of road engineers in the provinces and metropolitan areas. These roads will have to be funded from general taxation," he said.

Star 31/1/95

Consumers told to expect VAT hike

(320) SAMANTHA SHARPE BD 31/1/95

CONSUMERS should prepare for a VAT increase — one of the only viable options left to government if it wanted to fill the potential R2,5bn hole in the 1995/96 Budget, tax sources warned yesterday.

They said the shortfall, which would arise if the recently announced unified tax rate structure was implemented for the whole tax year, could be met by a one percentage point hike in the VAT rate to 15%. Inland Revenue said last week the new tax rate would be an interim measure until rates were finalised in May.

While an increase in VAT could prove politically unpopular among unions, it was the only "quick cash" bridging mechanism left to a government anxious to keep a lid on its deficit before borrowing.

Experts said, however, that the call for a VAT increase would have to come from the Finance Department, with the Katz commission on taxation against it. Commission chairman Michael Katz said at the weekend an increase was out of the question.

Ernst & Young tax partner David Clegg said a VAT rate increase was unlikely to prove disastrous for inflation. It was an "unattractive solution" but probably the only short-term one. More efficient tax administration was the long-term solution to shortfalls resulting from tax reform.

Coopers & Lybrand senior tax partner Danie Uys said it would have to be a politically brave man who called for a VAT increase. Marginally higher tax rates were the more likely short-term solution.

10c a litre fuel levy mooted

(320) ARG 1/2/95

BRUCE CAMERON
Business Editor

MOTORISTS could soon find themselves paying at least 10 cents a litre extra on fuel with a possible maximum of 25 cents if the government goes ahead with the re-introduction of a roads tax.

A roads levy is still included in the existing fuel price but the money goes into the central government coffers and is not dedicated to the upkeep of roads.

Proposals for the reintroduction of a road levy to be added to the fuel price were mooted by Transport Minister Mac Maharaj at a transport summit in Durban.

The levy would pay for the management, maintenance and improvement of the national road network.

When the levy was initially introduced in the 1970s, it was dedicated to the upkeep and development of the national road network.

In 1988, when motorists were paying eight cents a litre towards the road fund, the government decided to do away with the dedicated fund and the levy was consolidated with other fuel taxes.

At present, motorists are paying almost 70 cents in taxes and levies for every litre of fuel they buy.

Changes 'unlikely' to Katz proposals

By CLAIRE GEBHARDT (320)

JOHANNESBURG. — The Katz Commission's proposals, already labelled "Katz's Folly", are likely to be accepted by the government without too many alterations.

Commission member Pierre du Toit told delegates to a tax seminar hosted by African Life yesterday that the commission was probably not far out in terms of the major thrust of its proposals.

"The government is unlikely to raise VAT or attempt a long list of zero ratings in the face of the recommendations."

However, the standing committee on finance, due to start hearing evidence on the proposals in Cape Town today under the chairmanship of Gill Marcus, is likely to give commission chairman Michael Katz and others a grilling. CT 2/2/95

Experts said yesterday that little change was likely to be made to VAT and personal income tax proposals, but the pension-fund capping proposals, which limit tax relief, were likely to be the focus of vociferous debate.

Both Katz and Du Toit argue that the pension fund industry must contribute to the well-being of the larger community — many of whom prefer a roof over their heads to retirement options.

Fisher Hoffman Stride's senior tax partner Anthony Chait said the VAT proposals were likely to be accepted holus-bolus, as well as an increase in the top marginal rate of personal tax — though possibly not to 45%.

The focus on the marginal rate would be determined by budgetary rquirements, to help balance the books, he said.

"But obviously the single tax table means a loss of revenue that has to be made up somewhere else."

Stiff prison sentences were likely to be mooted for tax evasion, coupled with the amnesty proposal.

Chait said the 9percent flat rate of employees' tax up to R30 000 would probably be rejected as unworkable.

"The pensions issue could be resolved by going for a percentage rather than a monetary limitation."

Dedicated fuel levy welcomed

BD 2/2/95

(320)

AMANDA VERMEULEN

TRANSPORT Minister Mac Maharaj's call this week for a dedicated fuel levy to be reintroduced has been welcomed by business and interest groups if it is implemented in a way fair to motorists, taxpayers and business.

Maharaj said inflation, the 1973 oil crisis and the end to the national road fund in 1988 had resulted in a significant decline in funds allocated to intercity roads to a level half of that 20 years ago.

A dedicated fuel levy would be used by central government to upgrade and maintain national roads, while other roads would be the responsibility of provincial and local structures.

SA Chamber of Business (Sacob) director of economic policy Ben van Rensburg said it was essential to have a dedicated fund for road upgrades and maintenance.

Currently, the road fund was one element of the consolidated fuel levy, which meant the levy was part of central government's revenues, and was not a dedicated fund to be used solely for improving the national roads.

Sacob recommended that government estimate what percentage of the fuel levy the road fund represented. This could be taken out of the consolidated levy and be established as a dedicated fund.

Government would also have to estimate what the funding requirements for upgrading would be and adjust the road levy accordingly.

While Van Rensburg said this did not necessarily mean consumers would have to pay more for petrol, he acknowledged that it was possible the road levy would have to be adjusted upwards, causing an increase in petrol costs.

He emphasised that the proposed levy would have to be fair to motorists and to taxpayers, as well as to those commercial and industrial sectors that relied on road transport.

"This method of funding upgrades and maintenance will minimise the impact on the economy."

An Automobile Association spokesman said it welcomed a dedicated road fund, adding that it had opposed the 1988 withdrawal of the dedicated levy.

"Roads are the lifeblood of the economy and if they deteriorate, it would have a serious effect on the economy as well as becoming a road safety problem."

Bureau of Economic Research economist Pieter Laubscher said the proposed levy was sound in principle but it had to be implemented in a fair and reasonable way to avoid spiralling inflation.

He said one positive effect would be job creation possibilities and the stimulation of the heavy engineering and construction sectors.

Easy passage seen for Katz

(320)

BY CLAIRE GEBHARDT

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'SA's tax system in a sorry state'

3/2/95

(320)

CLIVE SAWYER
Political Correspondent

TAX administration in South Africa is in a sorry state, the parliamentary committee on finance has been told.

Katz commission chairman Michael Katz, giving evidence on the commission's report on a new tax system, said reform of tax administration was a precondition to all other reforms in the report.

The commission reported last year after hearing oral evidence on a new tax system, examining more than 300 submissions, and visiting some revenue offices.

Increasing the amount spent on revenue collection could bring in billions of rands, the commission said.

A loss to national coffers was not the only consequence of poor tax administration.

Urcertainty hampered business planning and ordinary taxpayers felt they could get away with evasion.

Tax morality in South Africa was at a low level, Professor Katz said.

Competition among businesses was "distorted" by inconsistent treatment by the inland revenue department.

Professor Katz said his report was not a criticism of any individual or department.

He called for the development of autonomy and professionalism within the inland revenue and customs and excise departments.

Commissioner Pierre du Toit said the country should not go on trying "half-measure" responses to the problem of poor administration. Bad administration bred disrespect for the law.

Replying to a question by Willem Botha (FF) about whether the Receiver of Revenue had enough staff suitably qualified to improve administration, Professor Katz said there should be no lack of suitable applicants to serve in a restructured department.

Bright people would be attracted to the department, as they were in other countries, to use it as a stepping stone in their careers as accountants.

But improvements to pay, conditions of employment and status were necessary.

Professor Katz said accommodation in some revenue offices was "not attractive".

Mr Du Toit said that proposing to spend more money on tax administration was not simply throwing money at the problem.

Bureaucratic rules meant staff were not managed and deployed as they would be in private enterprise.

Professor Katz said public education about income tax and putting revenue offices where people lived were also part of the solution.

Fundamental principles which should guide the government in its approach to the report were:

- The need to end discrimination in tax tables on the grounds of gender and marital status.
- The need to eliminate bracket creep.
- Provision for poverty relief.
- An appropriate value-added tax system.
- Efficient tax administration.
- Tax collection that was fair and constitutionally defensible.
- Tax that was friendly to foreign participation in the economy.

Car allowances 'paid as salary'

(320) ARG 3/2/95

Political Correspondent

SOME employees are paid car allowances as their "salary", the Katz Commission on tax has told parliament.

Commission member Jan Graaff said car allowances were "exceptionally generously dealt with" by current income tax legislation.

● If a tax amnesty was given, it should be done swiftly and simultaneously with a clear message from the government that it was tightening up tax administration. Failure to do this could put tax morality at risk, the commission told the committee.

● Special tax rates for small businesses should be avoided because of the potential for abuse, the commission said.

● The personal liability employers faced if miscalculating contributions of standard income tax on employees (SITE) "would not be accepted by any assessor working for inland revenue", Mr Graaff said.

● Foreign investors put tax systems "way down" on the list when deciding whether to come into a country, said commissioner Pierre du Toit.

But while tax systems did not bring in serious investors, they had the potential to scare them off.

Poor face tax blow

□ *Commission urges the axing of child rebates*

CLIVE SAWYER
Political Correspondent

AN income tax shock could be in store for thousands of low-income, one-breadwinner families.

This has emerged from evidence given by the Katz Commission on Taxation to the parliamentary committee on finance.

And recommendations by the commission to cap retirement funding have been slammed as likely to hit personal savings and domestic investment.

A proposal for a presumptive tax on gross assets of companies is likely to hamper small businesses, it has been said.

The proposal has drawn warnings that it is the "thin edge of the wedge" of a wealth tax.

Households with one breadwinner may be hard-hit if proposals to abolish primary and child rebates and to impose a sliding scale of personal tax on earnings of more than R10 000 a year are implemented.

The proposed rate is up to nine percent for those earning R20 000.

Katz commissioner Jan Graaff admitted that people in this category would pay "slightly" more tax than they paid now.

Committee member Max Sisulu (ANC) said he was concerned at the impact on individuals at the lower end of the scale.

Axing the child rebate was "taking food out of children's mouths".

To someone earning R800 a month, losing a R100 tax rebate was losing a lot of money, he said.

He rejected the argument that scrapping child rebates would help the campaign against population growth.

"People do not look at tax tables before making children."

Dr Graaff said the question of child rebates was sensitive and inflation had eroded the value of the rebate.

A better solution to reintroducing the rebate could be to raise the threshold of eligibility for tax, he said.

Giving evidence to the committee, Chamber of Mines vice-president Nick Siegel said it was not clear what the commission's objective was in capping contributions to retirement funds.

The proposal would mean employers and employees would have to renegotiate contracts.

He said the proposals favoured provi-

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dent funds and state over private sector funds.

The retirement fund industry was "the nation's savings industry" and affected South Africa's capacity to invest.

Discouraging contributions to pension funds would be a disincentive to put aside money for retirement.

Chamber legal adviser Peter Anscombe said the concept of a presumptive tax was "the thin edge of the wedge" of something the chamber did not want to see put into the tax system.

Committee member Org Marais (NP) said accepting presumptive taxes, used in South America and spreading to other countries, meant accepting the principle of minimum or wealth taxes.

● More reports page 5.

PAYE (320) FM 3/2/95

Equal rates

The Commissioner for Inland Revenue has put the Paye system on the right side of the constitution — by applying the same rates to all taxpayers, regardless of gender or marital status.

He has issued a merged interim table.

This decision, however, says Inland Revenue spokesman Sydney Pope, can't be interpreted as pre-empting crucial policy decisions which will have to be taken at Budget time.

To avoid the administrative complexity of designing a new table, a decision was taken to use the existing table for married persons with no children (see chart).

This table incorporated two thirds of the transition levy — ie a loading of the Paye payments by 3,33% over a six-month period, equivalent to an annualised rate of 6,67%.

The remaining one third of the levy was to have been collected in the 1996 financial year, at 1,67% over six months.

Therefore the application of the previous year's table implies the remainder of the levy will be collected over three months, at a notional annualised rate of 6,67%.

The interim table leaves unresolved the issue of correcting for fiscal drag in the middle income group (say R20 000-R80 000 annual income), and a marginally increased income tax burden at the bottom of the Paye scale.

Even without the great surrender of revenue that concessions for fiscal drag would generate, the merged table would cause a loss of revenue of around R2,5bn in a full fiscal year.

So the issue of the merged table should not be perceived as implementation of the Katz interim recommendations. This only government can do.

And the post-Budget Paye table could deviate substantially from the interim table.

This is the political hot potato which has been tossed back to the Government of National Unity.

At a recent Sacob tax seminar, Katz commission chairman Michael Katz reiterated his stand against an increase in the Vat standard rate, currently 14%. The reimposition of the standard rate on basic foodstuffs was not mentioned. Nor was an increased tax on petrol.

Nevertheless the lost revenue should be made up from indirect taxes, rather than by loading the income tax rates either for companies or the higher income group of individuals.

If exchange control is to be eventually eliminated, argues Sacob director-general Raymond Parsons, the policy mix must include internationally competitive tax levels for the private sector. This is the only way to ensure capital inflows.

GENDER EQUALITY AT LAST

Revenue merged interim Paye table

	What you pay now: Paye currently deducted in terms of Paye tables (R)			What you will pay
Annual taxable income R000s	Married person with two children	Unmarried person	Married woman	Monthly Paye in terms of the media release (R)
50	814	1 050	1 111	**831**
75	1 815	2 075	1 945	**1 832**
100	2 854	3 118	2 779	**2 871**
150	4 920	5 184	4 446	**4 936**
200	6 989	7 253	6 252	**7 006**
250	9 058	9 322	8 195	**9 075**
300	11 127	11 391	10 140	**11 144**
400	15 265	15 529	14 028	**15 282**
500	19 404	19 668	17 917	**19 421**

This table reflects the monthly PAYE which would be deducted by employers in respect of employees under the age of 65 years with an annual taxable income indicated in the left hand column. Note: The Paye tables take into account the primary rebates currently available to taxpayers and the transition levy which is currently levied on taxpayers.

Source: ERNST & YOUNG

NP takes Katz Commission proposals to task

320 Star 3/2/95

BY CLAIRE GEBHARDT

The National Party (NP) has slammed the Katz Commission's proposal to hike the top marginal tax rate to 45 percent.

It calls for the total corporate tax rate to be cut to 43 percent to attract foreign investment.

In its submission to a parliamentary standing committee on finance yesterday, the NP said the proposed increase in the top marginal rate, together with the recommended capping of contributions to retire ment funds and the adjustment to car allowances, would increase the progressiveness of the tax system for high earners.

It said the tax system and budgets already provided for the transfer of financial resources from higher- to lower-income households.

"There remains little further scope to resolve socio-economic problems via the tax system."

The NP said the RDP provided adequate scope to empower the disadvantaged.

The superficial way in which the commission had dealt with retirement provision came in for a drubbing.

The NP said the proposed capping of contributions would lead to a decline in contractual savings and it was questionable whether discretionary saving would compensate for this, particularly given that no additional tax incentives for interest income had been recommended.

The tax changes would stimulate private consumption expenditure, reduce the flow of savings to contractual savings institutions and change the pattern of personal savings.

It opposed the introduction of a presumptive tax on corporations, close corporations and inter-vivos trusts.

It felt the secondary tax on companies (STC) should not exceed 15 percent in the short term and should eventually be phased out.

Foreigners who had a minimum of 25 percent control of a domestic company should be granted exemption from nonresident shareholder's tax (NRST).

The NP said the total maximum tax rate on corporations should be lowered to 43 percent and the maximum marginal tax rate payable by individuals should not exceed this figure.

The NP said indications that lower-income taxpayers might have to pay more, given the loss of the primary and child rebates, was unacceptable.

Nat defends tax failure but says time ripe for reform

(320) ARG 3/2/95

CLIVE SAWYER
Political Correspondent

THE National Party has defended its failure while in power to improve tax collection, saying this would have been politically inappropriate.

Former deputy Minister of Finance Theo Alant said the NP government had not been regarded as legitimate and any attempt to reform tax administration would have been seen as unilateral restructuring.

He said yesterday the NP had wanted to improve tax administration for many years.

The 1987 Margo commission had recommended a series of reforms, but Dr Alant said he had advised former finance minister Derek Keys and the rest of the cabinet not to go ahead with them. Now, though, the time for tax reform was ripe.

He warned that, while it had been predicted South Africa could net an extra R5 billion a year from more efficient tax collection, it would take at least five years to reach this point.

Extra revenue gained in this way should be used for tax reforms and not for further spending.

Dr Alant said the party supported the creation of a single unified tax scale, ending discrimination on the grounds of gender and marital status.

But the proposal by the Katz commission on tax to adjust tax rates to compensate for the effect of inflation on bracket creep, while welcomed, could prove difficult to implement in the short term.

Dr Alant said the top marginal personal tax rate of 45 percent, starting at R150 000 annual income, was too high.

NP slams Katz tax proposals

(320) CT 3/2/95

Political Correspondent

THE National Party yesterday slammed the Katz Tax Commission's proposals, saying they discriminated against both the rich and the poor.

The NP's spokesperson on Finance, Dr Theo Alant, said the Commission was unfairly increasing the tax burden on both companies and individual taxpayers.

"The proposed increase in the top marginal tax rate applicable to taxable incomes exceeding R150 000, together with the recommended capping of contributions to retirement funds and the adjusted system of car allowances, will markedly increase the progressiveness of the income tax system for high earners," he said.

Dr Alant said the Katz proposals were also likely to result in some lower income taxpayers paying more tax – "something which is totally unacceptable to the NP".

While the NP welcomed the introduction of a unified tax scale for single and married persons which eliminated discrimination on the basis of sex and marital status, it said the recommended adjustments to compensate for fiscal drag in the middle income groups was "totally unacceptable."

Dr Alant also said the mooted R5 billion savings to the fiscus by tightening up on tax evasion would take years to implement.

Taxman cuts out the kids

(320) ARG 4/2/95

CLIVE SAWYER
Weekend Argus Political Correspondent

IF you are a taxpayer from next month you will be classified as a married person with no children.

And it will be no use waving your beloved infant at the Receiver of Revenue, because he will turn a blind eye to the wailing little rebate.

The inland revenue department has turned us all into married people without children as part of moves to eradicate discrimination in taxation.

Discrimination on the grounds of marital status and gender is unconstitutional, so the country's three tax tables are to be turned into one.

And rebates for children have been targeted for abolition by the Katz Commission on taxation.

Giving evidence this week to the parliamentary committee on finance, inland revenue official Ian Meiklejohn emphasised the choice of this specific tax scale was not an attempt to pre-empt tax tables to be announced in this year's Budget.

Mr Meiklejohn said it was possible that the loss of R2,5 million from evening out the tables would have to be recovered by increasing the marginal rate of tax on incomes above R50 000.

Gut feeling of tax collection crisis

(320)

Star 4/12/95

CAPE TOWN — Tax collection in South Africa had reached crisis point and the system could collapse soon, Inland Revenue legal drafting director Ian Meiklejohn said this week.

He had no proof this was happening but it was a "gut feel I get from talking to people", he told the parliamentary finance committee.

"I get the impression that resistance is building up to a point where it is suddenly going to break (the system)," Meiklejohn said.

Asked whether this could be linked to the political transition over the past year, he said: "Yes".

The South African Chamber of Business recently expressed concern over the persistence of what it called a culture of non-payment of tax, which analysts see as a hangover from rental and rate boycotts

Earlier, Meiklejohn said the growing incidence of non-payment of tax was also partly due to severe shortages of skilled staff at Inland Revenue, which affected enforcement. — Reuter.

SA 'at crisis point' if top tax officials leave

CLIVE SAWYER
Weekend Argus Political Correspondent

A MASS exodus of senior income-tax officials, expected within two months, threatens to collapse tax collection — and could place the entire state administration in jeopardy.

And, plunging tax morality threatens to shrink the ever-diminishing band of honest taxpayers to nothing.

These dire warnings were issued by the inland revenue department to parliament's joint committee on finance. Severe losses of middle and top-management income-tax staff are to follow the government's offer of early retirement to public servants over 50 or with more than 30 years' employment.

Inland revenue department director of legal drafting Ian Meiklejohn told the committee a crisis was not far away.

"The time for messing around with this crisis is gone.

"We are very close to crisis point."

If tax administration broke down, the entire state administration would follow.

In evidence this week, Michael Katz, who headed a government commission into new tax systems, described tax collection in South Africa as being in a sorry state.

Replying to a question by African National Congress senator Henry Makgothi, Mr Meikeljohn said the inland revenue department had had a rapid turnover of younger staff for some years.

"The department is being carried by old-timers who grew in the department and who know the ropes. These are precisely the people who will leave."

Mr Meiklejohn outlined factors hampering efficiency as including:

- All assessment and collection of revenue was computerised, but the computer was not under the control of the inland revenue department;
- The department did not control its own office administration and stationery requirements; and
- As with all government departments, appointments and promotions of senior staff were not controlled by the department. (320) ARG 3/2/95

Commenting on this bureaucratic nightmare, Mr Meiklejohn said: "If we have to continue to collect revenue, something needs to be done".

The Katz commission has said millions of rands were lost because of poor tax administration.

And, there are mounting fears that a proposed tax amnesty, if mishandled, could worsen resentment among law-abiding taxpayers and spread tax rebellion.

The amnesty was proposed by the commission to bring those who avoided paying taxes for political reasons during the apartheid era into the fold.

But, companies with sophisticated resources also could evade penalties, the

To page 3

Crisis looms if tax officials leave

(320)

From page 1

commission was told. ARG 4/2/95

Mr Meiklejohn also cast doubt on whether the amnesty, as proposed, would work.

While he supported the concept, he said the scheme — which will still require taxpayers to pay three years' back-taxes — would not encourage widespread compliance.

The scheme would mean back-taxes and penalties dating back more than three years would be written off.

But, this meant a taxpayer would have to pay, in effect, four years' tax.

Mr Meiklejohn said this would be equivalent to about a year's income in many cases.

Asked by Inkatha Freedom Party MP Gavin Woods whether he could confirm Katz Commission estimates that taxes lost at present to inefficiency totalled a R9 million backlog and represented R5 billion a year, Mr Meiklejohn said he had no reason to disagree with the figures.

Mr Meiklejohn warned that Katz Commission proposals to drop eligibility for Standard Income Tax on Employees from a ceiling of R50 000 to R30 000 would require a million more taxpayers to fill in forms.

This flood of new administration would exacerbate problems in the inland revenue department.

Mr Meikeljohn said inland revenue commissioner Theo van Heerden had taken personal charge of a probe into hiring additional expertise for the department. But, even if the department was given the money to carry this out, it was unclear just how much expertise was available.

Mr Meiklejohn said he knew of private firms of accountants which had been trying similar recruitments and which had had trouble finding candidates.

Foreigners taxed too heavily, says Katz

(320) ST (BT) 5/2/95

MICHAEL Katz, head of the commission of inquiry into a new tax structure, wants to see the non-residents' shareholder tax abolished immediately and the secondary tax on companies lowered as soon as possible, writes **JEREMY WOODS**.

"We are extremely concerned about the high tax burden placed on foreigners wanting to invest here. Currently they are being penalised and we are looking at ways to redress this," said Professor Katz.

"Foreign investors are subject to a non-residents shareholder tax of 15%, a secondary tax on companies of 25% and a 5% transition levy — in addition to basic corporate tax of 35%.

"This means foreign investors can have tax rates of over 60% and places the foreign investor on a completely different footing to local investors."

Professor Katz disclosed his committee's views to Business Times after the issue was raised in a parliamentary select hearing on Friday in Cape Town.

In the hearing, the tax burden on foreign investors was raised by Danie Erasmus, representing the Association of Law Societies of South Africa.

Outside the hearing, Mr Erasmus said: "Companies come over here and ask us what the tax situation is and it is hard to tell them exactly. The way STC and NRST currently work is a major disincentive to foreign investment in this country's economy."

Pierre du Toit, the member of the tax commission concerned with reforming STC, said the tax needs to be lowered and changed so that foreign companies can gain credits at home by paying it.

"We would like to get rid of STC, but don't want to go back to the old system of taxing dividends. STC cannot be abolished completely because it brings in too much money, but it needs to be made user-friendly."

Concern over tax increases for poor

(320) BD 6/2/95

CAPE TOWN — Finance standing committee chairman Gill Marcus has described the Katz Commission's proposed new rate structure which will result in substantial tax increases to the very poor as a "very critical" issue.

TIM COHEN

Speaking after three days of hearings on the commission's interim report, Marcus said it had become clear that aside from personal income tax, the major concerns were tightening up the administration of the tax system, limiting tax benefits for pension contributions, VAT and the Secondary Tax on Companies.

Earlier, Inland Revenue legal drafting director Ian Meiklejohn presented the committee with stastics which show that a person earning R13 000 a year will pay R540 rather than R95 in tax if the commission's proposal was implemented.

The statistics show that people earning below R22 000 will all pay more in terms of the proposals than they would in terms of the current "married no-children" rate. All other taxpayers would pay less if Katz's proposals were accepted, except those earning above R270 000 per annum.

Inland Revenue has announced that all personal income taxpayers would pay the "married no-children" rate as an interim measure until a final decision on the way to eliminate sex discrimination.

Cosatu said Katz's personal income proposals would be compounded by the elimination of rebates for children.

Cosatu argued that relatively few families would benefit.

The wives of most men in the lower income group earned too little to pay income tax.

In its submission, Sacob also criticsed the income tax recommendations because of the increases at the extremes.

The proposed top marginal rate of 45% was comparatively high and was not aligned with the corporate rate, while Sacob supported Cosatu's objection to the suggested increased burden on taxpayers in the R10 000 to R20 000 range.

Along with the Chamber of Mines, Sacob flatly rejected the proposed presumptive tax on companies which it said would be viewed as an attempt to introduce a wealth tax and a minimum tax on companies.

Although the tax was being levied at a low rate, past experience showed that the temptation to increase rates was very hard to resist, Sacob said.

Cosatu concurred with the commission, Sacob and Inland Revenue office that tax collection and administration needed urgent attention.

Katz under fire on pension schemes

(320)

CT 6/2/95

From CLAIRE GEBHARDT

JOHANNESBURG. — Yet another timebomb has been identified after further consideration of the Katz Commission tax proposals.

As the retirement industry prepares to be shaken to its roots, another ad hoc direct tax on companies and widespread industrial action are just some of the additional doomsday scenarios looming.

Those in line to be hit by a mass movement from defined benefit funds to defined contribution funds, include:

- Pensioners, who rely for their income on contributions from younger members to the fund.
- Those close to retirement whose benefits are likely to be smaller than expected.
- Younger contributors whose end-benefits will be reduced.

The Institute of Retirement Funds (IRF) warned a joint parliamentary committee on finance on Friday that a cap on tax-deductible retirement contributions could cause a R500m sell-off by defined-benefit fund operators.

Legal and pension experts warned that employees might go to court to fight for their pension entitlements if employers tried to bail out of defined-benefit funds.

In this event, those companies locked into meeting their obligations would find themselves faced with another ad hoc direct tax burden for which there was no relief.

These are just some of the effects of the R9 000-a-year cap proposed by the Katz Commission.

IRF representative Graeme Kerrigan said the majority of defined-benefit funds would disappear very quickly.

"It would be impossible to guarantee salary-related pension benefits if contributions by higher-income earners were artificially subjected to a monetary cap with no guarantee of regular adjustment.

"I guess we would see a disinvestment initially by the industry of around half a billion rand, maybe more.

"This, in our view, would be disastrous for the economy."

Momentum Life legal services assistant GM Martin Khourie said a move to defined contribution schemes where employers can limit the amount of their contributions could be labelled an unfair labour practice.

"Employees may insist on staying with the defined-benefit scheme where the whole condition of employment is based on the terms of the fund and the benefit promised on retirement."

The Katz Commission has proposed that tax-deductible retirement contributions should be capped at R9 000 a year for employees and R18 000 a year for employers.

The proposal would affect those earning more than R10 000 a month and would net about R200m a year in taxes.

Committee chairman Gill Marcus said the committee's role would be to ensure that revenue collection was balanced in a way that did not threaten anyone's accumulated assets.

Basically, a defined benefit fund defines your benefit when you retire as a percentage of salary, usually about 70%, as a targeted amount.

Taxman plans for R5bn more

CT 6/2/95 (320)

By ANTHONY JOHNSON
Political Correspondent

Collection of tax 'may break down'

PLANS by the taxman to net an extra R5 billion a year through more efficient collection methods are facing formidable obstacles. The Katz Commission on Taxation estimates that R10bn to R15bn in tax revenue is not collected each year because of poor administration.

But experts believe there is a danger the collection system could collapse rather than show a marked improvement.

The Department of Finance's director of legal drafting, Mr Ian Meikeljohn, told the parliamentary standing committee the pressure on Inland Revenue staff had become so intense the system of tax collection was approaching breakdown point.

The staff shortage and lack of resources had reached crisis proportions and the country was close to where tax compliance broke down.

The department was unable to hire qualified staff and often did not have essential equipment like computers. The situation was likely to deteriorate significantly because of the early retirement offer to civil servants.

"The department is being carried by a small core of old-timers at the precise level the offer of early retirement is aimed at."

Mr Meikeljohn said the heavy tax burden was eroding tax morality and the department did no have sufficient inspectors to enforce compliance.

It would take a long time to remedy the inefficient structure and shortage of skilled staff.

Professor Michael Katz, the commission chairperson, told the parliamentary committee the single largest problem was the lack of skilled staff.

In contrast with standard international practice, South Africa spent less on tax collection and thus allowed increasing tax avoidance and distortion to occur.

Earlier, the National Party's spokesperson on Finance, Dr Theo Alant, said he believed it would take at least five years to improve the system of tax collection to where extra revenue reached the R5bn mark.

'Tax may make areas available'

Land reform vital to peace – minister

320

BY MICHAEL SPARKS

Land reform was not a fanciful whim, but was absolutely essential if the country was to enjoy peace and stability, Land Affairs Minister Derek Hannekom told a conference on land rights in Midrand yesterday.

It would not be easy and would require a "monumental national effort" to succeed, but the success of land reform was "an absolute necessity if we are truly going to enjoy peace, stability, reconciliation and development", he said.

"Landless people are impatiently waiting for a workable model; investors need stability and opportunity; developers are eager to get going; and homeless people are getting increasingly desperate," Hannekom said.

In order for land reform to succeed it was necessary to get greater private sector involvement while also looking at incentives to increase the amount of land available to new entrants to the market, he said.

Restitution

Hannekom described the restitution of land to people who had been forcibly removed as just one part of land reform.

Another aspect was redistribution, which involved providing land for people to live on and also to farm on, with various communities having different needs.

Star 7/2/95

He added that the Government's role was to facilitate and support changes which people in the community had called for.

Hannekom said that a special sub-commission of the Katz Commission into the taxation system would this year explore the idea of a tax on agricultural land that had been mooted last year.

This aimed at reducing speculation in land, encouraging more efficient land use, leading to more land coming on to the market.

Hannekom emphasised that the legislation would provide protection to both the landless and the landowners.

Agricultural land tax being considered

(320)

TIM COHEN and EDWARD WEST

CAPE TOWN — The Land Ministry had considered implementing a land tax on agricultural land of between 1% and 2% of its value, a Ministry source said.

The proposal formed part of discussions between the Land and Finance Ministries announced yesterday by Land Affairs Minister Derek Hanekom.

Hanekom announced at an international symposium on engineering surveying that a special subcommission of the Katz commission would investigate the tax.

The Ministry had not adopted a view on whether the tax should be calculated on the basis of the land's market value or some other measure. BD 8/2/95

No land tax is levied in SA although similar taxes were imposed in Europe, in most of North America and many countries in South America.

It is thought the tax ought to be deductible from income tax and should be levied by local authorities and used to develop local farming facilities.

Hanekom said in spite of criticism from some quarters, he was "fairly convinced" the tax could be useful.

By increasing the supply of land the tax could exert downward pressure on land prices, the tax would discourage land speculation, encourage productivity, enable farmers to pay for services such as roads and encourage the leasing of vacant farming properties, he said.

Hanekom said the institutional framework for land financing in rural areas was hopelessly inadequate to assist the poor and landless.

While various financial institutions operated in rural areas, including the Land Bank, the Agricultural Credit Board, the DBSA and others, lending criteria was restrictive. For this reason a commission was set up to investigate rural financial services provision.

He said a number of areas in regard to land tenure reform were identified at a recent workshop, and legislation was being drafted to enable communities to hold land in communal ownership. The establishment of a national inquiry on tenure reform was being investigated, he said.

Commissioners had been appointed to the Commission on Restitution of Land Rights, with the commission due to start functioning on March 1995. A campaign would be launched next week to inform claimants on procedures for making claims, Hanekom said.

New tax proposed

320 Sowetan 8/2/95

By Glenn McKenzie

NEW TAXES on fresh milk, vegetables and fruit could be used to pay for a R1,5 billion nutrition programme, a Ministry of Health committee has recommended.

In a report published late last year, the Nutrition Committee to the Minister of Health proposed removing the current value-added tax (VAT) exemption on food items not "targeted at poor households".

Under the Nutrition Committee plan, fresh milk, vegetables, fruit, tinned pilchards, and vegetable oil would all be subject to the 14 percent VAT.

Basic food items like bread, maize meal, rice, beans, and milk power would remain tax-free.

The new taxes would be used to fund the current primary school feeding scheme, in addition to other nutrition projects.

Yesterday, Nutrition Committee chairperson Professor Pauline Kuzwayo said the new taxes would not affect very poor and unemployed people who cannot afford these foods anyway.

"We had to decide whether VAT priorities should be to help poor people or promote nutrition. We decided to help poor people," said Kuzwayo.

Lower-paid workers face 'hefty' tax rise

CT 8/2/95

(320)

Special Correspondent

DURBAN. – Employers should warn married staff members with children that their tax will go up from March when the new single PAYE tax table takes effect and child rebates are scrapped.

Deloitte and Touche Durban tax partner Mr Nithia Nallia advised employers to take action now to avoid labour disruption when the increase comes into effect in March.

Parliamentary Finance Standing Committee chairwoman Ms Gill Marcus described as "very critical" the substantial increases in tax for lower-paid workers.

Opponents are likely to insist that the interim table in place from March to the end of May be overhauled to avoid burdening those at the lower end of the income scale.

Katz Commission to look at feasibility of land tax

(320) Star 8/2/95

BY ESTHER WAUGH
POLITICAL CORRESPONDENT

Cape Town — The Katz Commission's investigation into tax reform is to be expanded to include the feasibility of a land tax.

Land Affairs Minister Derek Hanekom yesterday told a symposium on surveying at the University of Cape Town that he and Finance Minister Chris Liebenberg had agreed that a subcommission of the Katz Commission should investigate land taxes "later this year".

In addition to legal and institutional land reform measures, accompanying policy instruments would be explored, he said.

Hanekom said a policy instrument such as a land tax would discourage speculation in agricultural land, resulting in more land coming on to the market and encouraging more efficient use of land.

Turning to pilot land reform programmes, he said pilot districts in each province would be announced within weeks.

These programmes were aimed at creating mechanisms for State-assisted entry into the land market for the most disadvantaged sectors of rural communities, particularly women.

The pilot land reform programme would include a planning grant to allow beneficiary groups to appoint planners to assist them with the development of an infrastructure.

Another aspect of the programme would be a land acquisition grant, he said.

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Agricultural land tax being considered

TIM COHEN and EDWARD WEST (320)

CAPE TOWN — The Land Ministry had considered implementing a land tax on agricultural land of between 1% and 2% of its value, a Ministry source said.

The proposal formed part of discussions between the Land and Finance Ministries announced yesterday by Land Affairs Minister Derek Hanekom.

Hanekom announced at an international symposium on engineering surveying that a special subcommission of the Katz commission would investigate the tax.

The Ministry had not adopted a view on whether the tax should be calculated on the basis of the land's market value or some other measure. BD 8/2/95

No land tax is levied in SA although similar taxes were imposed in Europe, in most of North America and many countries in South America.

It is thought the tax ought to be deductible from income tax and should be levied by local authorities and used to develop local farming facilities.

Hanekom said in spite of criticism from some quarters, he was "fairly convinced" the tax could be useful.

By increasing the supply of land the tax could exert downward pressure on land prices, the tax would discourage land speculation, encourage productivity, enable farmers to pay for services such as roads and encourage the leasing of vacant farming properties, he said.

Hanekom said the institutional framework for land financing in rural areas was hopelessly inadequate to assist the poor and landless.

While various financial institutions operated in rural areas, including the Land Bank, the Agricultural Credit Board, the DBSA and others, lending criteria was restrictive. For this reason a commission was set up to investigate rural financial services provision.

He said a number of areas in regard to land tenure reform were identified at a recent workshop, and legislation was being drafted to enable communities to hold land in communal ownership. The establishment of a national inquiry on tenure reform was being investigated, he said.

Commissioners had been appointed to the Commission on Restitution of Land Rights, with the commission due to start functioning on March 1995. A campaign would be launched next week to inform claimants on procedures for making claims, Hanekom said.

Katz 'should probe land tax'

320

CT 8/2/95

By PETER DENNEHY

Cost will ruin us — farmers

A SPECIAL sub-group of the Katz Commission on tax "should include an investigation into land taxes in its work later this year", Land Affairs Minister Mr Derek Hanekom said yesterday.

Addressing nearly 200 delegates at an international symposium on engineering surveying at UCT yesterday, he said he had had discussions with the minister of finance, who had agreed with him about the need for the inquiry.

The farming community shivered every time he mentioned land tax, but he remained convinced it could become a useful source of local government finance. It would also tend to encourage more efficient use of land, and could even exert downward pressure on land prices.

The SA Agricultural Union has told Mr Hanekom's department that a tax on the country's agricultural land — which was valued at R36,5 billion in 1993 — had the potential to bring financial ruin to a large part of the farming sector.

The actual yield on capital on farms amounted, on average, to about five percent, the SAAU said. A land tax at a rate of two percent would wipe out 40% of this yield, it said.

But Mr Hanekom said he saw no reason why farmers should not pay rates, which would contribute towards the upkeep of roads which they used. "At the moment, if land is zoned agricultural, no rates are payable."

Elsewhere in his speech, Mr Hanekom said the recently-appointed Commission on the Restitution of Land Rights would start to function from March 1.

This is the group that will help people who want to claim back land taken away from them under apartheid legislation.

"A campaign will be launched next week to inform prospective claimants on the procedures and requirements for the lodging of claims," he said. Claims will have to be lodged within three years, or else they fall away.

Eventually the claims will be adjudicated on by the Land Claims Court. It will deal with claims to both state and private land. "Restitution is but a small part of our land reform programme," Mr Hanekom said.

"It barely touches on the critical issues of landlessness, rural poverty and underdevelopment."

Another part of his department's programme deals with redistribution of land, both through state-assisted schemes and through the ordinary market mechanism.

'Take VAT off basics'

(320) Sowetan 9/2/95

By Mzimkulu Malunga

THE most effective relief for the poor is to extend VAT exemptions to all basic necessities, says the Congress of South African Trade Unions.

In its submission to the Select Committee on Finance on the Katz Tax Commission's report, Cosatu argues that the proposed social security system for the poor does not solve the problem.

"The commission argues against an extension of VAT zero-rating. The loss in revenue to the state proves far greater than the gain to the poor," says Cosatu.

The federation says it doubts whether the safety net proposed by the Katz Commission will reach the poorest of the poor. For instance, says Cosatu, only a few poverty relief programmes reach the poor. "African households receive, on average R12 a month in government grants, compared to over R50 a month for coloureds and Asian households, whose average earnings are two to four times higher," argues the federation.

Cosatu also notes with concern the Katz Commission's proposal to remove the entitlement of people to tax rebates on the basis of number of children.

"For a father earning under R1 500 a month with five children, under the Katz proposals, SITE will increase by up to R70 a month," says the union.

Strong resistance to land tax proposal

(320)

TIM COHEN

CAPE TOWN – The DP yesterday slated the proposed land tax, saying it could spell the death-knell of commercial agriculture. BD 9/2/95

The tax, suggested as a 1% or 2% annual tax on land value, was mooted on Tuesday by Land Minister Derek Hanekom who said the issue would be investigated by the Katz commission. He said by increasing the supply of land, the tax could exert downward pressure on land prices and would encourage productivity and the leasing of vacant land.

DP agriculture spokesman Errol Moorcroft said to claim farmers do not pay rates is to demonstrate ignorance as they had always paid rates for such services as they received. The abuse of a land tax to "drive down land prices" was akin to imposing a turnover tax to collapse the stock exchange.

GAVIN STAFFORD reports SA agricultural union deputy director Kobus Kleynhans said the proposed tax would place additional strain on farmers already facing rising costs, which were forcing farmers to make optimal use of their land.

He questioned whether the tax would be applicable to all agricultural land, warning of the possible effects on the small emerging farmer.

Reacting to the Minister's comments that the tax would encourage the leasing of unused land, Transvaal Agricultural Union president Dries Bruwer said land was unused because it was impossible to farm.

He said the tax would not reduce land prices and high production agricultural land would remain expensive.

Our Port Elizabeth correspondent reports that East Cape Agricultural Union president Pieter Erasmus warned farmers would resist."This would be flagrant discrimination against landowners." He questioned the need to put more land on the market when there was between 500 000-600 000ha of state-owned land.

DP: Land tax 'death-knell'

320 Political Staff

THE land tax being promoted by Land Affairs Minister Mr Derek Hanekom could spell the death-knell of commercial agriculture in South Africa, the Democratic Party said yesterday. CT 9/2/95

"The abuse of land tax to 'drive down land prices' is akin to imposing a turnover tax to collapse the stock exchange," it said in a statement issued by its spokesman on agriculture, Senator E K Moorcroft.

"Given the highly volatile nature of our agricultural industry, a land tax would undoubtedly force many farmers off the land"

Report ready on tax proposals

(320)

CLIVE SAWYER
Political Correspondent

ARG 10/2/95

PARLIAMENT'S committee on finance has closed the doors on its debate on controversial proposals by the Katz Commission on income tax.

Committee chairwoman Gill Marcus said the committee's report on the proposals would be ready in the second half of next week.

The Katz Commission, in an interim report handed to the minister of finance in November, recommended that the government refuse to widen categories of goods zero-rated for value-added tax.

A storm ensued when it transpired that personal tax reforms recommended by the commission would hit low-income single-breadwinner families the hardest.

The commission has also run into flak for recommending "capping" of pension contributions.

Land tax 'important'

CT 10/2/95 (320)

JOHANNESBURG. — A land tax would help finance rural local government, Land Affairs Minister Mr Derek Hanekom told delegates to a summit meeting here yesterday on rural local government.

"Land tax could be one of the most important sources of local government revenue," he said, adding it was widely used around the world.

Earlier in the day, Deputy Constitutional Affairs Minister Mr Valli Moosa said the financial viability of rural local government bodies was crucial to their efficiency.

Mr Hanekom said rural local government bodies were important for the government's land reform plans.

The government would set up a policy framework which could respond to different local needs for land reform, but it also required local "input".

Land reform decisions, planning and implementation would take place at the local level, he said.

Tax 'could force farmers off land'

LOUISE COOK (320)

A LAND tax on agricultural land to be investigatedby the Katz Commission could force unproductive farmers off the land, Land Affairs Minister Derek Hanekom said.

Addressing a Rural Local Government conference in Kempton Park yesterday, Hanekom said the land tax of 1% to 2% on all agricultural land could encourage inefficient farmers, who failed to use their farms to full capacity, to leave, making more land available for more economic use.

"Farmers who doubled their production would pay, relatively speaking, less tax than those who underproduced," he said.

The introduction of a land tax was an important source of income for local government, an aid for government to carry out its land reform programme and a way to facilitate social development.

He dismissed the argument that the tax be introduced only on land not fully utilised, saying it would defeat the purpose of such a tax. The National African Farmers' Union, representing black farmers, had said a land tax should apply only to underutilised land. The SA Agricultural Union, which opposed the introduction of a land tax, said earlier it would harm small-scale black farmers.

Finance Minister Chris Liebenberg recently agreed a subcommission of the Katz commission would probe the feasibility of introducing a land tax. BD 10/2/95

Sapa reports CP leader Ferdi Hartzenberg said the proposed land tax was a "transparent" attempt by government to force farmers off their property with a view to redistribution.

"Thousands of farmers could lose their land as a result, to be replaced by noncommercial farmers," he said.

Katz stands by his plan

By TERRY BETTY

THE Katz Commission has replied to critics of the report on a new tax dispensation, saying a few contentious points are being used to discredit a document consisting of more than 200 recommendations.

Michael Katz, chairman of the commission, says: "We were not going to Mars for the first time and designing from scratch the ideal tax system — we had to work with the existing system's imperfections."

He says the commission achieved its immediate objectives of removing discrimination on the grounds of sex or marital status, alleviating the tax burden on lower and middle income categories arising through bracket creep, addressing future bracket creep, assisting small business, maintaining an internationally competitive corporate tax rate and enhancing tax administration and collection. However, some of these reforms will cost R3-billion, so revenue had to be found elsewhere.

"We dismissed early on an increase in the VAT rate, which is not a choice until the reconstruction and development programme starts delivering.

"We then looked to broaden the personal tax base, such as through pension capping and altering the car allowance, and elsewhere such as through a presumptive tax."

Professor Katz says even though the personal income tax rate is slightly higher than in many overseas countries, it is applied to a lenient base where there is no capital gains tax, dividends tax, a mild estate duty and donations tax, a relatively low Vat rate and no tax on income not of an SA source.

He says even though the retirement industry plays a valuable role in providing pensions "we looked at it as an industry that could be expected to make a further contribution".

Capping of pension contributions is expected to yield R200-million for the fiscus on the personal income side and more on the corporate income side.

Pierre du Toit, a member of the commission and a partner at accounting firm Arthur Andersen, says the pensions could be taxed through the contributions to a fund, the build-up of the fund or withdrawals from it.

He says it was decided not to tax the latter two as that would be complex and involve meddling with vested rights. It would also not yield immediate benefits for the fiscus whereas capping would yield immediate revenue.

He says this will not cause people to rely on the state for a pension. "These are not the sort of earners who will end up dependent on the state."

It will not discourage saving as "only people earning above R120 000 a year are affected, and these people are discretionary savers".

He says tax incentives neither increase nor decrease savings levels, but rather influence their direction.

Professor Katz says many tax issues have still to be considered by his commission, such as tax abuse on the withdrawal of pension benefits at retirement. "Our terms of reference were to deal with issues for the 1995 Budget. We are going to continue with the rest of our evaluation."

MICHAEL KATZ

(320) ST 12/2/95

More broadsides

Star 14/2/95 (320)

for tax proposals

BY CLAIRE GEBHARDT

Shelve the Katz Commission's proposals on pension funding, urges Old Mutual Employee Benefits assistant GM Chris Newell.

He says pensioners, those still at work and ultimately the state will pay the price of the proposals if they are accepted.

Newell, who is vice-president of the Institute of Retirement Funds, says that although the recommendations are intended to limit retirement provision tax relief for the wealthy, they will discriminate against ordinary South Africans.

"And ultimately the state will have to pick up the tab for those who have not adequately provided for their retirement."

Accusing the commission of political expediency, Newell says there will inevitably be a move, in the commission's words, to "fiscally privileged" defined contribution provident funds as a result of the cap on pension fund contributions.

Where funds do not convert, employers will be forced to finance pension fund deficits with after-tax money.

This is likely to result in scaled-down benefits as employers try for some tax relief.

Newell says a rise in salary will impact on individual provision because it is likely to go on consumption expenditure.

Capping pension fund contributions will also limit the scope for benefit improvements and pensioners will also get the short end of the stick.

"If the pension fund is maintained, there will be no incentive for employers to grant cost of living increases to pensioners being paid from the fund.

"If the fund converts to a defined contribution provident scheme, pensioners will have to buy a pension from an assurer and the employer will have washed its hands of its pensioners.

"There would therefore be no possibility of future employer money being made available for pensioners."

Newell also criticises the commission for perpetuating the discrimination between private sector employees and civil servants.

"While shackling private sector retirement provision, nothing has been done to cap civil servants' contributions — their lump sum benefits are completely tax-free, as opposed to being capped in the private sector."

workers hostage. It was not a racial issue.

Schoeman farm strike

MEMBERS of the National Union of Farmworkers were on strike at Schoeman Boerdery, Delmas, yesterday, a day after farm owner and former NP Cabinet minister Hendrik Schoeman apparently committed suicide.

Union organiser Tumediso Modise said the workers began the strike after a colleague was unfairly dismissed last week.

'Boere' fail to appear

ALLEGED Boere Mafia leader Johnny Weichselbaumer, 34, failed to appear in the Johannesburg Regional Court yesterday, where he faced charges on 45 counts of fraud involving the cashing of falsified cheques.

His alleged deputy, Jan Daniel Pretorius of Sasolburg, also failed to appear in court. Warrants were issued for the arrest of both men.

Police said it was feared Weichselbaumer had fled the country. He had also failed to appear in a Cape Town court in January.

His Kensington home was empty yesterday.

REPORTS: Business Day Reporters, Sapa.

a larger percentage of whites than in previous surveys expected an improvement in the economy.

Forty-eight percent of respondents expected an improvement in their financial position over the next 12 months, while 18% expected a deterioration, the survey showed.

earners adjusted [illegible] downwards. Their confidence remains, however, at a high level."

Sixty-six percent of respondents expected the economy to improve over the next 12 months, compared with only 32% expecting a deterioration, the survey showed.

Nafcoc left out of new forum

THEO RAWANA

A ROW has broken out between the National Federated Chamber of Commerce (Nafcoc) and [illegible] SA (BSA) over Nafcoc's exclusion from the business component of the National Economic, Development and Labour Council (Nedlac).

The list of representatives submitted by BSA last week to Nedlac — which will be launched officially on Saturday to replace the National Economic Forum and the National Manpower Commission — had no names from Nafcoc.

BSA president Dave Brink said yesterday Nafcoc had been excluded because the organisation withdrew its BSA membership last year.

However, the two organisations were discussing Nafcoc's rejoining, he said.

Nafcoc president Joe Hlongwane said the parties met on Friday to work on bringing the organisation "on board" the BSA's Nedlac team. The meeting ended with Brink saying Nafcoc would be given a 50% vote.

"Today's meeting was to discuss what it means," Hlongwane said. Instead Brink said it could not be done as it would considerably increase the number of officials.

"We don't want to be left out of Nedlac, but we don't want to be bundled with people who still want to maintain the status quo. BSA's conditions are unfavourable," he said.

"People who struggled all the way in this country cannot be kept out of Nedlac." BD 14/2/95

Nafcoc's executive committee would meet today and take its complaint to President Nelson Mandela.

Brink said: "We have put our teams together. Right now we are not including non-members."

Concern over Katz's capping proposal

BD 14/2/95

EDWARD WEST

CAPE TOWN — The Katz commission's proposal of a cap on employer and employee contributions would eventually result in a loss in expected tax revenues to the fiscus, Old Mutual employee benefits GM Chris Newell said yesterday.

He said the R200m tax-take improvement expected through the cap was likely to have the reverse affect over the medium to long term.

The cap would result in a move towards "fiscally privileged" defined contribution provident funds, which would result in a loss in expected tax revenues, he said.

If the funds did not convert employers would have to finance pension fund deficits with after-tax money, which was likely to result in scaled-down benefits as employers attempted to capture some tax relief. "Why should they utilise after-tax money when they can simply reduce benefits and pay employees more?"

Newell said this would significantly affect individual provision because any increase in salary was likely to go towards consumption expenditure. Capping pension fund contributions would also limit the scope for any future benefit improvements.

The commission had perpetuated, even worsened, the extent of discrimination which already existed between private sector employees and public servants. (320)

Public servant lump sum benefits were entirely tax free, as opposed to being capped in the private sector.

"If the proposals are legislated as they stand, they will result in massive upheaval as funds scurry to avoid the additional tax burden."

Newell said a new body should be constituted — to include retirement industry experts — and be mandated to develop holistic proposals with the long-term interests of retirement fund members, pensioners and state in mind.

Opening our hearts

Fiscal policy must be tightened up

(320)

BD 15/2/95

MUNGO SOGGOT

SA NEEDED much stricter fiscal and monetary policy to nurture sustainable growth, Finance Minister Chris Liebenberg said yesterday.

"If we want sustainable economic growth we need stricter fiscal and monetary discipline." Attitudes regarding SA's competive situation also had to change, he told the Frankel Pollak Vinderine investment conference.

Although government was likely to come "within spitting distance" of reaching its targets in the Budget, "we still have a long way to go".

SA's lack of competitiveness and its low savings rate were the main obstacles to sustainable economic growth. The easiest way to improve SA's savings rate was to stop government dissaving, which had dragged SA's savings as a percentage of GDP down to 17,5% last year. Households had accounted for 6,2% of the savings rate and the corporate sector 15,6%, while government had dissaved 4,4%.

Tax incentives were not a particularly good way of cutting consumption and encouraging saving. "They don't increase the pool of savings."

The Mexican financial crisis had taught the dangers of having a low domestic savings rate and relying on foreign capital.

He said inflation was the main factor stifling saving so SA needed stricter monetary policy to mop up local liquidity.

SA's poor competitiveness hinged not only on having too high a minimum wage and too low productivity, but also on "wider issues such as ... uncompetitive bureaucracy, education, tax and attitude".

The National Economic Development and Labour Council's (Nedlac's) plan to develop an export strategy for SA was one of the ways to start fixing these structural problems.

He said the lowering of protective trade tariffs would improve SA's competitiveness. Surveys of SA' competitiveness, which invariably put SA close to the bottom of the list, showed that the one competitive sector was the financial services sector. "Why? Because it has no import tariffs or export promotion."

What the Katz report actually did say

(320) WM 17-23|2|95 (BM)

Katz commission member **Pierre du Toit** argues that critics haven't read the report

SOUTH AFRICA is finding that tax reform within a real democracy is very different from the old days.

Regardless of the Katz Commission's specific terms, submissions came from a much wider representation of society and were much more fundamental than those received by probably any tax commission before it. The people were simply claiming the tax reform process for democracy.

In the breadth of its own consultation and the openness of its deliberations, the commission took this democratic process further. In its evidence before the Parliamentary Standing Committee on Finance it subjected its interim proposals to strenuous debate in public, and with elected representatives of the public. Together with the Standing Committee, it then received further evidence on its interim recommendations.

Against this background, one would expect that the social dimension of such a report would be in tune with the reconstruction and development programme, would be responsive to the need for social justice, and would approach the plight of the poor with constructive empathy.

Yet, if one read certain sections of the financial press in the past weeks, one would think that the Katz Commission went out of its way to burden the poor to the benefit of the wealthy. What then is the real social dimension of this interim report by the commission?

In the first place, the commission makes no apology for its recommendations that tax reform should enhance growth in the economy. In that fundamental it is directly responsive to the RDP's macro objective. The government's White Paper on the RDP describes its commitment to addressing poverty and inequality, and then continues: "This can only be possible if the South African economy can be firmly placed on the path of high and sustainable growth." The commission also seeks to support the RDP's social objectives as regards poverty and inequality.

In its recommendation on personal tax the commission proposed a unitary rate that would remove gender discrimination and smooth the disproportionate burden on the taxpayer brackets between R20 000 and R80 000 a year. The RDP White Paper highlighted the need for both.

At the time of printing the report, however, the new rate structure still contained one anomaly — in the category of single-breadwinner families, broadly between R10 000 and R20 000, the new dispensation would actually result in some increased tax burden. The commission pointed this out, quantified the cost of removing it (some R500-million), and suggested that government may need to find the funds elsewhere in the budget.

If there were any doubts as to the commission's intentions, they were removed in the hearing before the Finance Committee where I recorded, with the emphatic concurrence of each one of the other commissioners present, that under no circumstances would the commission support an increased burden on the poor to subsidise the wealthy or even the less poor.

Those who reported, like a large Cape daily, that the "poor face(d) a tax blow", neither read the report properly, nor listened to the evidence on which they reported.

In another example, the proposal to scrap the child rebate (a credit against tax of R100 or R150 per child) is reported as another attack on the poor, despite the clear motivation in the report that these rebates "gave some R500-million of relief where it was needed least — to families wealthy enough to pay income tax". Would it not be far better to spend that money in targetted relief or in raising the threshold for tax to the proposed R10 000 a year?

When the commission looked at alternative sources of funding for gender equalisation and relief at the certain lower income levels, it considered that the tax deduction on contributions to pension funds and certain provident funds should be subjected to a maximum.

Not only would this provide additional funds to a fisc under pressure, but it would correct a socially undesirable position where savings — in some cases well beyond any retirement needs — are effectively subsidised by the poor in the form of this loss of revenue.

Unfortunately there were some people who launched a vigorous defence of vested pension rights and the accrued savings of pensioners — neither of which is remotely under attack now, nor will come under attack by this commission. The result was the same as shouting "fire" in an old-age home and did little to enhance the debate of socially responsible tax reform.

The social dimension of the commission's proposals can be seen even in the vexed area of zero rating more items under VAT. Removing VAT on various goods and services will in most cases result in more benefit to the wealthy than to the poor.

How does one explain to someone dying of hunger that you were prepared, wastefully, to throw half the so-called relief in the lap of the wealthy?

This argument of course collapses if alternative poverty relief does not effectively reach the very poor. But it is reasonable to give this democratic government, far more in touch with the streets and the shanties, the chance to show that they can do better with direct relief than Rina Venter in the days of Barend du Plessis. The commission warned in its report that if alternative relief is not effective, it would revisit the issue of zero ratings.

The commission's commitment to social justice, compatible with the ultimate RDP objective of lifting people out of poverty through a vibrant economy, runs like a thread throughout its Interim Report.

Other examples of this are found in the proposals to extend tax deductions for NGOs, to assist small business, or to enhance foreign investment towards growth and job creation.

In its continuing deliberations the commission will continue its quest to enhance social justice. This includes, in the ultimate sense, an economy that adds economic liberation to the miracle of political liberation.

TAX

Shielding government

(320) FM 17/2/95

As the Budget approaches, taxes on capital are in the news again. Katz Commission chairman Michael Katz was recently quoted as saying that a capital gains tax could be imposed to bring equity into the system and create certainty.

Katz suggests investors are being inhibited by not knowing whether this tax will be imposed. If implemented, the tax will apply to assets acquired after a certain date.

Meanwhile, the tax advisory committee, also chaired by Katz, is investigating a capital transfer tax to replace the existing estate duty and donations tax.

This idea, recommended in the Margo Report, still makes sense as a rationalisation, as the two taxes are complementary.

The donations tax sections were included in the Income Tax Act to help prevent estate duty avoidance, so it makes sense to have one tax on capital tranfers — subject to the caveat that a capital transfer tax is not at so high a rate as to become a disincentive.

The qualification also applies to any move — for capital transfer tax purposes — to tax assets in a trust at lengthy intervals as if they had been realised. A period of 15 years would be more severe, for example, than the frequently proposed 25 years because the assets will be taxed more often.

There is no economic logic for imposing a capital gains tax now.

Firstly, as Katz himself has reportedly conceded, a capital gains tax will impede the accumulation of wealth by black entrepreneurs. Secondly, SA's reputation under its new government as a place where it is safe to place capital is yet to be established. This is no time to introduce a new tax on capital.

Thirdly, there is the crucial question of inflation adjustment. If the cost of assets is not to be escalated to reflect inflation, a capital gains tax would simply be confiscatory. Tax consultant Willem Cronje says one must choose between an inflation-adjusted tax at a high rate and a non-adjusted tax at a low rate. He prefers the latter, for administrative reasons. An inflation-adjusted version, however, is probably preferable because we might end up with hyperinflation.

Lastly, the existing administrative machine for tax collection is in a state of decay. The need to improve this was one of the main points of the interim Katz Report. It makes no sense to burden the collapsing machine with a new and complex tax.

At least capital gains tax is levied on a materialised sum — the consequence of the realisation of an asset. This saving grace is absent from the proposed tax on agricultural land, which would be imposed on unrealised values. The difficulty of establishing values in current circumstances boggles the imagination. Yet this, too, is to be studied by the Katz Commission.

Cronje says to impose both a capital transfer tax and a capital gains tax is to impose too heavy an aggregate burden on a developing country. "If a tax is imposed on the transfer of assets at all, a composite capital gains tax, like the Canadian system which taxes both realisations and transfers, would be preferable," he suggests. "The current UK system should be avoided at all costs. It first exacts a capital gains tax and then, in the case of succession or donation, imposes a transfer tax."

Decisions to impose taxes primarily to appease radical sentiment in the ANC, should be made by government, which should bear the political responsibility and economic consequences. It seems wiser for the ANC to keep to free market economic policies and accept the inevitable repercussion of loss of support on the left.

For a technical tax commission to remove this political burden from government is to do the country and particularly the economy a major disservice by stifling the debate at the outset. ■

SANLAM

FM 17/2/95

Managing managers

Sanlam managers' remuneration will increasingly be tied to the value they add to policyholders' funds — which would have been no disadvantage last year when nearly R21bn was added to policyholders' worth.

MD Desmond Smith defines value added as the sum of net investment income, realised and unrealised changes in the value of assets, less administration expenditure, sales remuneration and taxation.

Of the R20,8bn added value, R1,1bn was used to strengthen Sanlam's accumulated surplus by 52% to R3,2bn.

Chairman Marinus Daling declared this new policy at the mutual assurer's AGM this week, showing how the operational style of Sanlam has changed. Privacy once surrounded many of its actions and results were suitably applauded at a well-orchestrated annual meeting.

"Corporate governance," says Daling, " is enjoying increasing attention. After in-depth discussions with international experts, the directors accepted a set of guidelines for their functioning in August 1994."

The patriarchal board which controlled every major management decision has been revitalised with younger directors (average age now is 58) and the appointment of Peter Swartz, the first nonwhite.

Senior management is given greater freedom but is fully accountable for the results, which the board will scrutinise from the viewpoint of policyholders. ■

BANKING — 1

FM 17/2/95

Practical men

Beneath the veneer of political correctness lies pragmatism on the part of provincial governments in awarding accounts to commercial banks. Practical considerations such as costs and a local infrastructure seem to be the reasons for North-West's joint award of its estimated R7,5bn account to Absa and First National Bank. Gauteng awarded its R10bn account to Standard Bank mostly on pricing.

While Finance MEC Martin Kuscus says Nedbank came out well ahead in its commitment to the RDP and affirmative action, lack of infrastructure in the region counted against it. In Absa's favour was the strong physical presence of its Volkskas branch network developed through historical ties with the Afrikaans farming community.

Absa has been awarded the revenue side of the account and will deal with the collection of the R1,2bn out of the R7,5bn revenue — principally casino levies and related income.

The deciding factor in First National's favour was its pricing, a function of competitive advantage in electronic processing

Tax shock in prospect for retirees

ST(BT) 19/2/95

(320)

Proposed changes to the rules governing retirement annuities could translate into sharp tax increases for people who retire early, writes **TERRY BETTY**.

HIGH-income earners could pay as much as 50% more tax when taking retirement if certain Katz commission recommendations are implemented in the Budget.

An example from Deloitte & Touche in the table below uses the case of an executive taking early retirement four months into the tax year.

After receiving R100 000 in salary, R150 000 in consulting fees for the balance of the year, and a R1-million pension payout, he will pay R158 691 more in tax under the proposed rules.

Under the present dispensation he will pay R297 877, whereas the recommendations could raise this to R456 568.

The difference is because executives will no longer use retirement annuities to the same extent to reduce taxable income in the year they retire.

They used to be able to pay up to 15%, with no rand limit, of non-retirement-funding income tax free into a retirement annuity, but this could be changed to 22,5% with a limit of R27 000 under the Katz proposals.

Limiting the tax-free deduction increases the taxable income of a top earner in the year of retirement, and so increases the average tax rate levied on lump sums from a pension fund.

When people retire they can take up to a third of their pension as a cash lump sum. The remainder is paid as an annuity for the rest of the person's life.

The tax rate charged on the lump sum withdrawn from the pension fund is the average rate of tax applied to all other income, excluding the lump sum.

As people can reduce or defer all other income so that in the year of retirement they are earning close to zero, they are able to reduce the rate of tax from around 40% to 17%.

For a person receiving a pension payout in the millions, it translates into a lot of money.

Ken Walton of Deloitte & Touche says salary manipulation takes place in several ways. Firstly, the maximum allocation is made to the retirement annuity.

The executive then retires as early as possible in the tax year, say March 1, so he has reduced other taxable income to a minimum in the year of assessment.

Mr Walton says the retiree is due to receive a monthly pension from the pension fund, which will bolster taxable income, and he gets the pension fund to pay it annually in arrears in the following tax year (if the pension rules allow for this).

Executives also frequently get deferred compensation. Basically, the company pays the employee less salary and puts that cash into an insurance product that matures and pays out money to the executive in the year after retirement. But this is also under attack by the Receiver.

Many executives have retired in anticipation of the loophole being closed. In many cases they have continued working for the company at the same pay as before, but as consultants.

David Clegg of Ernst & Young says people are also taking early retirement from their employment and pension funds as they are concerned about further changes to the retirement lump sum rules. The prospect of tax-capping future contributions makes membership unexciting.

What about people who have not already retired, and may have only the end of this month left to do so under the current rules?

Mr Clegg looks at an example of a top executive earning R750 000 a year in cash and taxable benefits. He is being paid R1-million by the pension fund, and will receive a R16 000 monthly pension after retirement, asssuming that the Receiver will disallow the deferment of a pension.

Should he retire at the end of this month, he will pay R667 188 tax. If he retires in March he will pay R431 060.

This shows that people should not panic into retiring before the end of the tax year just so that they can get the benefit of the full retirement annuity deduction.

Mr Clegg says people retiring from a provident fund face the same problem of a higher tax bill on their withdrawals.

The difference is the member has the option to withdraw the entire actuarial value from the fund (as opposed to the pension fund allowing only a one-third withdrawal), which makes him far more vulnerable to the tax rate changes.

KATZ'S IMPACT

- Actual example of married executive, no children, taking early retirement

Salary (pensionable)	R100 000
Consulting fees (non-pensionable)	R150 000
Lump sum	R1 000 000
Total	R1 250 000

	CURRENT TAXATION	PROPOSED TAXATION
Retirement annuity fund deduction	R(172 500)	R(27 500)
Taxable income	R1 077 500	R1 223 000
Tax payable	R297 877	R456 568
Effective rate	27,64%	37,33%

Graphic: FIONA KRISCH Source: DELOITTE & TOUCHE

CLOSING TIME . . . Ken Walton, who says many tax-saving loopholes may soon disappear

Katz's tax will dent car perks

ST (BT) 19/2/95

FIVE paragraphs tucked away in the 286-page Katz Commission report could cost executives driving luxury cars an extra R900 a month in tax, writes DON ROBERTSON. (320)

Recommended changes to car tax calculations could add R600-million to Inland Revenue coffers.

Assessing the implications of the recommendations, Joe Lynch, tax consultant to FSA-Contact's remuneration division, says if the proposals are adopted they could prompt a shift away from car allowances to the company car scheme.

But the commission has even this loophole covered.

The report says "it is recommended that Inland Revenue monitor the situation closely and make such adjustments ... relating to company car schemes, should there be any evidence of such a switch starting to take place".

The commission recommends that business mileage be based on actual distance travelled, less 18 000km for private use compared with 12 000km at present and that the upper limit of 20 000km be retained.

The recommendations also suggest that deemed expenditure be capped at a car price of R150 000.

Expenditure is calculated on a gazetted table.

Using the FSA findings, Mr Lynch calculates that a car costing R200 000 and travelling 32 000km a year could cost the taxpayer an additional R10 842 a year.

The Argus, Monday February 20 1995

Tax review: Poor may get reprieve

(320)

ARG 20/2/95

CLIVE SAWYER
Political Correspondent

A REPRIEVE could be in store for low-income single-breadwinner families facing stiff tax hikes.

The parliamentary joint committee on finance is poised to call for a review of some of the interim proposals by the Katz Commission on taxation.

Also to be targeted for review will be proposals to put a ceiling on tax exemptions on contributions to pension schemes.

Items which found favour among the multiparty committee, which has been meeting behind closed doors for the past week to review the Katz report, included a plan to make the Commissioner of Inland Revenue's office an autonomous body along the lines of that of the auditor-general.

Katz Commission interim plans to restructure tax tables were initially welcomed as likely to ease the tax burden on middle-income earners.

But a storm erupted during finance committee hearings when it emerged that the poorest of the poor would be hard hit.

Part of the shock would be caused by the removal of child rebates.

Organised business groups were among the lobby who protested against the move to put a ceiling on pension benefits.

Apart from discouraging personal savings, this would have the further effect of hampering capital investment by pension funds, which would have a domino effect in hampering economic growth.

The Katz Commission was appointed by former Finance Minister Derek Keys last year to conduct an overall review of the taxation system, including value-added tax.

The commission recommended that there be no widening of the categories of goods zero-rated for VAT.

This ran counter to demands by several organisations for the VAT system to be eased to aid the poor.

Katz's main tax reforms rejected

(320)

STAR 20/2/95

BY PATRICK BULGER
POLITICAL CORRESPONDENT

Cape Town — Parliament's joint standing committee on finance has rejected controversial proposals by the Katz commission on taxation to lighten the tax load on middle-income earners by collecting more revenue from low and high-income earners.

Both the Katz report and the standing committee's report based on public hearings of interested parties will be tabled in Parliament this week.

'More work'

Committee insiders said the finance committee felt that a proposal to cap the tax relief granted to pension schemes needed "more work" and could not immediately be supported. Similarly, the committee felt it was "not a viable proposition" to levy higher personal taxes on lower-income earners earning between R10 000 and R20 000 a year.

But it endorsed adoption of a single unified tax structure that would remove previous distinctions between married persons, married women and single persons. Inland Revenue officials are already levying taxes as if a single structure had already been introduced.

The Katz report has calculated that equal taxation would leave the fiscus short of an estimated R3 billion a year — revenue that would have to be made up from other sources that were limited, in the short term, to personal and company taxation and VAT. Increases in these rates were not a widely favoured option.

The proposal to cap pension benefits would be of limited assistance in the 1995/96 financial year. The committee report does not recommend how to fill the R3 billion tax hole.

However, it strongly recommends beefing up the collection of taxes. There have been estimates that some R10 billion a year is lost through tax avoidance and evasion.

Separated

The committee wants the Department of Inland Revenue to be separated from the civil service. South Africa needs a more sophisticated and professional tax collection system that operated quasi-independently of the State, the committe says.

Aspects of the Katz report are expected to find their way into the 1995/96 Budget due to be tabled in Parliament by Finance Minister Chris Liebenberg on March 15.

Finance committee rejects plan

Tax proposals to be referred back to Katz

BD 20/2/95 (320)

CAPE TOWN — The parliamentary finance committee is to refer all the Katz commission's recommendations on personal tax back to the commission for further investigation, placing a question mark over the ability of government to implement gender tax equality immediately.

The commission proposed a number of controversial measures to compensate for the annual R2,5bn cost of introducing equality. These included the capping of the tax deductibility of contributions to retirement funds. Sources in the parliamentary finance committee said yesterday the committee would submit a unanimous report which firmly states that the commission's proposal in this respect should be considered in more detail.

The committee also found unacceptable the unified tax tables proposed by the commission in terms of which income earners in top tax brackets and those in the R10 000 to R20 000 a year bracket would pay more.

The rejection of these two proposals will place Finance Minister Chris Liebenberg in an awkward position if he intends equalising tax for men and women as considered necessary in terms of the constitution. The equalisation of tax obligations for men and women would require Liebenberg to raise R2,5bn if the "married with no children" rate is imposed for the full financial year.

The committee's report, due to be released today, strongly endorses the commission's recommendation for a more independent Inland Revenue service and improved tax collection.

In a controversial move, the committee

TIM COHEN

has endorsed the proposed presumptive tax on companies — a minimum tax levied on on gross assets. The proposal was opposed by Sacob and other business groups and was the one aspect of the finance committe report opposed by the NP.

The report will also refer back recommendations on motor car allowances.

The report strongly supports the commission's recommendations on improved tax collection, which the commission suggested could result in an additional income of about R5bn. The committee also broadly accepted the commission's recommendation that no changes should be made to the VAT rate or the current basket of goods that are zero-rated.

Government's intention to equalise income immediately was signalled by the decision by the Inland Revenue office to impose the "married no children" rate at of the beginning of next month.

Politicians said despite the problems it was probable that gender equality would be introduced in next month's Budget in any event because the political pressure to do so was high, even though a phased introduction may be legally acceptable.

The commission's "capping" proposal, which would limit the tax benefit to pension funds, drew vociferous protest from the Life Offices' Association. At public hearings to the finance committee earlier this month, the association argued that the implications of the measure were not fully investigated by the commission. The association was supported by Sacob and the Chamber of Mines.

Tax system 'will not collapse'

ARG 21/2/95 (320)

CLIVE SAWYER
Political Correspondent

TAX administration is stretched but will not be allowed to collapse, says Minister of Finance Chris Liebenberg.

Inland Revenue officials earlier told the parliamentary committee on finance an exodus of top officials threatened to collapse the already overstretched department.

The cause of the exodus is a government offer to public servants to take early retirement if they are over 50 or have more than 30 years' service.

Mr Liebenberg told a press briefing today he did not know which officials had opted for early retirement.

The government would not allow the system to collapse.

Proposals by the Katz Commission on Taxation to improve tax administration would be implemented.

Proposals, according to an interim report tabled in parliament, include steps to improve tax morality.

Other proposals include requiring people to quote tax registration numbers in various dealings with the state, a move aimed at getting more taxpayers on the books.

Streamlined procedures and other means of improving efficiency were recommended.

Mr Liebenberg said the government was unlikely to "throw the whole Katz Commission out of the window".

He was responding to criticism by the parliamentary finance committee of some of the commission's proposals.

The committee referred back proposals

(To page 3, col 1)

'Tax administration won't collapse'

(From page 1) AKG 21/2/95 (320)

which would have sent taxes on low-income single-breadwinner families soaring.

Proposals to cap contributions to pension benefits were also criticised by the committee.

Mr Liebenberg said the government had taken note of criticism in the Press of some of the Katz Commission proposals.

But considering the expertise of the commissioners and the effort they had put into the report, the government was unlikely to reject the whole report.

Mr Liebenberg also disclosed the government had not yet decided whether to implement single tax tables in one go, or whether to phase them in.

He indicated the government would obey a constitutional ban on discrimination on gender and marital grounds, which would require the abolition of separate tax tables.

The government had yet to take legal opinion on whether the constitution would allow phasing in the change to a unified table.

Mutual (320) (365) welcomes committee decision

OLD MUTUAL welcomed the decision by the parliamentary finance committee to refer the Katz Commission's recommendation on the capping of pension funds back to the commission.

Assistant GM in charge of employee benefits Chris Newell said he agreed with the committee that the proposed capping was an ad hoc measure "that does not address the real issues.

"This is important because of the possible impact on long-term savings and the need for people to finance themselves," he said. CT 21/2/95

'Tax system faces looming crisis'

Business Staff

SOUTH AFRICA's tax collection and administration system faced a "looming crisis" and needed immediate improvement, according to the report of the Joint Standing Committee on Finance tabled in Parliament yesterday.

The report, based on a series of public hearings on the interim report of the Katz Commission of Inquiry into Taxation, refers most of the findings back to the commission for further work.

However, the parliamentary committee agreed with the Katz recommendations regarding company taxes saying it would not be in the interests of economic growth to increase company taxes and ways should be examined to broaden this tax base.

It suggested that an imputation tax could remove foreign investor problems with the secondary tax on companies and said the issue of group taxation should be examined more closely.

It said an imputation tax would draw a link between the corporate tax levied on its distribution of profits and a tax credit for dividend income of companies.

The committee agreed in principle with the suggestion that non-resident shareholders tax should be abolished for foreign investors who had a minimum 25% control of a company. It pointed out, however, that existing obligations under double-tax agreements would be affected by such a decision.

The committee said that proposals to introduce thin capitalisation rules for foreign companies should be further evaluated given the current exemption from tax on interest for non-residents.

Meanwhile the parliamentary finance committee said it supported the proposed presumptive tax on the gross assets of companies recommended by the Katz Commisssion. (320)

It said it supported this means of raising revenue despite strong objections. This was the only issue on which the committee was not able to reach a unanimous opinion.

The initial Katz Commission recommendations suggested a presumptive tax on gross assets at a rate of R1 500 per annum for every R10m in assets held.

The finance committee said it sympathised with the objections raised about the presumptive tax, which has been described as a form of business licence.

But it was aware that the costs of tax reform, especially the removal of discriminations against women, had to be financed from other sources.

"The committee is therefore of the opinion that the presumptive tax is not an onerous one, nor is it necessarily open to more abuse than any other form of taxation," it said. ET 21/2/95

It did, however, suggest that a threshold of between R50 000 and R1m be set to cater for trusts, closed corporations and small to medium enterprises.

The banking sector had argued that because they were "asset intensive", they would carry a disproportionate share of the tax. It would also be a form of double taxation as they paid a financial services levy.

The committee said it did not feel competent to comment on the position of banks and referred it back to the commission for further review.

Reforms on personal tax rejected

By BARRY STREEK

PROPOSED tax reforms to remove sexual discrimination — at a cost of R2,5bn — are on the line after Parliament's Joint Standing Committee on Finance rejected the Katz Commission's proposals on personal tax rates and brackets.

The committee said in its report that proposals on personal tax should not be adopted.

However, the committee's response presents a major problem for the government because it is quite clear that tax discrimination against women, particularly married women, contravenes the Charter of Fundamental Rights in the constitution.

(320)

Star 21/2/95

Immediate action urged as Katz proposals rejected

Taxation crisis warning

BY PATRICK BULGER
POLITICAL CORRESPONDENT

Cape Town — South Africa's tax collection and administration system faced a "looming crisis" and needed immediate improvement, according to the report of the joint standing committee on finance tabled in Parliament yesterday.

The report, based on a series of public hearings on the interim report of the Katz Commission of Inquiry into taxation, refers most of the findings back to the commission for further work.

However, the report accepts the need to equalise taxation between married women, married persons and single persons, a move the Katz Commission estimates could cost the fiscus up to R3 billion.

REPORT accepts the need to equalise taxation between married women, married persons and single persons

The committee rejected proposals to make up the shortfall by collecting more taxes from people earning less than R20 000 a year and by penalising higher-income earners by capping the amount of pension fund contributions which are tax deductible.

But the committee was adamant that the tax collection system needed to be improved.

Committee chairman Gill Marcus said in the report that the committee "cannot urge strongly enough that the Department of Finance respond immediately to the situation with a crisis management plan".

Marcus said the Katz recommendations "identify most of the more necessary reforms and begin to suggest the sort of direction these should move in.

"In principle, the committee supports the reform measures highlighted by the commission and appreciates that the commission required more time if a more comprehensive and assertive programme was to have been part of their report.

"In almost every case where reforms were mentioned, the commission recommended further work as being necessary before any implementation would be possible.

"Tax reform in isolation from expenditure considerations can only have limited long-term effects. The committee is of the opinion that equal attention should be given to the expenditure side of the Budget."

The Department of Inland Revenue should be made organisationally autonomous and accountable to Parliament through the minister of finance.

Among the committee's recommendations is a tax amnesty in respect of the period before February 1994, and not the three years before an amnesty date as recommended by the commission.

The committee noted that there was overall support for the elimination of gender disparity in taxes.

Budget likely to hit top earners — economist

(320) BD 21/2/95

EDWARD WEST

CAPE TOWN — The Budget was likely to herald lower personal tax for low and average income earners, and an increased marginal rate for the upper income bracket, Sanlam said in its latest economic survey.

Sanlam chief economist Johan Louw said Finance Minister Chris Liebenberg would probably look to higher income earners to make up for any decreases in revenue by increasing their marginal tax rates.

It was unlikely that the Katz Commission's proposals would be implemented in full, as the proposals would result in a loss of about R3bn in government revenue. Only limited tax relief was expected, though, as moderate revenue increases in 1995-96 would prevent a reduction in the total tax burden.

Louw hoped the marketable securities tax would be abolished. Privatisation was also likely to be considered as a source of income.

The capital account of the balance of payments was expected to show further improvement.

Louw expected tax proposals to result in a revenue increase of about 13,8%, with the net result a deficit before borrowing of R27bn, or 5,4% of GDP, compared with an estimated 6,2% for the 1994/95 financial year.

The marked increase in demand for credit, expected growth in the deficit of the current account of the balance of payments — because of higher imports — and the rising trend in international short-term interest rates were expected to contribute to a bank rate increase of at least two percentage points in 1995.

Tax reform process applauded

SAMANTHA SHARPE

KATZ commission chairman Michael Katz said yesterday he applauded the parliamentary standing committee on finance and government for the process they used in evaluating the report on tax reform.

"We will certainly give very careful consideration to the issues raised by the finance committee as well as comment and criticism received since the publication of the interim report. Our duty is to act in the national interest and we will certainly do our best to do so," he said.

Tax experts welcomed the committee's decision to send the Katz commission's personal tax recommendations back to the drawing board. The move called into question the commission's future, whose proposals were expected to provide the basis for tax recommendations in the 1995/96 Budget, they said. (320)

Independent tax consultant Willem Cronje said the commission's attempt to close the gender tax gap overnight, which would lead to about R3bn seeping out of the tax net, would compound the misery of low-income earners. Phasing in a unified tax structure over three years would be a far better route.

Ernst and Young senior partner David Clegg said the threat of a higher tax bill for the R10 000 to R20 000 a year income bracket could easily be addressed by the implementation of a tax rebate. He was surprised the committee had chosen to endorse the commission's proposed presumptive tax on companies, a minimum tax levied on companies' gross assets.

The Institute of Retirement Funds, which opposed the commission's call for a cap on pension fund contribution deductions, said the call for further investigation was welcome. Vice-president Chris Newell said the development and implementation of "appropriate new measures or amendments to the existing arrangements is now of paramount importance".

Life Offices' Association chairman Jurie Wessels said the association looked forward to taking part in discussions that would affect the pension fund industry.

Sanlam and Old Mutual welcomed the announcement that proposals relating to personal taxation would be referred back to the commission.

Reuter reports that Old Mutual Assistant general manager in charge of employee benefits Chriss Newell said he agreed with the committee that the proposed capping was an ad hoc measure "that does not address the real issues".

The Afrikaanse Handelsinstituut said support by the finance committee for a presumptive tax on a company's gross assets was "unacceptable", especially if there was no corporate tax relief. However, AHI welcomed the decision to refer the recommendation on capping retirement benefits back to the Katz commission, as well as its support for greater autonomy for Inland Revenue.

STC problems under Finance Dept scrutiny

TIM COHEN (320)

CAPE TOWN — Problems caused by the secondary tax on companies (STC), including criticism from foreign investors, would be addressed in the Budget, Finance Minister Chris Liebenberg said yesterday.

The Finance Department was looking "very critically" at the rate and structure of STC, a tax on distributed dividends.

The fact that STC was not recognised in terms of some double tax arrangements had resulted in taxation levels by some foreign companies being rather high.

This had actually encouraged companies to fund local corporations through loans rather than through equity, he said.

The Katz commission had alluded to the problems involved, but would investigate the issue further. BD 22/2/95

Liebenberg would not be drawn on whether he was considering changing the rate or scrapping STC altogether, saying that it would be addressed this year.

Liebenberg said there was concern that the overall corporate tax rate was too high and that there was a lack of understanding about how the system worked.

Commenting on the parliamentary finance committee's recommendation that much of the Katz commission's proposals on personal tax needed more work, he said it was highly unlikely that the commission's proposals would be "thrown out the window". He indicated he was not bound by the committee's recommendations.

Asked about the deficit between government's revenue and expenditure, Liebenberg suggested a new analysis of the underlying situation was likely in the Budget. International comparisons were likely to show that SA's underlying deficit was in fact significantly lower than the current budgeted rate of 6,6%.

Government's target was an average economic growth rate of 3% growth over the next five years. Tax incentives to make foreign investment more attractive were "not on the table at the moment".

Michael Katz . . . is the cost of democracy rendering his commission little more than an exercise in futility?

The way in which interested parties reacted to the Katz proposals on tax concessions shows that democracy is alive and well in SA, writes ***John Spira, The Star's Finance Editor***

Reaction to Katz a healthy sign

(320)

Star 22/2/95

Democracy and freedom of speech is thriving in South Africa — to judge from the reaction to the outcry over certain of the Katz Commission's recommendations on tax.

In the bad old days, if State-appointed commissions emerged with proposals which dovetailed conveniently with government policy (and the instruction was frequently that they should), they were bulldozed through the statutory channels and, almost by default, became law.

Objections

Not so this time round. Strenuous objections to the Katz proposals by a host of representative bodies (among them the SA Chamber of Business and the Life Offices Association) have been heeded by Parliament's joint standing committee on finance.

As a result, both the Katz report and the standing committee's report are to be tabled for debate in Parliament.

Democracy is clearly alive and well.

Particularly heartening is the committee's rejection of the Katz recommendation that tax deductions relating to pension fund contributions be capped.

This was patently a populist proposal designed to disadvantage the advantaged, since the nation's lower income groups have, by and large, opted to take the provident fund route and would therefore not have been affected by the capping recommendation.

The problem is, acceptance of the proposal would have brought insignificant additions to State revenues while simultaneously leaving in its wake a whole host of problems, among them huge savings disincentives and resurgence of the brain drain.

Rejected, too, is Katz's proposition that higher personal taxes be levied on those earning between R10 000 and R20 000 a year — from the first a non-starter in a climate in which Government is pulling out all the stops to reward those who were responsible for putting it into power.

Embraced by the standing committee, however, is Katz's suggestion that a single unified tax structure be adopted — a step which would remove previous distinctions between married persons, married women and single persons.

From the standpoint of equality of tax treatment and the full elimination of any form of discrimination, a unified tax structure is highly desirable, the downside being that State revenues will be prejudiced to the tune of R3 billion — which leaves in the air a conundrum that has yet to be solved.

It is a mere three weeks before the minister of finance presents his national Budget to Parliament. One would have thought that by now the document has been all but finalised — an observation which gives rise to two possibilities:

- Tax equality will be left on the back burner pending further deliberation.
- Tax equality will be adopted and the R3 billion gap plugged by, ironically, some of the quality material contained in the Katz report.

Foremost among these is the beefing up of tax collection. It has been estimated that as much as R10 billion a year is lost as a result of tax avoidance and evasion. Ferret out just one third of the culprits and the problem is solved.

Easier said than done, since achieving such an aim involves staffing the Receiver of Revenue with a calibre of personnel sufficient to track down — and pin down — what are more often than not ingenious evaders of their fiscal obligations.

Here the wheel turns full circle. Ensure that adequate brain power is retained in (and attracted to) the country by creating a tax environment conducive to people of this ilk.

Avoid, at all costs, such measures as the capping of pension fund contributions, for these serve to drive talent out.

Employ top level skills in the receiver's office and the additional flow of tax revenues could more than fill the tax equality void. The conundrum is solved.

Where does all this leave the Katz Commission's proposals?

Futility

Democracy costs — in this case rendering the work of the commission little more than an exercise in futility.

Yet this is perhaps too cynical a conclusion.

Many of the recommendations (the enjoinment to collect all the taxes that are due being one) could be incorporated in the 1995-96 Budget, while those that have been spurned will serve as building blocks in South Africa's quest for an efficient and equitable tax regime.

Tax reform: No decision

(320) CT 22/2/95

GENDER and marital tax discrimination could be phased out over a number of years, or abolished in one step, Finance Minister Mr Chris Liebenberg said yesterday.

However he had not yet decided which approach he would follow in his March 15 Budget, he told a parliamentary briefing.

On Monday the joint standing committee on finance recommended that the Katz Commission's proposal to scrap this discrimination should be deferred.

The committee found that such a move would have an adverse effect on low-income taxpayers. — Sapa

Wealth tax shock as trusts may offer no shelter

(320)

By MAGGIE ROWLEY
Property Editor

THE flurry of South Africans, who opted to "hide" assets in inter vivos trusts and other vehicles in an attempt to avoid expected wealth taxes, could be facing a tax shock.

The presumptive tax on companies, close corporations and inter vivos trusts recommended by the Katz Commission of Enquiry could increase annual costs of home ownership, excluding bond repayments, via one of these vehicles by more than 50%.

So warns Bernard Sacks, tax consultant at Baker Musikanth, the Cape Town member of the Moores Rowland international accounting group.

The Katz Commission has recommended that this tax initially be set at R1 500 a year for every R10m of gross assets.

"The effect could be to increase annual costs of ownership by more than 50%. For example, if rates and taxes on an average surburban three bedroomed house amount to R2 500 a year, the tax at R1 500 a year would represent an effective increase of 60% in ownership costs," he said.

He points out that many private residences are held through the medium of a company, close corporation or inter vivos trust.

In fact, in the past 18 months, there has been a flurry of people resorting to trusts to hide assets for fear of the imposition of wealth taxes such as increased estate duty and capital gains tax.

The proposed tax, says Sacks, appears to target dormant entities as the recommendations are that the tax be deductible for income tax purposes thus being akin to a business licence.

"Many residential properties, however, are held through dormant entities and as such no tax relief will thus be possible for these entities."

He said that the commission's current recommendation that the tax be imposed on the gross assets of the entity concerned, implied that a company, close corporation or inter vivos trust, whose sole asset was a fully bonded property, would still be liable for this tax.

"This type of tax is considered to be insidious and penal and has the potential for significant abuse by the fiscus. While the principle of the tax is not supported, were the tax to be imposed, then serious consideration needs to be given to introducing the tax in a series of steps, for example on assets of R1m to R5m, one would pay tax of R1 500, on assets of R5m to R10m, one will pay R3 000 and so on.

"It is noted that the parliamentary finance committee has to some extent recognised the necessity of a threshold. Its suggestion of a threshold between R50 000 and R1m may not go far enough. A further alternative could be to base the tax on net assets rather than on gross assets and also have it introduced in a series of steps," says Sacks.

CT 22/2/95

Praise for decision on Katz tax reforms

SUGGESTIONS by the Joint Standing Committee on Finance regarding the Katz Commission's proposals on retirement fund taxation were yesterday welcomed by consultants and actuaries Ginsberg Malan & Carsons director Stanley Ginsburg in the company's latest Client Communiqué. 320

Ginsburg Malan & Carsons supported the suggestion that a special task force be appointed to consult broadly and adopt a more holistic approach to retirement fund matters. CT 23/2/95

The JSC recently proposed that the Minister of Finance, Chris Liebenberg, immediately refer the matter back to the Katz Commission, which should set up a special team to look into the specific proposals for the retirement fund industry.

The JSC suggested that a workable solution should be guided by principles including neutrality of application, deductibility of contributions as an incentive to encourage retirement saving, consistency among all types of retirement funds and effective and consistent taxation of lump sum benefits.

BUSINESS Elimination of marital discrimination in taxation accepted in principle

320

Sowetan 23/2/95

No major tax relief in the new Budget

By Mzimkulu Malunga

NO substantial tax reductions can be expected in the forthcoming Budget, says Sanlam chief economist Johan Louw.

Although middle- and low-income earners could see their tax burden marginally reduced, on the whole there will be nothing to write home about.

Tax increase

Louw also expects Finance Minister Chris Liebenberg to announce small tax increases for the higher-income group.

Due to a nominal rise in revenue, it will be difficult for the Government to reduce taxes substantially.

However, he says the revenue levels are higher than expected.

This unexpected rise in revenue could reduce the difference between the money the government has and the amount it plans to spend — commonly known as the fiscal deficit.

He praises the Government for maintaining a fairly strong discipline on spending.

Growth footing

A factor which will come handy for Liebenberg is that the 1995-96 Budget comes at a time when the economy is firmly on a growth footing, says Louw.

He predicts an economic growth of three percent this year.

Louw is among those economists who forecast another interest rate hike this year in addition to the one percentage point increase announced by Reserve Bank governor Dr Chris Stals this week.

Tax commission head lashes media

WRONG IMPRESSION Most of the proposals have been accepted :

By Mzimkulu Malunga

CHAIRMAN OF THE KATZ TAX Commission Professor Michael Katz has accused the media of creating the wrong impression concerning the parliamentary finance committee's decision to turn down some of the commission's recommendations.

The committee referred the recommendations dealing with personal tax back to the commission for further investigation. Katz says although his commission's proposals on personal tax have been referred back, in principle the committee agrees with a recommendation that all forms of discrimination based on marital status or gender should be eliminated. All the parliamentary committee requires are details of how the Government will replace this source of revenue once the old system has been phased out, says Katz.

Initially, the commission proposed the taxation of pension contributions of both employers and employees as a new source of revenue.

This proposal sparked wrath among captains of the insurance industry who were supported by the likes of the South African Chamber of Business.

Katz says the media has over-locked the fact that most of the commission's recommendations have been accepted by the parliamentary committee.

Jitters over new tax levy

(320) ARGT 24/2/95

Business Staff

JOHANNESBURG. — If tax discrimination against women is abolished what new burden lies in store for taxpayers in the March 15 Budget — will it be Son of Transitional Levy or higher personal income tax rates?

Tax experts are divided on just how Finance Minister Chris Liebenberg could bridge the R2,5 billion loss to the Fiscus.

This follows the referral back to the Katz Committee this week by the standing committee on finance of some of the proposals to fund a single unified tax table.

The problem is the time gap between improving tax collection and administration — mooted to raise at least R5 billion — and the introduction by the Finance Department of a non-discriminatory tax table from March 1.

Among the issues that Katz has been asked to revisit are the capping of retirement contributions, the personal tax rates and brackets which would impose a higher tax burden on people earning between R10 000 and R20 000 a year and a clamp down on travel allowances.

It appears that no deadline has been set for the new recommendations.

Sentrachem group tax consultant Ernie Lai King said government might be tempted to reimpose a transition levy as a stop gap tax.

However this would play havoc with government's credibility, given that former Finance Minister Derek Keys had promised the transitional levy would be a once-off tax, never to be introduced again.

An alternative could be a phasing in of the unification table over 24 months,even though this might appear to be "unconstitutional".

A "politically disastrous" option would be to tinker around with the VAT rate.

Fisher Hoffman Stride's Anthony Chait said revenue collections were running ahead of estimates by about R2 billion and this would go some way to funding the shortfall as would a proposed cutback on state expenditure.

A one-point hike in the VAT rate to 15 percent would raise about R2 billion but would be politically explosive.

"If socio-economic reforms call for additional revenue we could see some hikes in personal taxes."

This could be justified by linking the measure to alleviating the plight of the poor and building more houses, he said.

Kessel Feinstein's tax partner Ernest Mazansky said an urgent restructuring of the tax department might yield some immediate improvements along with state expenditure cutbacks - particularly as regards public servant numbers.

Further hikes in the top marginal income tax rates would yield very little, given that the proposed increase from 43 percent to 45 percent would bring in less than R100 million.

"What we really need is a leap of faith that reduced taxes will stimulate economic growth and bring in higher tax collections further down the line."

Tax experts divided on solution to Fiscus loss

Finance Minister Chris must find R2,5-bn more

(320)

Star 24/2/95

BY CLAIRE GEBHARDT

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Lai King said the Budget process was probably about 95 percent complete and further recommendations from Katz were unlikely to be incorporated.

He added that the Katz Commission report was an admirable achievement given a brief which only allowed the commission to look at one side of a two-sided problem — the revenue and not the expenditure side.

"Of more importance than trying to raise revenue would be a reform of Government consumption expenditure, inefficiency and unproductive spending."

Employers expect outcry over taxes

(320)

ERICA JANKOWITZ

EMPLOYERS predict an outcry over revised tax tables — to be implemented on March 1 — as child rebates will fall away under the new system and many workers will be paying more tax.

One salary administrator said employee representatives had indicated their dissatisfaction with revised tax rates.

A married man with dependents, earning a salary of R1 000 a month, would have to fork out about R40 extra a month to the Receiver of Revenue, she said.

This was causing rumbles among wage earners. BD 27/2/98

Workers believed the Katz commission recommendations, on which the end of gender discrimination in tax calculations was based, had been referred back to the commission for revision. Because of this they believed tax tables would not change.

However, the Receiver said this was not the case. It would be issuing revised tax tables in time for the March 1 implementation dates.

Salary administrators had already received their new tax programmes for loading by that date.

Workers had noted the government notice of February 10 announcing the introduction of revised tax rates, but were confused about messages from the Parliamentary finance committee, which was not happy with all the Katz commission's recommendations.

"We believe there will be unrest and appeal to unions to put out a message to workers that this is not an employer plot, but a government requirement," one concerned employer said.

Taxman set for renewed assault on pension funds

CT 28/2/95

From JON BEVERLEY

DURBAN. — The taxman's assault on the pension industry is not over, even though the Standing Committee wants the Katz proposals on a deductions cap reviewed.

Chris Newell, Old Mutual assistant general manager, said at a Durban meeting of the Institute of Life and Pension Advisers yesterday that the next line of attack could be to change the definition of the lump sums received on retirement from pension and retirement annuity funds and not to count them as retirement funding income — which would disqualify them as part of retirement tax planning.

At present, retired people can contribute up to 15 percent of their retirement lump sums to a retirement annuity fund and reduce the tax on the whole sum.

The Katz proposals, besides limiting the amount that can be contributed to retirement funding during a working life, would also limit the amount that can be claimed in this way.

Newell said the Katz proposals meant employers would not be able to get tax benefits from contributing to pension fund deficits or increases of pensions.

They would opt for provident funds which had the undesirable feature of paying out all contributions and growth and no pension.

Newell said the issue should be approached by agreeing on certain principles:

One was that people needed to be encouraged to save for retirement and the best way was by giving tax breaks.

Two was to level the playing fields between private and public service pension funds and their tax.

Three was to decide on the tax of an income stream (the pension) and the lump sums on retirement.

Four was tax neutrality in general.

Five was a need to accelerate the flow of tax to the Treasury. At present the government only got tax at the end of the saving period when lump sums were paid and pensions began.

It might be better to collect tax over the entire period, either through taxing the savings component or the contributions in a different way.

Pension funds hit out at cap proposal

(320) Star 28/2/95

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45% marginal tax rate on cards

CT 28/2/95 (320)

From CLAIRE GEBHARDT

JOHANNESBURG. — A marginal rate of 45% would have to be imposed on all income above R50 000 a year to make up the R2,5bn revenue loss from the new single tax table, according to the Joint Standing Committee on Finance.

Releasing its report on the Katz Commission proposals, the Committee notes that the M0 scale (married persons with no children) due to be implemented on March 1, will still leave families with large numbers of children worse off.

Child rebates will fall away under the new system which means that many workers will be paying more tax.

The Committee says another R3,5bn would have to be found to place all workers in the R22 700-and-below range in a position no worse than the current M2 (married person with two children) rate.

"An additional R1bn would be required to place all earning such incomes no worse than the current M4 rate."

The Committee says that Inland Revenue argued that reducing the Site upper limit from R50 000 to R30 000 would create an intolerable administrative burden.

There was no way the department could cope with an additional million registered taxpayers at present.

"Instead of reducing the Site upper limit, they proposed raising it to R80000."

Cosatu argues that a Budget in which its members were asked to pay more tax, while those in higher income brackets paid less, and in which there was no additional VAT zero rating, would be highly inappropriate in the first Budget fully prepared by the Government of National Unity.

The Committee concurs that gender discrimination and discrimination on the basis of marital status should be ended, but says the burden of adjustment should not fall on low-income taxpayers.

"A schedule in which the tax burden on those in the R10000 to R22700 income range was increased, while those in higher-income brackets experienced significant relief would be unacceptable."

Where tax relief was experienced at higher income levels, rates should be adjusted so that the effect of ending gender discrimination was at least tax neutral at these levels.

"Consideration could also be given to increasing the number of categories to which different marginal rates apply."

A range of options need to be explored to compensate for any shortfall in revenue.

"It is not necessary for all of this to be raised from personal tax."

Dangers of Katz tax proposals

(320) Star 28/2/95

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Cosatu slams PAYE revisions as discriminatory

BY JUSTICE MALALA
LABOUR REPORTER

Cosatu has called on the Government to revoke the new interim table for PAYE (pay as you earn) tax which came into effect on Wednesday, saying it discriminated against low wage earners.

The union federation said it would seek an urgent meeting with the Government to address the issue and would call on business to support its call.

The new table — which will see single and married women taxed less and married taxpayers with dependent children paying a slightly higher tax — was introduced because the Inland Revenue does not reflect the new Constitution's non-discriminatory clause with regard to gender and marital status.

Cosatu said while it supported the need for discrimination to be removed from taxation of women, it was self-defeating to replace it with "what effectively amounts to discrimination against low-paid workers.

"With the level of unemployment so high in the country, many families with only one male breadwinner will see a large drop in their income. The effect could be disastrous," it said.

(320) Star 3/3/95

Planned tax package could cost govt R3,5bn

(320) BD 13/3/95

SAMANTHA SHARPE

THE interim tax relief recently offered to low-income workers until the Budget's new tax rates came into effect in June would cost the fiscus an annualised R1bn, Inland Revenue said last week.

This would bring to R3,5bn the cost of eliminating gender discrimination from the current tax system, according to the interim tax tables announced by Inland Revenue earlier this year.

Inland Revenue spokesman Ian Meiklejohn said the R3,5bn figure was not, however, the real cost of ending gender discrimination in personal tax.

"Our tax rates and rebates for low-income workers will only apply for three months, while the R3,5bn figure is an annualised calculation."

The loss to revenue brought about by 1995/6 tax rates could only be calculated after Finance Minister Chris Liebenberg had announced the new tables in this week's Budget, he said.

Congress of SA Trade Unions spokesman Neil Coleman said the union had welcomed the tax relief, which came after a meeting between labour, business and government representatives with the National Economic, Development and Labour Council. The unions had raised concerns about Inland Revenue's interim tax tables, which had abolished child rebates without offering an alternative form of tax relief.

Coleman said the intervention by the Finance Minister was a result of the union's meeting with him "when we indicated just how seriously we regarded the issue of tax relief to low-income workers".

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LAND TAX

Kraai vs Derek

FM 3/3/95

Agriculture Minister Kraai van Niekerk strongly opposes proposals for an agricultural land tax, as made by Derek Hanekom. Van Niekerk says it is time to remove the obfuscation created by statements on land redistribution and the use of land tax as a means to that end. Van Niekerk says he is merely stating the case for agriculture, as Hanekom has stated the case for his own constituency, Land Affairs.

And he says he sees no reason to clear his views with Hanekom as Hanekom did not clear his policy statements regarding a land tax with him.

"My aim is not to create a division in the Cabinet. But it is unacceptable that agriculture be encouraged to deregulate the socialist marketing schemes while the sector is threatened with socialist measures such as a land tax, which is supposed to force down the price of land and make more available for redistribution. Only economic growth will enable more people to reap the fruits of the land of milk and honey."

Van Niekerk says it would be "counterproductive" to impose further tax on such a vital economic sector, adding that his criticism of the land tax proposal is based on good economic grounds.

"It is detrimental to upset this sector, which has a central role in rural development, by means of ill-considered pronouncements. The time has come for realism regarding what is feasible and what is not. The time for unilateral actions is past."

Meanwhile, Hanekom should be breathing a sigh of relief that his *idée fixe* has been taken out of his hands by Finance Minister Chris Liebenberg and given to the Katz Commission to investigate and produce recommendations. The tax has prompted anger from the SA Agricultural Union (SAAU) and minimal support from the National African Farmers' Union. Though Hanekom has always said he is merely suggesting a land tax, handing it over to the Katz Commission could save him from getting more egg on his face.

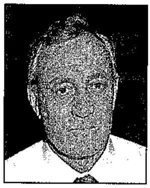
Commission chairman Michael Katz says he will soon form a subcommittee to deal with land tax and invite representations from interested parties.

That should take little time. The views of the main players are already well known and the issues clear cut. You don't have to be an expert in rural development to realise the tax is a nonstarter and Hanekom's motivation for it badly thought out.

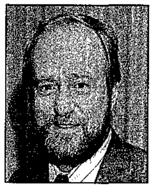
He believes it would help improve agricultural productivity, bring more land on to the market and increase the number of black commercial farmers. It would also, he adds, provide funds for local government to improve services and facilities such as roads and schools. He has no intention of using money raised by the tax to buy land for black farmers.

The first of his motives gets a tart retort from the SAAU. Given the high costs involved in farming, says president Boet Fourie, "any farmer who is not already using his largest single asset, his land, optimally will lose it." Proof of the efficiency of local agriculture, he adds, is that SA is one of few countries that is a net exporter of agricultural products — as well as "the agricultural giant in Africa."

The SAAU also says that even at 1%, let



Van Niekerk



Hanekom

alone the 2% mentioned by Hanekom as possible, it would render farming, where the average return on owners' equity is less than 5%, just not worthwhile.

That is no doubt why the National African Farmers' Union, formed in 1991 with a membership of 40 000 undifferentiated land occupiers, believes a land tax should be considered only as an option for unworked land — "to discourage land speculation," says GM Stephen Mokoene.

WESTERN CAPE

W Cape must levy own taxes — Kriel

ARG 3/3/95

(320)

Political Correspondent

THE Western Cape government must be allowed to levy its own taxes, says Premier Hernus Kriel.

It simply could not continue relying on Pretoria to provide, he said at the close of debate on his opening address in the Western Cape legislature.

A prominent feature of his opening speech — and the debate — has been the threat to provincial services as a result of budget cuts caused by reductions in funds from the central government's coffers.

Mr Kriel said that while the Western Cape considered itself very much a part of South Africa, "we want to remain a part of the whole on a federal basis". This was in line with a worldwide trend towards federalism.

In a broad-ranging speech in response to the three-day debate, Mr Kriel also:

- Challenged the African National Congress to work more closely with the NP within the government of provincial unity rather than to pursue its aims through the politics of protest "which are the politics of desperation".
- Appealed to the leaders of all parties to do all they could to stop acts of terror against political opponents, and emphasised the need for restraint and tolerance in curbing racism.
- Ruled out the prospect of legislation to limit the influx of newcomers into the Western Cape.

Tax burden gets heavy with pensioners

(320) ST 5/3/95

By TERRY BETTY

AROUND 7% of people are self-supporting at retirement age, yet the government could reduce this meagre proportion even further by increasing tax on pensioners.

If the proposals by the Katz committee on tax reform are accepted, pensioners face a tax increase because of the abolition of rebates — R2 500 for people over 65, R2 225 for married people and R900 for married women.

"The abolition of the primary and old age rebates discriminates against over-65s," says Tony Worsdale, who has been lobbying Parliament on behalf of fellow pensioners.

The accompanying tables show that someone earning R25 000 a year who used to pay R25 tax, now faces a R2 250 tax bill.

"The impact of this is greatest at the bottom of the tax tables, where the majority of pensioners are," says Mr Worsdale.

Mr Worsdale says retirees spend on average 15 years with their last employer. This means they are receiving about 30% of their last salary as a pension.

It must be noted that the salary on which the pension is based may not be the same as the value of the package — it will in all likelihood exclude car, housing and entertainment allowances, medical aid and other benefits.

Christo Theron, tax adviser at Ernst & Young, says there are few means for a pensioner to reduce the impact of tax.

He says the best way to reduce tax payable after retirement is to structure investments before retirement. For example, pensioners can reduce taxable income in the year of retirement to the minimum average tax rate, thereby limiting the impact of tax on lump sums received, such as from a pension fund.

Although this loophole is to be narrowed, it is still available as a tax-planning option.

Bryan Hirsch of the Pride Group says the only way for a pensioner to reduce tax payable is to lower the tax band he or she is in. "But if you are only receiving income from a pension fund then there is nothing you can do."

Mr Hirsch says there are two types of pension — a compulsory purchase pension and a voluntary pension. He says the voluntary pension may be the wrong investment vehicle from a tax point of view.

"You need to look at other assets that can produce tax-free income. It is possible to buy income plans from insurance companies where the monthly payment has a capital and income portion, and only the income portion, about 25% of the payment, is taxable."

He says people can look at buying second-hand or recycled policies that can produce tax-free payouts on an ongoing basis.

As there is little scope for tax planning at retirement, Mr Hirsch says planning should take place five to 10 years before retirement.

"People can start looking at how their provident funds are structured — for example, the funds may be restructured to purchase an endowment whereby the policy is ceded to the member at retirement.

"People can also look to building assets in mutual funds, and building tax shelters."

TAX FOR THE OVER 65's

Taxable income	Current tax payable	Proposed tax payable	Increase
50 000	7 475	9 900	2 425
75 000	17 875	19 650	1 775
100 000	28 575	29 400	[illegible]
125 000	39 325	39 900	575
150 000	50 075	50 400	325
175 000	60 825	61 650	[illegible]
200 000	71 575	72 900	1 325
225 000	82 325	[illegible]	[illegible]
250 000	93 075	95 400	2 325
275 000	103 825	106 650	[illegible]
300 000	114 575	117 900	3 325
325 000	125 325	[illegible]	[illegible]

Graphic: FIONA KRISCH — Source: ERNST & YOUNG

Peps deserve a place in SA's portfolios

Easy to understand, tax friendly and inflation proof, personal equity plans may be just the vehicle for retirement planning in South Africa, writes TERRY BETTY.

PEP MAN: Barry Spitz, reporting on Peps for Genbel

PERSONAL equity plans, better known as Peps and a resounding success in Britain and France, are being recommended as a means to boost national savings and make share ownership more popular in South Africa.

Investment holding company Genbel has commissioned Paris-based International Law & Tax Institute to investigate specially favoured investments offered elsewhere in the world. The recommendations have been presented to the Katz commission on tax reform.

Barry Spitz of the International Law & Tax Institute says the institute has investigated products available in a number of countries, such as the US, Canada and France, to see how they can be applied in South Africa.

Peps are like unit trusts in that they give the small-time investor a portfolio of shares. But that is where the resemblance ends.

They have lower charges and pay less commission. They also offer a few small tax benefits and are used predominantly for retirement planning.

There are two types of Peps in Britain. General plan Peps place funds in qualifying investments, such as British-quoted shares, European Union shares and unit trusts.

Single company Peps allow the investor to choose which company the funds must be invested in, and can instruct a manager to move the cash.

At least 50% of the funds must be in equities. The manager may hold cash in a sterling deposit account specifically designated for the particular plan.

Interest earned on Peps is tax exempt as long as it is reinvested in qualifying investments, capital gains are not taxed and dividends are tax free, even if they are paid out.

The tax exemption on dividends includes the right to recover from Inland Revenue the advance corporation tax paid by the company declaring the dividend. Investors have a right to receive annual reports of the companies the Pep has invested in. They may also attend and vote at shareholder and unitholder meetings.

To qualify for the tax advantages individuals may place no more than £9 000 (R51 390) into Peps out of after-tax income — £6 000 (R34 260) into general equity Peps and £3 000 (R17 130) into single company Peps.

Peps and similar vehicles in other countries are predominantly seen as retirement vehicles. The tax benefits are only realised if the cash is withdrawn after retirement or spent on approved investments, such as buying a house.

While the tax benefits appear to be peanuts, the Peps have proved to be a huge drawcard for investors.

Says Professor Spitz: "When the system was introduced in Britain in 1987, it drew a round of criticism from everyone.

"Tax experts pooh-poohed it. They said Peps would not be popular because of the limited tax relief granted on amounts invested. But the system just took off — R108-billion is already invested in Peps."

Professor Spitz says the instrument introduced in France drew around R100-billion in the first year alone. Peps-type investments represent the largest pool of private funds in the US and Britain.

According to Professor Spitz, Peps allow people in even the lowest tax brackets to invest in shares. Peps also give equality to women in retirement benefits.

They are simple to understand and are a hedge against inflation. They are also far more flexible when compared with other retirement vehicles — there is no restriction on how long the investment needs to be held or the maturity dates.

A tax-effective early withdrawal can be made as long as it is for approved investment, such as buying property. There is no obligation to use the amount accrued as a pension.

From a government's viewpoint, it reduces the burden on the state to provide retirement benefits, it provides a large pool of savings, is anti-inflationary and reduces the concentration of share ownership.

Medics reject health tax plan

ST 5/3/95

320

By CAS St LEGER

THE Medical Association of SA and the Chamber of Mines this week criticised suggestions that a further tax be levied on salaries and wages to pay for a national health cover scheme.

The two bodies are among 150 groups making submissions to the ministerial committee investigating the setting up of a countrywide health insurance plan.

The Committee of Inquiry into a National Health Insurance System started receiving oral and written submissions in Pretoria on Monday. It will report to Health Minister Dr Nkosazana Zuma after March 17.

The association and the chamber said government spending on health — about 8,5 percent of gross domestic product — was already too high.

The medical council's federal council chairman, Dr Bernard Mandell, told the committee that health care should continue to be funded through general tax revenues and private health insurance.

Dr Izak Fourie, medical adviser to the Chamber of Mines, told the committee it was "nonsense" to have dedicated taxation for health care.

He said reform could take place under the existing tax system. What's more, any further increase in government spending would divert scarce resources from other critical areas of need.

Dr Zuma is in the middle of a "roadshow" to all the provinces to gauge public and medical opinion on a health cover scheme.

Her spokesman, Vincent Hlongwane, said she had received overwhelming support. "The only concern people expressed was how it was going to be financed," he said.

Tax discrimination is gone

(320) Mar 6/3/95

CONSUMER REPORTER

A married woman is now known as a married person and will be taxed in the same way as her spouse.

From March 1 discrimination regarding married women's taxation fell away, affording women the same status as men. Men and women who have tied the knot will now be regarded as "married persons" for taxation purposes.

This is an interim measure which will be confirmed and explained further in the March 15 budget. But, according to a spokesman for the Department of Finance, married women with no children will benefit more than those with several dependants.

"Although married men and women will be taxed the same, child rebates will no longer be granted," the spokesman said. "This means that couples with a number of children will actually end up paying more tax."

Kathleen van der Linde of the Department of Mercantile Law at Unisa said the new law would increase the married woman's primary rebate.

"In the past women were limited to a primary rebate of R900, and this is now slightly more than R2 000," she said.

"The maximum marginal rate, which used to be 40%, will also go up. This will benefit most women."

Changes expected in STC

Govt struggles to implement parity in taxes

BD 7/3/95

(320)

GRETA STEYN and SAMANTHA SHARPE

FINANCE Minister Chris Liebenberg and tax commission head Michael Katz have met in an attempt to find a way to wipe out gender discrimination in personal income tax in next week's Budget.

Sources said the two had met in the hope of finding alternatives after the parliamentary standing committee on finance had rejected the commission's original proposals.

It is widely expected that government will not be able to meet the R2,5bn cost of wiping out discrimination in one fiscal year, but the sources said Liebenberg and Katz wanted to find a way.

"It is not too difficult — it can be done," a source said. Another said consensus about the need to bring gender discrimination to an end had been reached. "What is required is simply a question of crunching the numbers to produce a solution that does not distort."

Inland Revenue announced earlier that all taxpayers would from this month pay the same rate as married people with no children. But this is an interim measure until a final decision is outlined in the Budget.

Liebenberg is also expected to announce in the Budget that the Secondary Tax on Companies will change, but sources said it was unlikely that the final structure would be ready by then. "They do not want to rush in where angels fear to tread," a source said. He was likely to give foreign investors, who usually do not get tax credits for STC, an update about progress made towards reforming the company tax system.

The commission had not yet decided whether to introduce a dividend tax system based on the Australian model, or whether to restructure STC. It was not, however, likely that STC would be scrapped in the short term because of the loss in revenue. Katz and Liebenberg declined to comment, saying they could not discuss the Budget.

Tax experts said government had gone too far down the road towards gender equalisation to backtrack. But they said it was unlikely government would stick to the structure announced as an interim measure by Inland Revenue. Not only had it created a potential R2,5bn revenue shortfall, but it had also raised the unions' ire. Cosatu had complained because the absence of child rebates would be a blow to many members.

Ernst & Young senior partner David Clegg said it would not be "too much of a problem" to introduce a unitary tax system. But rebates would have to be granted for lower income earners, which would aggravate the revenue problems.

Tax consultant Willem Cronje said it was likely the revenue hole would be plugged by, among others, a sizeable increase in petrol levies. Experts also believed the presumptive tax on companies — a tax on gross assets suggested by Katz and accepted by the committee — might also be introduced to yield about R500m.

Economists believed the top marginal income tax rate could be raised to 45% to help alleviate the problem. A VAT increase was mooted by some experts, but others felt it was a political hot potato.

Interim tax relief for low-income earners

SAMANTHA SHARPE

LOW-income earners would be granted interim tax relief after unions raised concerns about the effect of abolishing child rebates, Inland Revenue commissioner Trevor van Heerden said yesterday.

The relief was decided on after a National Economic, Development and Labour Council meeting. B20

Child rebates had been abolished in terms of an announcement by Inland Revenue that all taxpayers would pay the same rate as married people with no children for three months from this month, until a final plan to wipe out gender discrimination was implemented in June.

Relief would be granted to lower-paid workers by asking employers to deduct tax at the rate applicable to a married person earning less than R30 000 with four children, Van Heerden said. It would apply regardless of the number of children.

Economists said the measure would worsen the revenue shortfall — estimated at R2,5bn — resulting from tax parity.

Tax relief for some as rebate reinstated

320

ARG 8/3/95

ALIDE DASNOIS
Deputy Business Editor

TAX relief for some is on the way after a reversal of an earlier decision by the Receiver of Revenue to scrap child rebates as an interim measure.

In January Inland Revenue ordered that, pending new tax tables due to come into effect in June, employers should deduct PAYE at rates applicable to married persons with no children.

The decision, which came into effect on March 1, was in line with recommendations of the Katz Commission on tax that gender discrimination be eliminated from the tax tables.

But the interim measure caused an outcry, with the Congress of South African Trade Unions and other bodies claiming it would penalise low-income earners.

In a statement issued today, the Commissioner for Inland Revenue said that where an employee earned R30 000 a year or less, employers should now deduct tax at a rate applicable to a married person with four children.

The R30 000 ceiling does not include bonuses. For example, an employee earning R28 000 a year will qualify for the deductions even if he or she receives an annual bonus of R3 000.

The commissioner says employers should implement the new measures "as soon as is practically possible".

Employers are also expected to refund any relevant deductions already made.

Tax office 'on point of collapse'

(320)

COLIN DOUGLAS
Business Staff ARG 8/3/95

THE Inland Revenue department is on the point of collapse, and the government should not expect more funds as a result of tax collection reform in the short term.

This was the warning from Dennis Davis, a member of Katz Commission on taxation, in a breakfast speech to the Life Underwriters' Association of South Africa today.

"If two or three people in Pretoria were run over by a bus tomorrow, the whole department would collapse."

Inland Revenue's company assessments office in Sandton was barely operational, Professor Davis said.

But tax avoidance was so rife in South Africa that reformers of the tax collection system would find it difficult to make any headway in the near future.

Charles Stride, recently appointed as special adviser to Finance Minister Chris Liebenberg to oversee the restructuring of the department, was approaching the "big six" accountancy firms to seek the secondment of tax experts to his project.

The crisis in Inland Revenue had limited the Commission's options, forcing it to rule out the introduction of a multi-tiered VAT system to make up for the revenue shortfall expected to arise from the scrapping of tax discrimination against married women.

As tax collection reform would not yield immediate results, the shortfall would have to be made up by the introduction of a "presumptive" tax on trusts and changes to company tax.

Inland Revenue 'on point of collapse'

(320) Star 9/3/95

BUSINESS STAFF

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The crisis in Inland Revenue had limited the commission's options, forcing it to rule out the introduction of a multi-tiered VAT system to make up for the revenue shortfall that was expected to arise from the scrapping of tax discrimination against married women.

The introduction of a unitary, or non-discriminatory, set of income tax rates would cost the treasury about R2,5 billion, Davis said.

Were it not for the high level of income inequality in South Africa, this shortfall could have been made up by a two percent hike in VAT, but such a move would have been both morally and politically unacceptable.

Davis said he hoped the company tax rate would not be pushed above the current 35 percent, and that secondary tax on companies would not be retained, either of which would be a serious impediment to foreign investment.

He could not predict which of the Katz recommendations would be included in Liebenberg's March 15 Budget, as the commission had not received a government response to its report.

Government may resort to 'inflation tax'

CT 9/3/95 (BR) (320)

By Claire Gebhardt

Economics Editor

South African taxpayers are heavily burdened — about 20 percent of the economically active population pays 85 percent of personal income tax.

Individual income tax receipts constitute about 40 percent of total revenue, while company tax, including tax on gold mines, represents about 13 percent of revenue.

Higher direct taxes tend to penalise productivity and discourage savings.

Absa's latest Economic Spotlight says the government's ability to raise its revenue/GDP ratio significantly above the 25 percent mark is extremely limited.

The normative economic model released last year suggested 24,5 percent as the ideal ratio of revenue to GDP.

After this milestone, the government would have to progressively resort to "inflation tax" (fiscal drag) in order to finance expenditure.

Given the high degree of progressiveness in individual income tax rates and the comparatively high inflation rate, fiscal drag plays an important role in bolstering revenue collections.

As individual income tax rates were not reduced and tax brackets were not revised for the 1994/95 fiscal year, fiscal drag should once more assert itself.

However, wage increases of around 10 percent are anticipated for 1995, and the ending of the transition levy by September and a possible adjustment in the tax tables for medium-income earners should counteract the fiscal drag during 1995/96.

Revenue collections were ahead of target for first nine months of the year

Revenue collections were running ahead of target for the first nine months of the 1994/95 fiscal year, increasing by 16,2 percent compared with the budgeted increase of 11,2 percent.

The main reason for the bounty was the economic upturn, which boosted VAT-collection and company taxes.

Absa says the coming Budget could see collections tightly constrained by a possible elimination of tax discrimination and tax relief to middle-income earners.

In addition, the Katz commission has recommended no change in the VAT rate and the transition levy expires in August.

"Implementing the major tax-cutting proposals would cost the fiscus some R3,5 billion, which will be difficult to raise despite efforts to make tax collection more effective," the report said.

"The government is likely therefore to pin its hopes on yet higher economic growth and leave some recommendations for implementation at a later stage."

Higher-income earners will, however, probably be hit by higher taxes.

Absa says the deficit may decline in fiscal 1995/96.

"However, with a potential economic growth rate of only about 2 percent per annum for the remainder of this decade, a Budget deficit of around 6 percent of GDP is clearly unsustainable.

New funds raised in the capital market came close to R5 billion in the 1993/94 fiscal year.

"Upward pressure was brought to bear on capital market rates from December last year onwards by unfavourable political perceptions and concerns about inflation.

"The sustained increases in subsequent months caught many market experts by surprise."

New funds raised in the 1994/95 fiscal year are expected to eventually amount to about R4 billion — more or less in line with the amount envisaged in the Budget.

As a result of higher bond yields, mainly in the wake of speculation around the abolition of the financial rand, the government is faced with a much higher debt- financing cost since new issues must bear a market-related return.

"If large Budget deficits lead to inflationary pressures and these have to be addressed by higher real interest rates, there is a danger that the real interest rate may exceed the real potential growth rate.

"If this happens, the government will ultimately fall into a debt trap," the report warns.

Internationally, the generally accepted rule is that the ratio of public debt to GDP should be below 60 percent. Currently, South Africa's public-debt-to-GDP ratio is around 56 percent.

Tax break for some

SPECIAL CORRESPONDENT

(320) CT 9/3/95

JOHANNESBURG: People earning less than R30 000 a year will pay less tax for the next three months.

The Commission for Inland Revenue announced yesterday that this group would be taxed at the rate of a married person with four children. This means that people earning R30 000 a month and who pay about R3 700 a year in PAYE, will have R400 deducted from the tax bringing it down to R3 300 a year. This is equal to a tax of about R275 a month.

The decision to review interim tax tables came after concern was expressed that lower income taxpayers would be affected by the removal of child rebates.

Good tax news for low salary earners

(320) Star 9/3/95

LABOUR REPORTER

People earning less than R30 000 a year will pay less tax for the next three months, the Commissioner for Inland Revenue said yesterday.

In effect, earners within this tax bracket will be taxed at the rate of a married person with four children.

This means people earning R30 000 a year and who pay about R3 700 a year in PAYE tax will have R400 deducted, bringing it down to R3 300 a year.

The interim PAYE table, effective from last Wednesday, means single and married women will pay less tax and married taxpayers with dependent children will have to pay slightly more in tax.

New tax tables will be announced by Finance Minister Chris Liebenberg in his Budget speech next week, and will come into effect from June 1.

Inland Revenue says the interim arrangement will apply to any employee whose earnings, excluding annual payments, do not exceed R30 000.

Employers are also authorised to make refunds of any over-deductions arising from the application of the old table.

Govt likely to increase fuel levy, say analysts

BD 10/3/95 (320)

MUNGO SOGGOT

NEXT week's Budget was likely to include a fuel levy hike as government strove to get maximum mileage from indirect taxes, economists forecast yesterday.

Transnet economist Mike Schüssler said an increase was "quite possible", especially considering Transport Minister Mac Maharaj's recent comments that there should be a levy increase.

A new dedicated road fund would need about R2bn a year, which would translate into a 15c/l hike if it was funded solely from the fuel levy.

This was clearly unlikely and an increase of about 5c/l this year was a likely first step.

There could be a second hike of 5c towards the end of the financial year. The current levy was 65c, which was low by international standards.

Independent tax consultant Willem Cronje said there should be a fuel levy hike exclusively for the road fund. The principle of individual taxes for Ministers' "pet schemes" was a bad idea, but roads were different, as delays in repairing them resulted in deterioration.

Sacob economist Keith Lockwood said a fuel levy increase was possible and that such an increase would be more politically saleable if it was going to be channelled into a dedicated road fund.

Although Sacob had repeatedly called for a dedicated road fund — so that road users paid for maintenance — it would not necessarily welcome an increase in the fuel levy because this would effectively raise the overall tax burden.

Schüssler said the introduction of unleaded petrol would probably lift the petrol price 1c-2c initially.

EDWARD WEST reports that a Cabinet decision within the next two weeks on the introduction of unleaded fuel from July could result in higher tax levies on leaded fuel and a 5c-6c discount on the unleaded fuel price, industry sources said.

The sources said the Cabinet faced a tough task in deciding whether the introduction of unleaded fuel should be funded by increasing tax levies on leaded fuel, which could increase the leaded petrol price by a few cents, or whether government should instead fund the introduction through lower tax revenues.

It cost refiners 3c/l more to produce unleaded petrol than leaded petrol. In addition, for oil refiners to achieve economic throughputs of unleaded fuel, there would have to be an incentive to use it by making it cheaper than leaded fuel. A discount to leaded fuel of 5c-6c/l had been mooted.

NEWS IN BRIEF

Land taxes slammed (320)

AGRICULTURE Minister Kraai van Niekerk said in Bothaville yesterday he was against any land tax on farms and would fight "to the death" any such proposal.

"It is a socialist concept and will destroy agriculture," he told a congress of the National Maize Producers' Organisation.

Land Affairs Minister Derek Hanekom, an ANC member, said last month that Finance Minister Chris Liebenberg had agreed to form a special division to investigate land taxes later this year.

BD 10/3/95

You can be sure the Budget won't amend this evil

(320) ST(BT)12/3/95

Martin Spring

PERSONAL BUSINESS

WHATEVER Finance Minister Chris Liebenberg announces in his Budget this week, you can be sure he will do little or nothing about the nastiest aspect of our income tax system.

It's called "bracket creep" or "fiscal drag".

It's the process, inherent in the system, whereby inflation pushes taxpayers into higher tax brackets so they pay, not just more tax, but more tax than is justified by fall in the value of money.

Politicians love it. It means they can take more and more money out of taxpayers' pockets and have more and more money to spend, year after year, without having to increase tax rates.

It's a silent thief that robs citizens of a bigger share of their income every year, without causing a public uproar, because the visible measure of income tax — the tax rates — remain unchanged.

Even worse, it affects most harshly those with small or modest incomes, and least harshly the richest.

Governments, whether Nat or ANC-dominated, get away with this form of robbery every year because not even financial commentators seem to understand what is happening.

Here is an example based on married men with two dependent children who received an inflation adjustment of 10% in pay last year.

I have compared the tax position in 1994/95 compared with the previous year, ignoring the transition levy, in several different income categories (see table).

As you can see, the person earning a modest R2 500 a month who received a 10% increase enjoyed an after-tax increase of only 8,1%, whereas the really big earner on R50 000 a month saw his real pay improve by 9,7%.

This gives a new and wider meaning to the phrase "gravy train" under our new Government.

At this point I should explain that there is a slight difference between "bracket creep" and "fiscal drag" —although they are equally painful.

Bracket creep is what happens when inflation pushes a taxpayer into a higher tax bracket — that is, he pays tax at a higher rate on each additional rand of taxable income he earns.

For example, a married man with two dependent children earning a taxable R4 000 a month is taxed on each extra rand earned at a marginal rate of 36%, but a 10% pay increase pushes him up into a bracket where the marginal rate on additional rands is 41%.

Fiscal drag is what happens when inflation pushes up the *average* rate of tax whether or not marginal income is taxed at a higher rate.

For example, in the above table the taxpayer on R2 500 a month who got a 10% rise saw his or her average rate increased from 11,3% to 12,8%.

A tax system which does not neutralize bracket creep/fiscal drag is contrary to the public interest.

The faster prices rise, the more exaggerated the bracket creep/fiscal drag effect, and the more the Government has to spend.

However, there is nothing inevitable about this effect.

The schedule of income tax rates could simply be adjusted each year to offset the impact of the past year's inflation.

Better still, this could be done *automatically* through a provision in the Income Tax Act that the scale of rates be altered every year in line with the official consumer price index.

Best of all, we could incorporate such a compulsory adjustment in the new constitution, so governments are forced to be fair to taxpayers whether they like it or not.

Martin Spring is editor of Personal Finance Newsletter.

Monthly taxable income (Rand)	Annual taxable income (Rand)	Tax previous year (Rand)	Tax latest year (Rand)	Tax Increase (%)	Increase after-tax pay (%)	Average tax rate previous year (%)	Average tax rate latest year (%)
2 500	30 000	3 375	4 215	24,9	8,1	11,3	12,8
5 000	60 000	13 875	16 395	18,2	7,5	23,1	24,8
10 000	120 000	39 475	44 635	13,1	8,5	32,9	33,8
50 000	600 000	245 875	271 675	10,5	9,7	41,0	41,2

MONEY

Vat ruling has minimal implications

ST(BT)12/3/95 (320)

By TERRY BETTY

CONSUMERS will pay slightly more for certain financial products after April 1 as brokers and some other financial intermediaries charge Vat for their services.

This is expected to net up to R500-million for the fiscus.

Products affected by the Taxation Laws Amendment Bill, tabled in Parliament last November, include unit trusts, insurance packages, and equities. Debt collectors will also charge Vat.

The extent of the price increase depends on individual products and the structure of insurance companies.

For example, a product paying a 3% commission to brokers could see a 0,42% price increase.

Jurie Wessels of the Life Offices Association says the added cost is so slight that a number of insurers have indicated they will not adjust the costing of their products, but will take it into account when redesigning the products.

It will affect only products purchased after April 1. This means commissions that have been paid on an endowment policy or life insurance purchased before that date will not attract Vat, even though the premiums continue to be paid for a number of years.

Maturing products that are renewed after this date will attract Vat on commissions paid on the renewal.

Andrew Bradley of Investec says unit trust management companies should absorb the added cost.

However, it is likely this additional cost will add strength to the lobby to have annual charges on unit trusts increased from 0,75% to 1% (the charge has just been raised from 0,5%).

Vat is levied on the commission of brokers but not those of agents. Brokers are independent financial advisers, while agents are employees of a company.

It was argued that this would prejudice the business of brokers.

Mr Wessels says some insurers have indicated they will spread the cost over all their policies. This means a product will cost the same whether purchased through an agent or a broker.

He says in some circumstances, such as with group life cover, it may cost slightly more to purchase through a broker.

The insurance companies will have a choice of whether to absorb the cost, although the cost will ultimately be passed on to the consumer.

They can collect the extra amount by increasing premiums, which is unlikely. It will be done in a more indirect manner, by increasing the costs associated with the product and therefore decreasing the amount allocated to the investment portion, and so the final benefits paid out on maturity.

Purchasers of shares through stockbrokers will also have to pay for this service, as they will pay Vat on their brokerage fees. This is in addition to the 1% marketable securities tax.

In addition, Vat will be levied on brokerage incurred in selling Krugerrands.

Debt collectors too will charge Vat, including those who perform the service of collecting premiums on insurance products on behalf of a company.

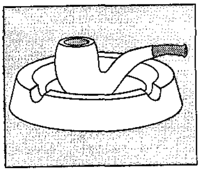
Peter Franck, Vat deputy director in the Department of Finance, says the taxation of debt collectors is expected to net up to R200-million for the fiscus. Vat on broker commissions is expected to yield up to R300-million.

Not all brokers will be affected. Only those doing a turnover in excess of R150 000 a year are obliged to register for Vat.

A taxing matter for Revenue

CT(BR)13/3/95 (320)

INSIDE OUT



Administration of tax collection is in dire need of a complete overhaul

It has been claimed in certain quarters that the strain on Inland Revenue staff is close to a stage where the system of tax collection is likely to break down.

The Katz commission of inquiry into the tax system, although less alarmist, similarly concluded that the department was in dire need of an overhaul. Since the report was issued in December, staff problems have seemingly worsened, partly because of early retirements. The commission alleged that between R10 and R15 billion a year in revenue is not collected because of poor administration.

An improved system of tax collection has indeed become a focal point of attention. In this regard the commission recommended that urgent attention should be given to the enhancement of the status of the commissioner for Inland Revenue, while the training of revenue officials should be placed on a more systematic footing. More particularly, the commission stressed the importance of providing the revenue authorities with greater autonomy.

Independent

It argued that a separate administrative charter was needed so that the department could pay enough to attract more skilled personnel such as accountants and lawyers. In other words, Inland Revenue should be independent from the rest of the public sector with respect to its internal organisation and staffing.

The call for an improved tax collection system is in effect a euphemism for an increased tax burden, since the Katz commission made no recommendations for an overall reduction in the burden of tax. For a country such as South Africa, already perceived to be overtaxed, even higher effective tax rates can only provide yet more disincentives for savings and investment and hence economic growth, while encouraging more emigration. This is especially so when other recommendations made by the commission are also taken in to account. An improved tax collection system would most heavily affect wealthy and employment-creating entities and would in effect encourage them to avoid tax.

What this country requires is an improved tax collection system side by side with lower tax rates. This is not what the Katz commission recommended.

The commission also appeared to be somewhat disingenuous about the short-term prospects for an improved tax collection system. There are several reasons for suggesting that the scope for imminent improvement is limited.

For one thing, chaos in the TBVC and former homelands' tax systems, which are being integrated with the national system, is going to make the Katz goal of enhanced tax administration more difficult. Harmonising the tax systems of Transkei, Ciskei and Bophuthatswana with South Africa is an urgent priority, but it could take a few years to complete.

This will, in part, be made more difficult due to the low tax rates which applied in these states.The absorption of more than 1 000 TBVC and former homeland tax employees who are allegedly undertrained, will further hamper attempts to improve efficient administration.

Secondly, the creation of an autonomous unit for inland revenue is rendered more difficult by the opposition to this in other sections of the public sector. Such autonomy, accompanied by substantial increases in salaries for key people in the department could prove to be a politically explosive issue with other public sector workers resenting such a dispensation. The sensitivity of this issue, moreover, is exacerbated by the present dispute over public sector pay increases, and the reported proposals of the government to freeze wages and salaries for public sector employees earning more than R46 000 a year.

Thirdly, the commission strongly advocated a policy of affirmative action in respect of Inland Revenue, and reports indicate that this is being applied. But the result is that highly skilled people, who are leaving the department for one reason or another, cannot always be replaced by "suitable" people. This adds to the skilled manpower problems confronting the revenue offices, and is again in conflict with the objective of improved tax administration. In short, the revenue authorities are operating under exceedingly adverse circumstances which are not of their own making.

Revolt

Their task is also made more difficult by the presence of a tax revolt in the country. Recently, there have been reports of a steady increase in the number of companies being taken to court for failing to render VAT returns and company tax returns. The commission conveniently failed to address the issue of whether efficient tax administration was being undermined by reduced tax morality stemming from a tax burden perceived to be unfair burden of tax.

The whole question of tax administration in South Africa needs to be approached in a different manner. The possibility of Inland Revenue subcontracting certain work to suitably qualified parties in the private sector is apparently under investigation.

This would be a step in the right direction, but it is not enough. Instead, consideration should be given to the possibilities of privatising the entire revenue service, since this is the most obvious means of furnishing genuine autonomy to Inland Revenue.

□*The writer is a senior government economist.*

More power should be vested in tax reform commission

(320) BD 13/3/95

BENJI MOTHBEDI

IN ALL the widespread coverage of the parliamentary finance committee's report rejecting the Katz commission's tax proposals, one argument has not been much aired, if at all. This is the argument against the finance committee's right, as a government agency, to reject or approve the Katz Commission's tax proposals.

The proper institutional setting for tax reform is a special commission of inquiry similar to the Katz commission. This has been a long-standing method of dealing with issues in which ideological persuasion or narrow sectional interests are supposed to be suppressed. It has a moderately distinguished history in the tax reform context in particular. The Franzen and Margo commissions in SA , the Asprey and Matthews committees in Australia, the Carter commission in Canada, the Meade commission in the UK are all examples of the genre.

A small number of individuals — preferably ones with some popular authority, and with some expertise — are gathered to deliberate on the question of desirable "tax reform", and to do so under terms of reference that attempt, as far as possible, to suppress special interest interpretation. The responsibility is, or ought to be, not merely to provide a package of tax reform proposals, but to provide that package on a take-it-or-leave-it basis.

If the recommended package is to be subject to any significant amendment by a government committee, the whole point of the exercise is placed very much at risk: one might as well have done the exercise of tax reform by ordinary politics from the outset. Analogously, making the reform package run the gamut of bureaucratic approval after the commission has ceased to function is effectively to assign the tax reform exercise to the bureaucracy. The appropriate point for bureaucratic involvement would seem to be to provide advice, "expert testimony" and feedback as part of the commission's deliberations.

Of course, it may be that a package so recommended will not survive political approval, in which case the status quo will prevail. This may not be the worst possible outcome by a long chalk because the tax system is inevitably rather like the amateur golfer's swing — a mess of compensating errors. To correct a few of those errors might do more harm than good. Indeed, if the chances of having a better tax system when one's wonderful proposals have finally limped into law are only as good as 50-50, then it is better to do nothing.

Much could be said about the right composition of the Katz commission — whether it ought to be headed by a judge, or an academic or some other. While one might for various reasons want the Katz commission to be broadly "representative" in terms of professional background, ideological persuasion, social class, sex and so on, and while it may be tempting — as a way of suppressing future opposition — to seek to have representatives from various broad interests, particularly those with popular influence, it is almost certainly a mistake to have those interests represented formally. Any commission member who sees himself as "wearing a hat" — as having the role in decision-making of representing some interest — undermines the constitutional nature of the process.

The conceptual ideal is the American or British jury system where special interests in the outcome are reason for disqualification, rather than the political arena or market place where special interests are intrinsic to the process. The commission must, above all else, be "independent".

To be wise after the event, it seems clear to have a finance committee made up of politicians under public gaze for a brief period to consider any substantive tax reform proposals is to invite the death of those proposals. The only consensus that would emerge from such a finance committee is that the proposals under consideration (including the status quo if that had been on the agenda) were inadequate. Everyone would want change: it would simply be that all the desired changes would be in opposite directions. Each politician is, entirely predictably, more interested in being seen to defend the interests of his group than in securing genuine consensus.

In any event, consensus cannot usually be pre-packaged: it has to emerge as a compromise from often painful negotiation. However, to see tax reform as the final result of such negotiation is to invite the politicisation of the tax reform exercise, which should not be encouraged.

All this may to be quite distant from the issue of tax reform itself. It is, however, quite fundamental. It is not enough to know what you want — it is also necessary to know how to get it. Thinking about how to get genuine tax reform may also serve to alert us to the prospect that we may well get something we don't want.

Mothibedi is a tax consultant with the Anglovaal Group.

Where's budget cash coming from?

(320)

ARGT 13/3/95

Fear of tax demands from minister

CLIVE SAWYER
Political Correspondent

ALL eyes will be on the methods Finance Minister Chris Liebenberg uses this week to finance his first national budget.

While there will be few surprises about spending, with confident predictions of boosts for the housing and water affairs budgets, the real question is how they will be financed.

Education and health budgets are likely to stay at 1994 levels, and defence has been targeted for a cut.

A significant blow to the treasury will be in store if the government opts to implement uniform tax tables in one go.

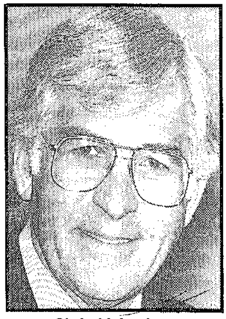
Ending discrimination based on gender and marital status could swipe between R2,5 billion to R4 billion from the treasury.

A decision on this will depend on legal advice about whether the constitution requires tax discrimination to be removed at one go, or whether a phased withdrawal would be acceptable.

Revenue-raising options open to Mr Liebenberg include extending the transition levy, increasing value-added tax, a new fuel levy and sundry tax options.

But, while the government will be under pressure to meet populist demands, it is equally conscious of the need to be seen to be sticking to its stated commitment to fiscal discipline.

While international observers may have accepted last year's transition levy, imposed to fund the election, another of its kind would not be accepted.



Chris Liebenberg

The transition levy hit companies as well as individuals, and an extension would serve as a disincentive to investment.

This, along with the pressure on the budget caused by the need to spend 20 percent on it servicing debt, could prompt the government to opt instead for phasing in the end of discriminatory tax tables.

While this approach could infuriate the lobby which wants a swift end to discrimination, it could find wide acceptance if it is presented as a palatable alternative to an increase in value-added tax.

Options left open to Mr Liebenberg then would be a presumptive tax on companies, based on payroll, an increase in "sin" taxes on liquor and tobacco which would net no more than a few million rands, and an increase in the top rate of personal income tax.

This last would produce a familiar dilemma, that raising a few million in this way would alienate successful entrepreneurs.

A subtler technique for the government to raise funds would be to allow the continuation of fiscal drag, also known as bracket creep, in income tax scales.

Options far less likely, if not impossible for the moment, are the imposition of a capital gains tax or an increase in fuel levies.

A significant factor militating against increased fuel levies is the volatile minibus taxi industry.

On the expenditure side, legislators of each province will keep a keen eye out on Wednesday on just how much of the pie they will be given.

The new budget format provides for statements on spending on each department at national level, and statements of how much each province will get.

Wednesday's budget speech will be Mr Liebenberg's first, and what he says from the podium of the national assembly will have a profound bearing both on investor confidence and for the hopes and needs of South Africa's poorest.

Democratic Party spokesman on finance Ken Andrew said the critical issues of the budget included whether the government would demonstrate real commitment to fiscal discipline by controlling expenditure and reducing the deficit.

POLITICS

Taxpayers braced for a tight budget

CLIVE SAWYER (320) ARG 14/3/95
Political Correspondent

FINANCE Minister Chris Liebenberg will deliver a tight budget characterised by trade-offs, the SA Chamber of Business has predicted.

Sacob director-general Raymond Parsons said investors would keep a close eye on the first budget in the hands of the government of national unity.

"The message of the budget must reinforce the confidence shown by the abolition of the financial rand," he told a Press briefing yesterday.

With the abolition of the financial rand, new investors would look at tax levels as a key indicator of the cost of doing business, rather than exchange controls.

Scrapping the finrand meant that South Africa had crossed an economic and financial Rubicon.

The maximum growth South Africa could finance from domestic savings was 3 to 3,5 percent.

Foreign investment was needed to make a success of the Reconstruction and Development Programme.

Trade-offs would centre on the need for fiscal discipline and the ability to finance the RDP.

"Few budgets can make everyone better off and no-one worse off," said Mr Parsons.

Sacob wanted to see the right signals in the budget — that South Africa intended an investor-friendly tax regime.

A further reduction in the deficit before borrowing was necessary. The government should aim for this to be less than six percent.

The deficit should not come down solely because the economy was more buoyant. There should be real cuts in state spending, Mr Parsons said.

Sacob was strongly opposed to ad hoc measures to raise revenue. The transition levy, a typical ad hoc measure, should be removed, Mr Parsons said.

Hitting taxpayers

By Sowetan Correspondent

(320) Sowetan 14/23/95

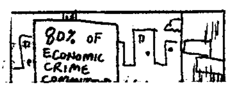
THE taxpayer forked out R20-million in the 1994/95 financial year to pay for the defence of policemen charged with crimes allegedly committed in the name of the South African Police.

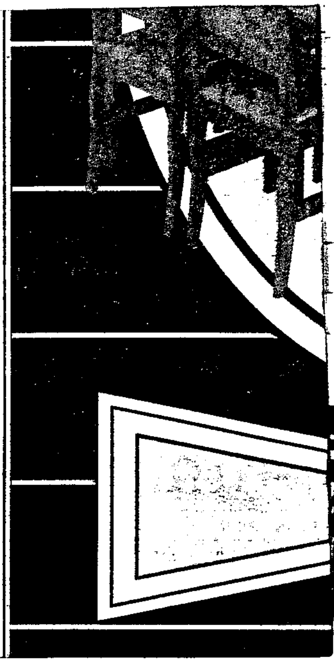
And, as long as the figure falls within the police budget, there is virtually no limit to the amount that will be spent in a similar manner this year.

This includes funds allocated for the lengthy trial of former Vlakplaas commander Colonel Eugene de Kock — in the Pretoria Supreme Court — although the State may still be refunded this money if it is found that De Kock committed crimes while not acting in the belief that he was performing his duties, or if he exceeded his powers by doing so.

Responding to questions yesterday, a spokesman for SAPS public relations in Pretoria, Colonel Ray Harrald, said De Kock had not struck a secret deal with the SAPS to ensure his legal costs would be paid in the event of a trial.

This money came out of the SAPS's budget and was part of the obligation the SAPS had for its members.





Meyer rules out levy to fund local polls

(320)

BY ESTHER WAUGH
POLITICAL CORRESPONDENT

Cape Town — No second transition levy will be imposed on taxpayers to cover the cost of this year's local government elections, Constitutional Development Minister Roelf Meyer said yesterday.

And despite fears raised by the slow rate of registration of voters, the poll, scheduled for October will not be postponed, he said.

Speaking on the eve of a national summit on local government beginning in Kempton Park today, Meyer said the Government would follow a strict budgetary process to prevent a transition levy similar to the one imposed after the April general election. Central, regional and local governments would bear the costs of the October elections, which would not be postponed.

He told a briefing that central Government had allocated R11-million in the 1994/95 Budget which had been spent on a media campaign for the elections. Provision for a further R50-million would be made in the Budget to be presented tomorrow.

Today's summit, aimed at boosting the process towards local government elections, is to be addressed by President Mandela, Deputy President F W de Klerk and Home Affairs Minister Mangosuthu Buthelezi.

Meyer said the registration of voters would have to be speeded up in order to allow for "sufficient" registration by the deadline at the end of next month.

Figures of the number of voters who have already registered were not a true reflection of the situation as significant returns of registration forms to local government authorities were expected.

One of the Government's concerns, however, was to facilitate the registration of voters in remote areas.

It was important to note that all provincial and local government authorities, including traditional leaders, supported the registration process, he said.

Star 14/3/95

The Argus

R1,50 — Country R1,70 incl VA

WEDNESDAY MARCH 15 1995

BUDGET SPECIAL

Budget: New taxes

(320) ARG 15/3/95

CLIVE SAWYER
Political Correspondent

KIND to the poor and friendly to investors — but likely to bite the rich.

These are the hallmarks of the budget announced today by Minister of Finance Chris Liebenberg.

The budget is the first to be wholly devised by the government of national unity.

It includes the sale of R1 billion in oil reserves to boost revenues for the Reconstruction and Development Programme and to pay off state debts.

Obeying the constitutional ban on discrimination on the grounds of gender and marital status, the government has abolished split tax tables.

The move to a single tax rate will benefit unmarried people and married working women.

While child rebates on personal income tax have been abolished, primary rebates have been increased to soften the impact on the poor.

There will be no increases in value-added tax or corporate income tax this year.

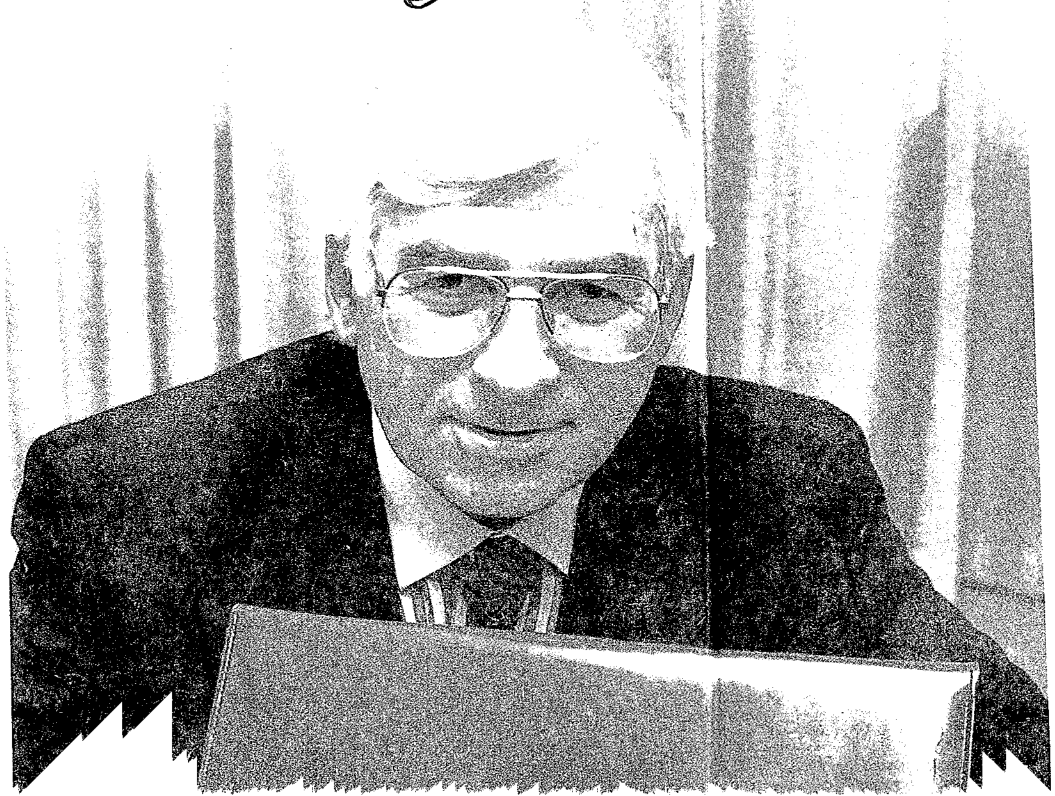
But for top earners personal income tax will hit harder.

The marginal income tax rate will reach 45 percent for earners of R80 000 a year.

The fuel levy will go up by two cents a litre, yielding R255 million revenue. The government predicts this will have a minimal effect on inflation.

A tax amnesty, to bring taxpayers who defaulted during the apartheid era back into the fold, will be legislated later this year.

Houses and clean water for all are a ...



CIGARETTES and ALCOHOL

Smokers have to cough up an extra 17c a pac

ARG 15/3/95

TYRONE SEALE
Political Staff

FROM today smokers will have to cough up about 17c more for a pack of 20s as the government gives effect to arguments from the health lobby.

Elsewhere on the "sin tax" front, drinkers are likely to be dispirited about having to pay about 2c more for a 340ml can or dumpie of beer — not including sorghum — and about 5c more for a bottle of whisky, brandy or gin.

With immediate effect, the excise duty on cigarettes has been raised by 8,44c for 10, resulting in an estimated retail price increased of six percent.

Higher excise duty on cigarett... cigarette tobacco is expected ... about R200 million to state coffers

The budget review said in the ... tobacco products, the health com... had demanded an increase in exci... to 50 percent of the retail price ... was the levy in many other count...

"After consultation with all in... groups and taking into account i... specific limitations and market... tions, the government has opte... phased approach, as announced ... 1994 budget, and as also reflecte... budget. Future budgets will have ... with the remainder of this issue."

Boost for house subsidy pl

ARG 15/3/95

Political Correspondent

THE 79,9 percent increase in the housing budget will grease the wheels of a planned subsidy scheme.

While the housing budget provides for expenditure of R1,554 billion, of this R1,520billion is tied up in current and capital transfers to housing support.

The total amount of R2,924 billion for housing includes R1,404 billion from the Reconstruction and Development Programme fund.

The RDP funds will be allocated to the nine provinces to finance housing pro... according to criteria to be decided

The government's aim is to be ... supply thousands of people with ... subsidies.

A scheme will encourage bank... credit to people with good sav... cords to make up the difference ... able them to build houses.

A sticking point so far has be... cure agreement from the constru... dustry to a building warranty sc...

The housing budget announced ... seen as a signal to the industry ... government is committed to its ... million houses in five years.

... a signal to banks and the construction industry that the government is serious about its goal of a million houses in five years.

Community water supply and sanitation are to be bolstered by a 32 percent increase in the water affairs budget.

Defence spending sinks by 11 percent.

"Sin" taxes — excise duties on tobacco and liquor — are to go up in line with inflation and government policy to phase in higher duties on tobacco — a move requested by the health community.

To encourage trade and investment, remaining import surcharges are to be abolished from October.

Further encouragement for investment will be the abolition in the same month of non-resident shareholders' tax.

The future of marketable securities tax would be revisited at a later stage, Mr Liebenberg said.

Expenditure in the budget is R153,3 billion, an increase of 9,5 percent compared to last year's budget.

Social services account for 57,4 percent of spending.

Education gets 26 percent of the budget, with most of its increase going to redressing inequalities in primary and secondary schooling.

Spending on health services increases from 12,5 percent of the budget last year to 13,4 this year. Most of this will go to primary health care in urban areas.

About R49 million goes to spending by national and provincial governments on the November 1 local government elections.

The constitutional assembly will get R59 million.

Civil pensioners get slight increases — 6,5 percent for those who retired before April.

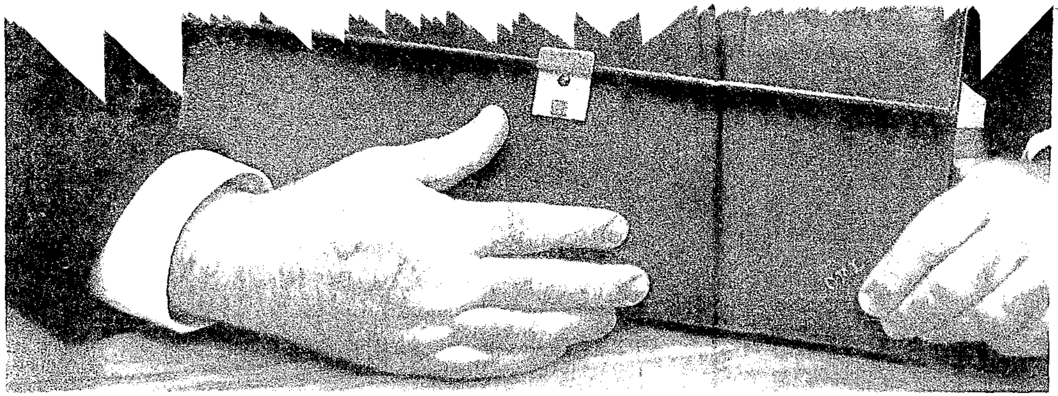
Mr Liebenberg's feat in lowering the deficit and recurring expenditure will please economists and organised business.

The deficit is to be about R29 billion, or 5,8 percent of the estimated gross domestic product. This is 0,6 percent less than last year.

Mr Liebenberg said the reduction in current expenditure by the state should not cause alarm that the government was ignoring legitimate needs.

"With reprioritisation and rationalisation, what is spent is both better directed and more effective."

Faced with limited resources and the legacy of the past, the government had managed important changes into a budget which had had to be politically feasible, economically affordable and managerially sound.



THE MAN WITH THE BUDGET: Finance minister Chris Liebenberg.

More for pensioners, old soldiers put on hold

JOHN VILJOEN
Business Staff

ARG 15|3|95

CIVIL pensions will rise by 6,5 percent from April 1 for pensioners who retired on or before April 1, 1994, the minister announced.

Those who retired later, but before April 1 this year, would have their pensions raised by 0,54 percent for each completed month since retirement, calculated to the end of this month.

The increase in military pensions would be considered at a later stage, once negotiations on the conditions of service of public servants — to which military pension adjustments were linked — had been conducted.

Significant progress had been made in establishing a single new pension fund for all public servants, Mr Liebenberg said.

This would replace the Government Service Pension Fund and those in the former homelands.

The Katz Commission's recommendations for the so-called capping of pension fund contributions had proved controversial.

The government believed the matter needed to be considered further in close co-operation with the Commission.

R400 m for local government polls

ARG 15|3|95

Political Staff

THE National government will spend nearly R400-million on the November local government elections, which it regards as a crucial step along the path of democratic government.

An amount of R49 million has been budgeted for national and provincial governments' expenditure on communication and voter-education programmes.

A further R348 million will be provided via the provincial budget for conditional grants to fund local government elections in rural areas and areas under the jurisdiction of transitional structures.

Budget at a glance

SHIFTS in spending between 1994/95 and 1995/96:

ARG 15|3|95

UP

- Police, up from 6,9 percent to 7,5 percent of total spending.
- Pre-primary, primary and secondary education, up from 18,3 percent to 18,5 percent.
- Health services, up from 10,5 percent to 11 percent.
- Social security and welfare, up from 9,2 percent to 10,8 percent.
- Housing and related services, up from 1,1 percent to 2,7 percent.

DOWN

- Transport and communication, down from 4,5 percent to 4,1 percent.
- Agriculture, forestry and fishing, down from 2,5 percent to 1,8 percent.
- General government services, down from 8,9 percent to 6,9 percent.
- Defence, down from 8,7 percent to 7,2 percent.

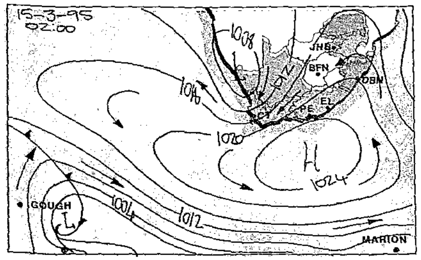
- More reports pages 1, 2, 3, 4

... by the government function committee for housing.

A further R185 million from the RDP vote is to be allocated to special residential urban renewal projects.

Reliable sources indicated ... percent of the budget would be ... for current housing goals, beca... frastructure does not as yet ex... with faster growth.

BUDGET



Cool on-shore flow causes fine conditions.

Weather forecast

Cape Town
Fine, hot, wind SE/SW 10 knots but SE 35 knots over southern False Bay. Tomorrow: Partly cloudy, hot to cloudy with coastal fog, wind NE 10 knots to NW 10-20 knots to SW 15 knots.

Paarl
Fine, very hot, wind E/NE 5-10 knots. Tomorrow: Fine, very hot.

Peninsula

SUNNY

Langebaan
Fine, hot, wind SE/SW 5-15 knots. Tomorrow: Partly cloudy, morning fog, wind NW/W 10-15 knots.

Hermanus
Fine, hot, wind SE/E 15-20 knots to E/NE 5-10 knots. Tomorrow: Fine, hot, wind NW 10-15 knots.

Rain
Yesterday: nil
Mar total: 1,6mm
Mar average: 14,4mm

Air temps
Today 7am ....15 deg C
Expected max......33 deg C
Yesterday 2pm .28,6 deg C
Yesterday min...15,5 deg C
Yesterday max..30,4 deg C

The tides
High water 0216 1434
tomorrow 0249 1509
Low water 0827 2037
tomorrow 0901 2111

Water temps
Sea Point.............13 deg C
Sea Point pool..... 22deg C
Muizenberg..........15 deg C
Muizenberg pool..19 deg C
Newlands pool .....21 deg C
Long St pool ....22 deg C

The sun
Sunset today 1905
Sunrise tomorrow 0645

The moon
New moon ....Apr 29
Last quarter..... Mar 23
First quarter........Apr 8
Full moon......... Mar 17

Weather data
Sunshine yesterday
11,5 hours
Cloud yesterday
8am: one-eighth
2pm: one-eighth
8pm: one-eighth
Barometer
2pm yesterday: 1 015 mb
7am today: 1 011,8 mb
Humidity
2pm yesterday:
35 percent
Wind
2pm yesterday:
S 20

Travellers' forecast
Johannesburg
Partly cloudy, warm
10 to 24 deg C
Pretoria
Partly cloudy, warm
15 to 26 deg C
Durban
Cloudy, cool
19 to 25 deg C
Bloemfontein
Cloudy, warm
13 to 31 deg C
Port Elizabeth
Partly cloudy, warm
11 to 25 deg C

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Primary rebates stepped up to help the poor

(320)
ARG 15/3/95

CLIVE SAWYER
Political Correspondent

PRIMARY rebates have been stepped up to soften the impact on the poor of the abolition of child rebates.

This is part of the reform package of personal income tax on individuals.

For taxable incomes up to R30 000, tax rates will the same as last year's rate for married persons.

The rate will increase to reach a marginal rate of 45 percent for taxable incomes of R80 000 a year.

The primary rebate will be increased to R400, the same as granting everyone a rebate for four children.

The additional rebate of R2 500 for people older than 65 is to continue.

People earning less than R30 000 will benefit — or at least not be worse off — than before, except for single earners with more than five children.

Best off will be households with two earners, which will benefit substantially.

The changes, which cause a revenue loss of more than R2 billion, were necessary, Mr Liebenberg said.

While there will be no new transition levy, the balance of the one announced in last year's budget will continue to be collected for the first three months of the new state financial year.

The end of the levy will mean improved cash flow for many.

"As enhanced tax administration translates into improved tax collections, the lowering of personal income tax rates will have the highest priority in future tax relief," Mr Liebenberg said.

Other tax proposals include:

● Tax on the private use of a second or subsequent vehicle granted by an employer to an employee or employee's family, of two percent a month on the value of the vehicle, effective from May;

● Interest earned by a non-resident will from next month be tax-exempt only if the non-resident was out of the country for at least 183 days of the tax year;

● The date for third provisional tax payments will be extended by a month to September 30 for all taxpayers with a February 28 year-end; and

● Small businesses will be allowed to opt for being taxed on a cash-flow basis.

In his speech, Mr Liebenberg said the government welcomed proposals by the Katz Commission to improve tax administration.

The commissioners of inland revenue and customs and excise were to prepare strategic business plans to implement this reform.

MARRIED, UNDER 65

INCOME TAX PAYABLE: 1995 AND 1996 (MARRIED, UNDER 65): RSA AND VENDA

TAXABLE INCOME	1996 RATES	NO CHILDREN 1995	NO CHILDREN DIFFERENCE	1 CHILD 1995	1 CHILD DIFFERENCE	2 CHILDREN 1995	2 CHILDREN DIFFERENCE	3 CHILDREN 1995	3 CHILDREN DIFFERENCE	4 CHILDREN 1995	4 CHILDREN DIFF
R	R	R	R	R	R	R	R	R	R	R	
15 000	75	475	-400	375	-300	275	-200	175	-100	75	
16 000	275	675	-400	575	-300	475	-200	375	-100	275	
17 000	475	875	-400	775	-300	675	-200	575	-100	475	
18 000	675	1 075	-400	975	-300	875	-200	775	-100	675	
19 000	875	1 275	-400	1 175	-300	1 075	-200	975	-100	875	
20 000	1 075	1 475	-400	1 375	-300	1 275	-200	1 175	-100	1 075	
21 000	1 285	1 685	-400	1 585	-300	1 485	-200	1 385	-100	1 285	
22 000	1 495	1 895	-400	1 795	-300	1 695	-200	1 595	-100	1 495	
23 000	1 705	2 105	-400	2 005	-300	1 905	-200	1 805	-100	1 705	
24 000	1 915	2 315	-400	2 215	-300	2 115	-200	2 015	-100	1 915	
26 000	2 335	2 735	-400	2 635	-300	2 535	-200	2 435	-100	2 335	
28 000	2 755	3 155	-400	3 055	-300	2 955	-200	2 855	-100	2 755	
30 000	3 175	3 575	-400	3 475	-300	3 375	-200	3 275	-100	3 175	
32 000	3 795	4 135	-340	4 035	-240	3 935	-140	3 835	-40	3 735	
34 000	4 415	4 695	-280	4 595	-180	4 495	-80	4 395	20	4 295	
36 000	5 035	5 255	-220	5 155	-120	5 055	-20	4 955	80	4 855	
38 000	5 655	5 815	-160	5 715	-60	5 615	40	5 515	140	5 415	
40 000	6 275	6 375	-100	6 275	0	6 175	100	6 075	200	5 975	
45 000	8 375	8 175	200	8 075	300	7 975	400	7 875	500	7 775	
50 000	10 475	9 975	500	9 875	600	9 775	700	9 675	800	9 575	
55 000	12 709	12 192	517	12 092	617	11 992	717	11 892	817	11 792	
60 000	14 942	14 408	534	14 308	634	14 208	734	14 108	834	14 008	
65 000	17 176	16 675	501	16 575	601	16 475	701	16 375	801	16 275	
70 000	19 409	18 941	468	18 841	568	18 741	668	18 641	768	18 541	
75 000	21 693	21 208	485	21 108	585	21 008	685	20 908	785	20 808	
85 000	26 310	25 791	519	25 691	619	25 591	719	25 491	819	25 391	
95 000	30 977	30 424	553	30 324	653	30 224	753	30 124	853	30 024	
105 000	35 644	35 057	587	34 957	687	34 857	787	34 757	887	34 657	
120 000	42 644	42 006	638	41 906	738	41 806	838	41 706	938	41 606	
135 000	49 645	48 956	689	48 856	789	48 756	889	48 656	989	48 556	
155 000	58 979	58 222	757	58 122	857	58 022	957	57 922	1 057	57 822	
175 000	68 313	67 488	825	67 388	925	67 288	1 025	67 188	1 125	67 088	
200 000	79 980	79 070	910	78 970	1 010	78 870	1 110	78 770	1 210	78 670	

NOTE: THE 1996 TAX INCLUDES 1,67% TRANSITION LEVY AND THE 1995 TAX INCLUDES 3,33% TRANSITION LEVY

Police services get 3,4 percent more

Political Correspondent

POLICE services get R8,852 billion, 3,4 percent more than last year.

Resources would be shifted from public order policing and investigation of offences to "visible policing", according to the budget review.

Visible policing, including community policing, will get R4,2 billion from the police budget.

The public order policing budget drops from R534 million last year to R494 million this year.

The budget for anti-crime measures and investigation goes down to R1,76 billion from R1,86 billion last year.

Water Affairs up

15/3/95 FORESTRY

Political Correspondent

THE water affairs and forestry budget will be R936 billion, a 32 percent increase, and includes R361 million for community water supply and sanitation. ARG

Fifth of tax revenue going out on interest

ALIDE DASNOIS, Deputy Business Editor

NEARLY a fifth of tax revenue will pay interest on the government's debt this year.

Interest on the debt will account for 18,5 percent of the government's total spending, the second big-

MARRIED, OVER 65

TAXABLE INCOME	1996 RATES	1995	DIFF!
R	R	R	
27 000	45	445	
28 000	255	655	

MARRIED WOMEN

TAXABLE INCOME	UNDER 65			OVER 65		
	1996	1995	DIFFERENCE	1996	1995	DIFFERENCE
R	R	R	R	R	R	R
6 000	0	140	-140	0	0	0
8 000	0	520	-520	0	0	0
10 000	0	900	-900	0	0	0
12 000	0	1 320	-1 320	0	0	0
14 000	0	1 740	-1 740	0	0	0
16 000	275	2 190	-1 915	0	0	0
18 000	675	2 670	-1 995	0	170	-170
20 000	1 075	3 150	-2 075	0	650	-650
25 000	2 125	4 550	-2 425	0	2 050	-2 050
30 000	3 175	5 950	-2 775	675	3 450	-2 775
35 000	4 725	7 750	-3 025	2 225	5 250	-3 025
40 000	6 275	9 550	-3 275	3 775	7 050	-3 275
45 000	8 375	11 450	-3 075	5 875	8 950	-3 075
50 000	10 475	13 350	-2 875	7 975	10 850	-2 875
55 000	12 709	15 350	-2 642	10 209	12 850	-2 642
60 000	14 942	17 350	-2 408	12 442	14 850	-2 408
65 000	17 176	19 350	-2 175	14 676	16 850	-2 175
75 000	21 693	23 350	-1 658	19 193	20 850	-1 658
85 000	26 310	27 350	-1 041	23 810	24 850	-1 041
95 000	30 977	31 350	-374	28 477	28 850	-374
115 000	40 311	39 350	961	37 811	36 850	961
135 000	49 645	47 350	2 295	47 145	44 850	2 295
155 000	58 979	55 350	3 629	56 479	52 850	3 629
175 000	68 313	63 350	4 963	65 813	60 850	4 963
200 000	79 980	74 183	5 798	77 480	71 683	5 798

attach to premium 'article.

But, the government has managed to cut the budget deficit to R29,1 billion, or 5,8 percent of the Gross Domestic Product (GDP) from 6,4 percent last year.

This will reassure domestic and foreign investors looking for signals that the government of national unity will not yield to pressure for higher social spending at the expense of fiscal discipline.

The move is in line with the government's long-term objectives of reducing the deficit to about 4 percent of GDP by 1998/99.

Finance Minister Chris Liebenberg also has managed to hold the increase in recurrent government spending below the inflation rate.

Revenues for the year is budgeted at R125 billion, including a transfer of R1 billion from oil sales, up 11 percent on last year. Budgeted spending is up 9,5 percent at R153 billion.

Borrowings of R38 billion (covering the budget deficit plus loan repayments of R9 billion) will be raised mostly on the domestic capital market, with foreign financing contributing R1,5 billion.

Mr Liebenberg said at a briefing today that the budget would not be inflationary. The increase in the fuel levy would have only a "mild" effect.

(320) ARG 15/3/95

29 000	[illegible]	[illegible]
30 000	675	1 075
31 000	985	1 355
32 000	1 295	1 635
33 000	1 605	1 915
34 000	1 915	2 195
35 000	2 225	2 475
36 000	2 535	2 755
38 000	3 155	3 315
40 000	3 775	3 875
42 000	4 615	4 595
44 000	5 455	5 315
46 000	6 295	6 035
48 000	7 135	6 755
50 000	7 975	7 475
55 000	10 209	9 692
60 000	12 442	11 908
65 000	14 676	14 175
70 000	16 909	16 441
75 000	19 193	18 708
80 000	21 476	20 974
85 000	23 810	23 291
90 000	26 143	25 607
100 000	30 810	30 240
110 000	35 477	34 873
120 000	40 144	39 506
130 000	44 811	44 139
145 000	51 812	51 089
160 000	58 812	58 038
180 000	68 146	67 304
200 000	77 480	76 570

Budget expected to spur investment

(320) BD 15/3/95

Tax hikes looming for top earners

TIM COHEN and GRETA STEYN

CAPE TOWN — Finance Minister Chris Liebenberg is expected to announce a substantial increase in the tax rate for top income earners in today's Budget to help foot the bill for wiping out gender discrimination.

A senior government source said yesterday Liebenberg was expected to announce a "mildly expansionary" Budget resulting from a combination of tax relief for lower income earners and increased capital spending on reconstruction and development programme projects.

Outside of interest on debt repayments, about 58% of government spending is expected to be spent during the 1995/96 financial year on what could broadly be described as "RDP programmes" compared to an estimated 54% during the 1994/95 financial year. Consequently, a fundamental reprioritisation of departmental spending will be required.

To finance the shift and to make up for an estimated R3,8bn lost by removing gender discrimination from the tax system, Liebenberg is expected to introduce increases in other taxes, but not VAT.

However, while the Budget will be bad news for the rich, it should further fuel bullish sentiment towards investment in SA, already high after the scrapping of the financial rand. A source said it was likely that non-resident shareholders' tax would either be reduced or scrapped. The abolition of the tax, which netted more than R400m in revenue, should spur foreign investment after the finrand's removal.

A source said the borrowing requirement would not differ much from last year. Market expectations of a deficit below 6% of GDP should prove right. The cut in the deficit would be brought about largely by restraint in overall spending.

To arrive at a favourable deficit, Liebenberg is expected to compensate for increased RDP spending through cutting other expenditure and raising some taxes while keeping the overall tax burden unchanged. Certain "sin taxes" are expected to rise in real terms, the fuel levy could go up and spending on GEIS benefits and agricultural assistance will be cut.

He is not expected to adjust estate duties, capital gains tax or introduce changes recommended by the Katz commission such as "capping" of life insurance benefits or a presumptive tax on companies.

Expenditure is expected to increase slightly in real terms, but when interest is excluded, there should be no real rise. An overall Budget of about R151bn is expected, while market expectations are for revenue to rise by about 13% to more than R122bn. It is understood that government has been conservative in its assumptions on GDP growth, pegging it at below 3%.

A source predicted the Budget would encourage consumer spending, as it would

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DON'T miss Business Day's Budget Special tomorrow. Apart from full news coverage and a pull-out supplement giving the full text of the speech, there will be wide-ranging analysis and reaction.

Budget

(320) BD 15/3/95

☐ From Page 1

give tax relief to bottom income earners. Overall, most married women and single taxpayers should be better off after the Budget. Expectations are that the extra income will be spent and not saved.

However, government is expected to consume less of SA's savings and invest more this fiscal year. Capital expenditure, which declined in the past fiscal year, is expected to increase in the 1995/96 Budget from about 7% of the total.

Liebenberg is expected to indicate the broad direction government intends taking on tax issues, but will wait for the Katz commission's final report before making a final decision. For the same reason, Liebenberg is unlikely to make immediate changes to the STC system.

He is likely to comment on the extent to which government used the Katz commission report, and should announce an amnesty for past tax defaulters as recommended in the report.

PAUL RICHARDSON reports that rates on the capital market fell sharply yesterday in anticipation of an investor-friendly Budget. Government's R150 ended at a 16,400% yield compared with a previous 16,550%, while Eskom's 168 yielded 16,525% from 16,650% on Monday.

"A lot of important resistance levels were broken on the way down. The 16,48% and 16,46% levels were pretty important chart points," one trader said, adding that the market's gains were surprising after the release of worse-than-expected January PPI data earlier in the day.

Dealers said the main driving force behind the market's gains had been a large institutional buy order. "But that was accompanied by a host of rumours about what the Budget could contain," a trader said. Rumours ranged from "the privatisation of some government utilities" to a Budget deficit of 5,1%.

"The feeling is that the Budget is going to make SA so attractive to foreigners that they are going to come rushing into the country on Thursday," another dealer said.

On the foreign exchange markets, the rand ended a lacklustre session weaker at R3,6308 to the dollar compared with a previous R3,6210 finish.

● Comment: Page 10

Tax concession for lower paid

(320) Wan 15/3/95

CONSUMER REPORTER

Workers earning less than R30 000 a year will be granted rebound rebates for four dependants, whether or not they have any children, the Department of Finance's Inland Revenue branch announced recently.

This move, which will provide interim relief to lower-paid workers, will remain in force until June when new tax tables will be introduced.

Concern for the poorer sector was expressed after the department announced that all people would be taxed as married persons with no children.

Following a meeting between the minister of finance, the National Economic Development Forum and the Labour Council, it was decided that employees earning less than R30 000 a year be taxed at the rate applicable to a married person with four children.

with bated breath for Liebenberg's Budget

That time of year again

(320) Sowetan 15/3/95

By Mongadi Mafata and Sapa

MARRIED WOMEN Hoping for a change in the laws governing their taxation:

SOUTH AFRICAN TAXPAYERS ARE TODAY holding their collective breaths in anticipation of Finance Minister Chris Liebenberg's delivery of the first Budget under the Government of National Unity.

As some of the submissions from the Katz Tax Commission have already been thrown out of the window, married women will be anxious to see if there are any changes in their tax, in keeping with the constitution which outlaws gender discrimination.

The Black Sash said the organisation had always been against gender discrimination and would like to see equality in the proposed tax tables.

The National Health and Allied Workers' Union national treasurer Mr Ntshebane Sithole said he hoped Liebenberg's Budget would show some positive national health aspects.

"The needs of the workers, such as low salaries in the public sector, should be addressed," Sithole said.

Mr Steven Japp of the National Stokvel Association of South Africa said he expected a Budget which would promote new opportunities and distribute the country's resources more widely.

The Congress of South African Trade Unions said it hoped today's Budget would implement policies to tackle "underlying structural problems such as high food prices.

It called on the Government to spell out its views on the relationship between fiscal discipline and the implementation of the RDP.

...ES 1,67% TRANSITION LEVY AND THE 1995 TAX INCLUDES 3,33% TRANSITION LEVY

Fifth of tax revenue going out on interest

ALIDE DASNOIS, Deputy Business Editor

NEARLY a fifth of tax revenue will pay interest on the government's debt this year.

Interest on the debt will account for 18,5 percent of the government's total spending, the second biggest expenditure after education.

But, the government has managed to cut the budget deficit to R29,1 billion, or 5,8 percent of the Gross Domestic Product (GDP) from 6,4 percent last year.

This will reassure domestic and foreign investors looking for signals that the government of national unity will not yield to pressure for higher social spending at the expense of fiscal discipline.

The move is in line with the government's long-term objectives of reducing the deficit to about 4 percent of GDP by 1998/99.

Finance Minister Chris Liebenberg also has managed to hold the increase in recurrent government spending below the inflation rate.

Revenues for the year is budgeted at R125 billion, including a transfer of R1 billion from oil sales, up 11 percent on last year. Budgeted spending is up 9,5 percent at R153 billion.

Borrowings of R38 billion (covering the budget deficit plus loan repayments of R9 billion) will be raised mostly on the domestic capital market, with foreign financing contributing R1,5 billion.

Mr Liebenberg said at a briefing today that the budget would not be inflationary. The increase in the fuel levy would have only a "mild" effect.

(320) ARG 15/3/95

MARRIED, OVER 65

TAXABLE INCOME	1996 RATES	1995	DIFFER
R	R	R	R
27 000	45	445	
28 000	255	655	
29 000	465	865	
30 000	675	1 075	
31 000	985	1 355	
32 000	1 295	1 635	
33 000	1 605	1 915	
34 000	1 915	2 195	
35 000	2 225	2 475	
36 000	2 535	2 755	
38 000	3 155	3 315	
40 000	3 775	3 875	
42 000	4 615	4 595	
44 000	5 455	5 315	
46 000	6 295	6 035	
48 000	7 135	6 755	
50 000	7 975	7 475	
55 000	10 209	9 692	
60 000	12 442	11 908	
65 000	14 676	14 175	
70 000	16 909	16 441	
75 000	19 193	18 708	
80 000	21 476	20 974	
85 000	23 810	23 291	
90 000	26 143	25 607	
100 000	30 810	30 240	
110 000	35 477	34 873	
120 000	40 144	39 506	
130 000	44 811	44 139	
145 000	51 812	51 089	
160 000	58 812	58 038	

Higher personal tax feared

CT 15/3/95 (320)

WILLEM STEENKAMP

HOUSING, health and education are the Budget priorities, and there are fears that personal tax will increase, a Cape Times snap survey showed yesterday.

Most people approached were unaware that today is Budget day, when Finance Minister Mr Chris Liebenberg will announce the first post-apartheid fiscal plan for South Africa. Many professed to be too ignorant to venture an opinion.

However, those who did were almost unanimous that housing, and education and health, in partik cular, were expenditure priorities for the government, and most agreed to an increase in "sin taxes" — those on cigarettes and alcohol.

Some felt that the individual would be targeted for increased personal income tax, and mooted a possible hike in VAT.

City resident Mr John Rees said, of government priorities: "They've got to do housing and they've got to do education."

Mr Ranshaw Cupido, of Mitchells Plain, said: "I think they should put up tax on alcohol and cigarettes — they kill too many people." He thought South Africans already paid too much tax, directly or indirectly.

Ms Fiona Saunders, of Observatory, said there should be equal taxation on men and women.

Luxury car tax could be self-defeating

(320)

If implemented, the Katz Commission recommendations on car allowances could distort the market and result in lower government revenue

CT(BR) 15/3/95

By Roy Cokayne

PRETORIA BUSINESS EDITOR

The Katz commission proposals on car allowances and travelling expenses — if implemented in today's Budget — will significantly affect the top end of the market and distort vehicle-buying decisions, says BMW financial manager Greg Field.

He believes the greatest distortion will be in the R150 000 to R300 000 luxury car market segment.

Currently, if a taxpayer does not keep records, 12 000km a year is deemed to have been travelled for private purposes. The remainder, up to a ceiling of 32 000km, may be claimed as business mileage.

In terms of the Katz commission proposals, the deemed private travel has been increased to 18 000km and it is recommended that the schedule of assumed costs be terminated at a vehicle costing R150 000.

Field said BMW, in its submission to the Katz commission, had emphasised that a scheme implemented in Australia that discriminated against higher-priced vehicles had killed the top end of the market, resulting in less government revenue.

'If it happens I don't know if luxury vehicle manufacturers will remain in the South African market'

"From our side, we are strongly opposed to any rand limit coming into it," he said.

He added that with an 18 000km private mileage limit, there would also be a swing away from car allowances to company cars, which again distorted the market.

"We believe there is currently a reasonable equilibrium between car allowances and company cars," he said.

Field added that if the proposal was implemented and perks tax remained unaltered, it would also have a significant effect on the motor industry.

For example, assuming a person with a car allowance had a vehicle costing R250 000 and a R150 000 cap on the value of the vehicle was imposed, it might result in that person not being able to afford to continue running the car because of the heavy tax bill that would result.

However, if companies reverted to a policy of providing company cars where the individual paid perks tax, then the downward shift in car-buying might not be as dramatic.

Inland Revenue would have to be very careful because a considerable amount of the revenue it received came from the top end of the market. It could end up with less income and also cause people to emigrate, Field said.

BMW Transvaal customer centre manager Neville Rademeyer warned that the minute a government imposed any luxury tax or discriminated against any market segment, it had massive effects.

He said if the Katz commission proposals related to the motor industry were implemented, it would be detrimental to the upper end of the market and ultimately result in motor industry job losses.

"If this happens, I also don't know if luxury motor manufacturers will remain in the country," said Rademeyer.

The parliamentary joint standing committee on finance referred proposals on personal tax by the Katz commission back to the commission for further investigation.

However, this does not prevent Finance Minister Chris Liebenberg introducing some of the proposals.

BUDGET

Tax amnesty, but crackdown also promised

(320) ARG 15/3/95

JOHN VILJOEN
Business Staff

FINANCE Minister Chris Liebenberg proclaimed a limited, one off-tax amnesty for individuals and businesses, but also announced a new hard line on tax avoidance schemes.

The amnesty will apply to all persons and business organisations not registered with inland revenue on April 26 1994, or who registered on or after April 27 1994.

It will apply also to persons or business organisations registered before April 27, 1994 but whose whereabouts were unknown to the Commissioner of Inland Revenue.

The amnesty will cover income tax, employee tax, VAT, stamp duty, donations tax and secondary tax on companies.

As a result those under the amnesty would not be liable for any taxes before March 1 1994.

Persons registered before April 27 or under investigation by tax authorities before that date are not covered by the deal.

The exact terms of the amnesty will be tabled later during this session of parliament.

Anyone wishing to use it will have to do so within three months of a date which Mr Liebenberg will announce later.

"To have extended this amnesty any wider would have cut too deeply both into the equity of the tax system and the ongoing recovery of overdue revenue," he said.

"The amnesty closes the book on tax disobedience for whatever reason. Once the amnesty ends, any further tax evasion will not be tolerated."

Due to the need for a more efficient tax administration, the government was taking a hard line against the erosion and misuse of the tax system by various tax avoidance schemes, he said.

The clampdown on tax avoidance would produce an estimated R100 million in extra revenue for 1995/96.

Today's budget heralded the beginning of a restoration of "tax integrity" through a combination of measures and better tax compliance, Mr Liebenberg said.

Mr Liebenberg pointed a finger at fixed property aquisitions, convertible debenture issues, intellectual property and leasebacks.

These schemes were deliberately engineered to make detection "very difficult".

The commissioner would make resources available to detect and challenge these schemes.

Tax relief for lower-paid workers

(320)

CT 15/3/95

SPECIAL CORRESPONDENT

JOHANNESBURG: Workers earning less than R30 000 a year will be granted rebates for four dependants, whether or not they have any children, the Department of Finance's Inland Revenue branch announced recently.

This move, which will provide interim relief to lower-paid workers, will remain in force until June when new tax tables will be introduced.

Concern for the poorer sector was expressed after the Department of Finance announced that all people would be taxed as married persons with no children.

In response to this, the Minister of Finance, Mr Chris Liebenberg, held a meeting with the National Economic Development Forum and the Labour Council.

At the meeting it was decided that employers would be asked to deduct tax at the rate applicable to a married person with four children, for employees earning less than R30 000 a year.

CT 16/3/95 (320)

Laughing all the way to the bank

By Ron Schurink

Special Writer

Laughing all the way to the bank at Chris Liebenberg's expense are those Ciskei companies which opted for the "zero-rating" in company tax, which the apartheid state instituted at the inspiration of Free Market Foundation chief executive Leon Louw.

These companies will escape imposition of South African company tax which is the fate of their counterparts in Transkei and Bophuthatswana -- where tax will be averaged for this year only between the previous homeland rates and the South African rates.

Their lucky star is in the form of simple contracts which were offered by the Ciskei government to all local businesses.

"It was precisely because of the danger of a change in legislation that the contractual offer was devised," Louw said.

As adviser to the Ciskei government, he in fact went so far as to open an avenue of insurance against cancellation of the contracts with LLoyds of London.

But so certain were the businesses that the contracts were watertight that none took up the offer.

As contracts were a simple matter of obtaining, filling and signing the right form, it is believed that a good number of businesses did so.

It was not possible to establish the number, but there are at least some who will enjoy their luck for up to another eight years (out of an original 10.)

Louw is scathing about the increase in taxation for middle-class and higher-income earners.

This is just the sort of thing to chase prospective investors away, Louw contends.

No real change for companies

320

Sowetan 16/3/95

BY CHARLOTTE MATHEWS

Company tax was left unchanged in the Budget but companies will be affected by other measures such as a harder line on tax avoidance, the treatment of interest on financial instruments, abolition of non-resident shareholders' tax and extension of the date for the third provisional tax payment, company tax experts said yesterday.

They expressed some surprise that no changes were made to Secondary Tax on Companies (STC), first introduced two years ago at 15 percent and raised last year to 25 percent. There had been rumours of an easing in the tax.

"I think it has generated quite a bit of revenue but it is not attractive to foreign investors who are not allowed a tax credit on STC payments," Ernst & Young principal consultant Brendan Dardis said.

KPMG Aiken & Peat partner Noel de Charmoy said the change in the taxation of financial instruments — which will apply to any new instruments issued or entered into from today — would affect the tax paid by companies. Interest would now be payable on a day-to-day basis and allowable on a day-to-day basis.

Although interest has always been deductible, there had been a mismatch between its deductibility in the hands of the borrower and its accrual in the hands of the lender. The borrower was either deducting his interest up front or on a day-to-day basis but the lender was only paying tax on interest at maturity.

De Charmoy doubted if the abolition of non-resident shareholders' tax would encourage additional investment but he suggested it would re-align where foreign investment was directed.

At present most foreign investment into SA was in the form of loan capital because there was no tax on interest remitted overseas. Now that investment could take the form of share capital.

SA Institute of Chartered Accountants (Saica) chief executive Ken Mockler said Saica welcomed the abolition of non-resident shareholders' tax because it was believed this would encourage foreign investment.

Saica also welcomed the one-month extension for companies with a February year-end for the third provisional tax payment.

Saica was disappointed that nothing more specific was said about improving the efficiency of tax collection, other than that a strategic plan was to be requested, but it welcomed the appointment of Charles Stride, a member of the Institute, as Special Adviser to the Minister of Finance.

Homeland tax laws repealed

(320)

POLITICAL STAFF

CT 16/3/95

TAXATION laws in the former homelands relating to personal income tax have been repealed with effect from March 1, 1995, and the new PAYE tables to be issued shortly will be applicable throughout the Republic.

With regard to corporate taxes, Finance Minister Mr Chris Liebenberg said companies deriving taxable income within a former homeland and whose tax liability was less than under national law, would pay the average of the tax determined in the Republic and former homeland for the tax year April 1, 1995 to March 31, 1996.

Thereafter the "full national tax law" would be applicable.

Mr Liebenberg said an exception would be made in the case of companies operating in Ciskei, which had been granted "tax-free status" under the Company Tax Amendment Decree 2 of 1994.

The agreement was akin to a contractual undertaking between the company and the Ciskei government and would be honoured until it expired, he said.

Harder govt line on tax avoidance

(320)

FRANCOISE BOTHA

CT 16/3/95

YESTERDAY'S Budget announced moves by the government to crack down on tax avoidance schemes and net R100 million more revenue.

Such schemes had a legal footing within the Income Tax Act, but "government will be taking a hard line against the erosion and misuse of the tax system by various schemes", Mr Chris Liebenberg said.

The schemes refered to include those that depend on complexity to avoid detection.

This has raised questions about the the legality of non-disclosure of certain items. The government seems set to press for stricter disclosure.

Mr Liebenberg said the Commissioner for Inland Revenue had been instructed to detect and challenge such schemes and apply all the sanctions of the law against the taxpayers involved, and where possible, their advisers.

The government was disappointed by the lack of private sector response to previously-introduced legislation allowing the Commission for Inland Revenue to settle disputes regarding schemes concerning films, music recording, aircraft and plantations.

Tax advisers and their clients had continued to introduce schemes that have a similar tax avoidance thrust.

Schemes involving fixed property acquisitions, convertible debenture issues and leasebacks have been targeted.

It is proposed that the act be amended to extend anti-avoidance legislation to other assets being used in "sale and leaseback" schemes.

Other proposed ammendments include the taxation of lump sum payments and the writing off of the cost of acquiring ships and aircraft.

Marginal rate up despite undertaking

(320)

POLITICAL STAFF

CT 16/3/95

FORMER Finance Minister Mr Barend du Plessis gave an undertaking six years ago to reduce the rate of marginal income tax from 45% to 40% over five years.

Mr Du Plessis started off well and the rate dropped to 43%.

Yesterday, Finance Minister Mr Chris Liebenberg increased the marginal rate to 45%.

The top rate will apply on a taxable income of R80 000 or more.

A rate of 44% will apply to those earning between R70 000 and R79 999 and one of 43% to those earning between R50 000 and R69 999.

That is not to say Mr Liebenberg has completely turned his back on an undertaking given by a predecessor.

Mr Liebenberg has given his own undertaking that "the lowering of personal income tax rates will have the highest priority in terms of any granting of future tax relief".

BUDGET

It's high noon for tax evaders

Star 16/3/95

(320)

BY PATRICK BULGER
POLITICAL CORRESPONDENT

A NEW Bill will provide amnesty for past tax evasion, but warns of a tough stance in the future

Cape Town — Finance Minister Chris Liebenberg will table a General Tax Amnesty Bill in Parliament as a prelude to a hard line against future tax dodgers, he said yesterday.

The amnesty will apply to people who were not registered as taxpayers before April 26 1994, to people who had registered after that date and to people who registered before April 27 1994 but whose whereabouts was not known to the Commissioner of Inland Revenue.

The terms of the amnesty will be contained in the Bill.

"The amnesty closes the book on tax disobedience for whatever reason. Once the amnesty ends, any further tax evasion will not be tolerated," Liebenberg warned.

He told Parliament that the Government would take a hard line against tax evasion and the misuse of the tax system by "various tax avoidance schemes" which, though legal, were not in the public interest.

The Commissioner for Inland Revenue had been instructed to "detect and challenge these schemes", he said.

Other practices, like the use of more than one company car, were also being examined.

In scrapping discrimination against married women, the State was forfeiting about R2-billion. Householders with two earners will benefit "substantially" by this measure.

The transition levy for people earning more than R50 000 a year will run for the first three months of the 1995/96 financial year and bring in R1,1-billion in revenue.

A further R410-million in revenue will be generated by increases in excise duties on liquor and tobacco products.

The price of a dumpy of beer will increase by 6,5% and cigarettes will cost 17c more for 20.

Liebenberg said the Government did not intend issuing a White Paper on the Katz Commission report. However, the Government accepted the "constitutional imperative of a unitary tax structure for individuals", the need for improved tax administration and retention of the status quo for value-added tax and corporate income tax.

The Katz Commission would continue its work but tax issues had also to be debated at the National Economic Development and Labour Council.

It could have been a lot worse for the taxpayer

(320)

Star 16/3/95

BY LEIGH ROBERTS

Middle and upper income pay packets will be smaller after the Budget, but these taxpayers can heave a sigh of relief as the damage could have been far worse.

Chris Frame of Kingfisher Finance International says the Budget is one of the most sensible for years. "It's nothing like it could have been. Essentially, the Government resisted the major proposals put forward by the Katz Commission."

Anthony Chait, of Fisher Hoffman Sithole, says it's a mild Budget for executive taxpayers and is conducive to stimulate growth and foreign investment.

But Beric Croome of Kessel Feinstein disagrees saying that the hike in the maximum marginal tax rate is a retrogressive step which, once again, takes away from those earning over R80000. "It's not an incentive to work harder and earn more," he says.

Individuals with taxable incomes over R80 000 have been hit by a two percent rise, to 45%, in the maximum marginal tax rate. Generally, taxpayers earning taxable incomes over R45000 will be paying higher tax rates.

Most married women and single taxpayers will score with the introduction of a unitary tax table.

The higher tax rates introduced in the Budget will be compensated, to a degree, by the primary rebate which has been raised by R400 to R2 625 for all taxpayers.

Translated into rands and cents, a married executive with two children earning a taxable income of R200 000 will now pay tax of R77 475, an increase of R3 600 at R150 000 the taxpayer will pay R54 975, an increase of R2 600.

(The inclusion of the transitional levy in the tax table above distorts the actual increase).

In his Budget speech, Minister Liebenberg attacked a company perk popular with executives : the private use of a second (or even subsequent) company-owned car by the employee or his family.The value of this fringe benefit is now calculated at two percent a month of the value of the vehicle, previously it was 1,2percent. But Chait comments that this perk will still hold benefit: "At a cost of two percent it's still mild compared to the actual costs of owning and running a car."

Many individual taxpayers will be relieved that Minister Liebenberg did not announce a change to the current tax treatment of their travel allowances.

"The Katz Commission recommended that the deemed private portion of a travel allowances be lifted to 18000km from the current 12000km. This would have casued significantly more tax to be paid and pre-empted a shift back to company cars," says Croome.

Another wellcome ommission from the Budget proposals is the capping of pension and retirement annity fund contributions as recommended by the Katz Commission.

On the issue, Liebenberg said that the area of pension funds needs more research. But retirement lump sums have been hit by a clamp down on the existing practices which substantially lower the tax paid on these amounts.

In a small benefit to provisional taxpayers, the third provisional payment can now be submitted a month later.

Some higher income taxpayers will be hurt by Liebenberg's attack on the so-called tax-driven schemes.

In a lengthy statement on tax integrity and tax avoidance Liebenberg expressed his disappointment that some tax advisers and their clients continue to introduce tax schemes which bear the hallmarks of the previously disputed tax-avoidance schemes for films, aircraft and plantations.

The Commissiiner for Inland Revenue, said Liebenberg, has been instructed to make resources available to detect and challenge these schemes.

GET

THURSDAY
★ MARCH 16, 1995

Blow for middle-income earners

CT 16/3/95 (320)

AUDREY D'ANGELO
BUSINESS EDITOR

THE Budget will encourage foreign investors and small business, but does nothing to relieve bracket creep and hits middle income taxpayers as well as the rich, tax accountants said yesterday.

They pointed out it would no longer make sense to time marriages for February and divorces and retirements for March to reap the maximum tax advantage. And they expressed disappointment that the 45% marginal rate of tax will start at R80 000 a year.

"This may be rich in comparison with the majority but it does not in fact leave much after deductions, bond repayments and the usual expenses," said Mr Colin Wolfsohn of Kessel Feinstein.

Ms Debbie Tickle of KPMG Aiken & Peat pointed out that in some cases people earning nearly R80 000 a year would be worse off if they accepted a pay increase.

"But the budget does level the playing field for unmarried people and married women."

Mr Walter Scheffler, President of the Afrikaanse Handelsinstituut, welcomed the fiscal discipline underlying the Budget. "We are heartened by the fact that further once-off measures like the transition levy have been avoided."

Ms Jacqui Segal of Roup-Slot attorneys said Mr Liebenberg had sent a clear message that taxpayers must get their house in order before the next Budget. It was essential that they organise their tax, investment and estate planning so that they would not be "open to future attack by the Receiver of Revenue."

MIXED NEWS: Mr Colin Wolfsohn of Kessel Feinstein, Ms Debbie Tickle of KPMG Aiken & Peat and Mr Johan Malherbe of Arthur Andersen discuss the implications of the Budget. *PICTURE BENNY GOOL*

New move on debt interest

(320)

FRANCOISE BOTHA

CT 16/3/95

A MEASURE to eliminate the manipulation of the tax system through interest-bearing debt was announced in Parliament yesterday.

The amendments, which are estimated to yield R100m during the current budget year apply to the tax treatment of financial instruments, will allow for interest to be treated as income for lenders and as expenditure for borrowers on a yield to maturity basis.

The interest payable with respect to financial instruments such as stocks, bonds, bills, notes, certificates, loans and other forms of indebtedness entered into after March 15, 1995 is to be deductible on a daily basis.

Legislation will, however, be introduced by 1996, although instruments issued or entered into on or before March 15, 1995 will not be affected.

This will allow for the taxation of remaining maturities of existing interest-bearing instruments.

3 MONTHS' GRACE FOR DEFAULTERS

'Tax amnesty' to allow registration

(320)

CT 16/3/95

THE GOVERNMENT yesterday announced a "tax amnesty" for people not registered for income tax, employees' tax or VAT by April 26 last year. Our **POLITICAL STAFF** report.

THE amnesty, which was recommended by the Katz Commission, also applies to:

- Any person who registered on or after April 27, 1994, and
- Any person who was registered before April 27, but whose "whereabouts were unknown" to the Receiver of Revenue.

Presenting his Budget yesterday, Finance Minister Mr Chris Liebenberg said the amnesty would be available to people who applied during a recommended period of three months from a date to be announced later.

He said it would cover income tax, employees' tax, value added tax, stamp duty, donations and secondary tax on companies, or any similar taxes or duties imposed in the former homelands.

The minister said the tax relief for people who qualified would include:

- No liability for income tax for years before March 1 1994;
- Employers would only be required to withhold PAYE for remuneration paid or payable after March 1, 1995;
- No liability for the payment of VAT for the supply of goods or services or imported services or importation of goods before March 1 1994, and
- No liability before March 1 1994 for stamp duty, donations tax or secondary tax on companies for documents executed, donations made or dividends declared.

He said anyone liable for sales tax — whether or not they qualified for amnesty — who paid the outstanding amount during the period of amnesty or within six months of the cut-off date, would not have to pay any penalty.

He said the exact terms and conditions for amnesty would be included in the forthcoming General Tax Amnesty Bill.

Farewell to homeland fatcats

(320) CT (BR) 16/3/95

There is, in the Ciskei today, a very disgruntled, hard-drinking, heavy smoking, high-income earner.

A married man, who drives two company cars, and has children and a working wife, he has — until now — been into tax avoidance schemes which have allowed him to pay little or no tax.

He is the person who was hit hardest by yesterday's Budget.

Chris Liebenberg closed all the loopholes by: reversing low taxes on high-income earners (the Ciskei position), dropping child rebates, closing tax avoidance schemes, taxing second company cars at a punitive rate and slapping more duties on cigarettes and drink.

If you meet the man from the Ciskei, buy him a drink. He'll need it. — Staff Writer

High earners get off lighter than feared

(320)

By Leigh Roberts

Staff Writer

ST (BE) 16/3/95

Middle and upper income pay packets will be smaller after the Budget, but these taxpayers can heave a sigh of relief as the damage could have been far worse.

Chris Frame of Kingfisher Finance International said the Budget was one of the most sensible in years. "It's nothing like it could have been. Essentially, the government resisted the major proposals put forward by the Katz commission."

Anthony Chait, of Fisher Hoffman Sithole, said it was a mild Budget for executive taxpayers and was conducive to the stimulation of growth and foreign investment.

But Beric Croome of Kessel Feinstein disagreed, saying that the hike in the maximum marginal tax rate was a retrogressive step which, once again, took away from those earning more than R80 000. "It's not an incentive to work harder and earn more," he said.

Individuals with taxable incomes over R80 000 have been hit by a 2 percent rise, to 45 percent, in the maximum marginal tax rate. Generally, taxpayers earning taxable incomes over R45 000 will be paying higher tax rates, but most married women and single taxpayers will score with the introduction of a unitary tax table.

The higher tax rates introduced in the Budget will be compensated, to a degree, by the primary rebate which has been raised by R400 to R2 625 for all taxpayers.

Translated into rands and cents, a married executive with two children earning a taxable income of R200 000 will now pay tax of R77 475, an increase of R3 600. At R150 000 the taxpayer will pay R54 975, an increase of R2 600.

The calculations exclude the effect of the transition levy, which was introduced in last year's Budget as a one-off extra tax of 3,33 percent on incomes above R50 000, and payable at 1,67 percent in the first three months of the current tax year. Married women will now pay this year's portion of the levy after most were effectively exempted from paying last year's portion.

In his Budget speech, Liebenberg attacked a company perk popular with executives: the private use of a second (or even subsequent) company-owned car by the employee or his family.The value of this fringe benefit is now calculated at 2 percent a month of the value of the vehicle. Previously it was 1,2 percent. But Chait said that this perk would still hold benefit: "At a cost of two percent it's still mild compared to the actual costs of owning and running a car."

Many individual taxpayers will be relieved that Liebenberg did not announce a change to the current tax treatment of their travel allowances. "The Katz commission recommended that the deemed private portion of a travel allowances be lifted to 18 000 km from the current 120 00 km. This would have caused significantly more tax to be paid and pre-empted a shift back to company cars," said Croome.

Another welcome omission from the Budget proposals is the capping of pension and retirement annity fund contributions as recommended by the Katz commission. On the issue, Liebenberg said that the area of pension funds needed more research. But retirement lump sums have been hit by a clamp down on the existing practices which substantially lower the tax paid on these amounts. In a small benefit to provisional taxpayers, the third provisional payment can now be submitted a month later.

Some higher income taxpayers will be hurt by Liebenberg's attack on so-called tax-driven schemes. In a lengthy statement on tax integrity and tax avoidance, Liebenberg expressed his disappointment that some tax advisers and their clients continued to introduce tax schemes which bore the hallmarks of the previously disputed tax-avoidance schemes for films, aircraft and plantations. Funding schemes structured to result in substantially reduced or even negative borrowing costs through excessive deductions or conversion of capital to deductible expenditure had also come to the fore.

National lottery could ease taxpayers' burden

STAR 16/2/95 (320)

■ BY CHARLOTTE MATHEWS

A successful national lottery designed to channel the bulk of its income to Reconstruction and Development and charitable projects could possibly ease the burden on the taxpayer, Lotteries and Gambling Board member Jan de Lange said yesterday.

The Lotteries and Gambling Board released its recommendations last week which suggested that gambling be legalised, if strictly controlled.

It recommended that a national lottery be established, with the net proceeds after expenses going 50 percent to the Reconstruction and Development Programme, 20 percent to sports, 20 percent to charities, 5 percent to arts and culture and 5 percent to miscellaneous causes.

De Lange said, if the Board's recommendations for a national lottery were accepted by government, it could relieve the necessity for increased taxes. The money contributed to the national lottery would be freely given and not an imposed tax, with prizes as an incentive.

It was difficult to say at this stage how much money could be raised by a national lottery in South Africa, but the UK's national lottery launched last November had raised £41-million in its first week and since then its weekly turnover averaged between £35-million and £50 million.

Turnover

The turnover of a South African lottery is likely to be considerably lower because this is not as industrialised a country and distribution raises greater problems.

The UK's lottery is based on lotto, where a choice of numbers is fed into computers, and they will be launching a second game based on scratch cards later this year.

De Lange said the type of lottery that would suit South Africa best would be decided by the Board and would be either a lotto or a scratch game.

The Board recommended that South Africa's existing scratch card operators, which are technically operating illegally, should be regulated in the interim and gradually phased out. Three classes of smaller lottery will be permitted, with the largest type of lottery not to exceed turnover of R500 000 per game.

The recommendations of the Board have still to be approved by government and legislated, which is expected to happen during the current parliamentary session ending in August.

Once legislation has been passed, a National Lotteries Board will be set up and it will then put out a tender for the lottery.

In the UK it took a year after legislation was passed before a national lottery became operative.

Gain for women

(320)

THE abolition of gender discrimination in the tax regime represented the first really significant gain in practical terms for women under the new constitution, the Democratic Party said yesterday.

"The equality clause in its specific application to women was their doing and the insistence that it be applied immediately to tax is also their credit," the DP's spokesperson on women's rights, Ms Dene Smuts, said.

CT 16/3/95

Reports by Political Staff, Reuter

Relief for tax offenders

CT(BL)16/3/95(320)

By Claire Gebhardt

ECONOMICS EDITOR

Government is to introduce a once-off tax amnesty for everyone not on register on April 26 1994 or whose whereabouts were unknown on that date.

The amnesty will last for three months, during which period they will be absolved from liability for taxes relating to periods before March 1 1994.

To have extended the amnesty any wider would have cut too deeply into the equity of the tax system and the ongoing recovery of overdue revenue, according to the Finance Minister, Chris Liebenberg.

The terms and conditions of the amnesty will be set out in a General Tax Amnesty Bill to be tabled later.

The amnesty will cover income tax, employees tax, value added tax (VAT), stamp duty, donations tax and secondary tax on companies (STC), or any tax or duty imposed by the law of a former state or territory.

The amnesty will not apply to people registered before April 27 1994 who were already under investigation by the tax authorities.

Hard line on tax avoidance schemes

LINDA ENSOR (320)

CAPE TOWN — Finance Minister Chris Liebenberg gave notice yesterday that government was to take a hard line against tax avoidance schemes which, though legal, went against the spirit of the law and bordered on being fraudulent.

He also announced a tax amnesty for people not registered as taxpayers before April 27 last year or people who were registered but whose whereabouts were unknown to the Commissioner of Inland Revenue. Hereafter "any further tax evasion would not be tolerated".

The tax avoidance issue included measures on more than one company car, the accrual and incurral of interest on existing and future financial instruments, interest earned by emigrants, the taxation of lump sum payments and the writing off of the cost of ships and aircraft.

He said that tax avoidance schemes had continued despite government's attempts to reach an understanding with tax advisers and the private sector. He cited as examples fixed property acquisitions, con-

To Page 2

(320)

Tax crisis

Star 20/3/95

From Page 1

Kessel Feinstein, said the Sandton office was operating on less than half its staff complement. "The office seemed to be a political football at the time of Codesa and it ended up in a morass of red tape and never effectively got off the ground," said Croome.

He said he welcomed Finance Minister Chris Liebenberg's commitment in his Budget speech to improving the efficiency of tax collection.

Meanwhile, Andrew confirmed Sunday reports which said there were plans for a crack squad, comprising top private sector accountants and lawyers, to be seconded to Inland Revenue to bolster its investigation teams.

Burden on higher-income households criticised by NP and DP

IVE SAWYER
litical Correspondent

AX proposals in Finance Minister Chris Liebenberg's first budget have drawn *flak* from a range political parties.

The National Party said the rise in the maximum marginal income tax rate to 45 *percent* sharply increased the burden on higher-income households, even allowing for separate taxation on husband and wife.

The total tax burden had remained the same, but its incidence had shifted so *that* there was more emphasis on direct taxes.

This was in conflict with the aim of reforming the country's tax system.

NP finance spokesman Theo Alant said the promise the transitional levy would be temporary had *been broken* by its incorporation in personal income tax.

"It is clear that this RDP-based budget is aimed at using not only the expenditure side of the budget, but also its revenue side to effect a redistribution of income and wealth," Dr Alant said.

The budget would boost private consumption spending at the cost *of personal savings.*

On the positive side, it would stimulate rather than curb existing growth in the economy.

Democratic Party finance spokesman Ken Andrew said the budget had failed to give attention to key issues.

"Hundreds of thousands of middle-income taxpayers are going to be hammered yet again by the government's unwillingness to address fiscal drag."

The top marginal rate of 45 percent at a taxable income of R80 000 was out of line with the *R150 000 benchmark recommended* by the Katz Commission.

Mr Andrew said the budget deficit was unacceptably high.

"At a time when our economy is growing, there is no justification in continuing to borrow money for consumption expenditure."

The cost of servicing debt would rise as a result to R39 billion, a 44 percent increase.

Mr Andrew *hit out at the decrease* in real terms in the police budget.

The attempt to save money was misguided in the light of crime being out of control in South Africa.

Dene Smuts, DP spokesman on women's rights, welcomed the abolition of *gender* discrimination in tax tables.

This was "the first really significant gain in practical terms for women under the new constitution".

Freedom Front senate spokesman on *finance Piet Gous said* the middle-income group faced an ever-increasing tax burden.

The shift to social spending *was too strong,* with too little for job creation.

The fuel levy of two cents a litre was inflationary, while too little was done to encourage people to save, *Dr Gous said.*

Minister of Housing Sankie Mthembi-Nkondo welcomed the budget as a major boost to housing.

The effective 80 percent increase in state allocations for housing sent a highly positive signal to the private sector, communities and individuals who wanted housing, she said.

SA Chamber of Business director-general Raymond Parsons said the budget seemed to have held a realistic balance between the needs of the reconstruction and development programme and the imperative of ongoing fiscal restructuring.

Sacob welcomed measures which would attract investors.

While welcoming a single tax table for individuals, Sacob said it was disappointed that it was necessary to increase the top marginal rate of tax, payable at the same threshold of income.

This would have a negative impact on savings and the willingness to take risks and create jobs.

The new tax dispensation for small business was positive, Mr Parsons said.

(320) ARG 16/3/95

AT A GLANCE

- President of the National Automibile Association John Newbury welcomed the Budget's emphasis on the promotion of growth and development and the government's continued monetary and fiscal discipline.
- Consumer Council executive director Jan Cronje said consumers had been treated fairly: "They are delighted that VAT was not increased and that personal tax will be levied at more realistic levels."
- The National Party welcomed some aspects of the Budget but hit out at the increase in the marginal income tax rate to 45 percent.
- The Democratic Party criticised the failure of the Budget to deal with fiscal drag and said this would "hammer middle income taxpayers yet again".
- The Conservative Party dismissed it as "a purely socialist Budget".
- The Communist Party welcomed the shift from security spending to the Reconstruction and Development Programme.
- Director-general of the South African Chamber of Business Raymond Parsons said the Budget was "a realistic balance between the needs of the RDP and the imperative of ongoing fiscal restructuring".
- Exporters welcomed the Budget's allocation of R2,2 billion for boosting exports as "most welcome".

Tax gripes slated

320 16/3/95

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Levy on top earners reasonable by world standards — Liebenberg

CLIVE SAWYER
Political Correspondent

TAX on top earners in South Africa is still reasonable by international standards, Minister of Finance Chris Liebenberg said today.

Mr Liebenberg and his deputy, Alec Erwin, gave evidence to the parliamentary joint standing committee on finance.

Yesterday's budget, while widely welcomed for its measures towards economic reconstruction and investor friendliness, has been criticised for worsening the tax burden on the middle class.

Mr Liebenberg said personal taxes had been subsidised for years by the taxes paid by married women.

This had ended yesterday with the abolition of discriminatory tax tables based on gender and marital status.

Overall, people at the top end of the scale still paid "very reasonable" taxes, taking into account the rate of value added tax and the absence of a capital gains tax.

Replying to a question about the low increases given to civil pensioners, Mr Liebenberg said it was common practice in the private sector to give pensioners increases lower than inflation.

Civil pensioners are to get 6,5 percent increases, while inflation this year is expected to be about 9,5 percent.

Mr Liebenberg said civil pensioners usually were given about 70 to 80 percent of the average increases of their private sector counterparts.

He said a "vast amount" still had to be done towards general economic reprioritisation.

A one-year wonder could not be expected.

Mr Erwin said achievements of the budget included the impetus for new housing, effective primary health care and a labour training programme.

Signals had been sent to industry that cash handouts and allowances were something of the past.

Industry would be supported in future by measures such as training.

Questioned on the country's relationship with the world bank, Mr Liebenberg said it would have a valuable role in developing the new South Africa.

There was no policy against borrowing from the bank.

"What we need to do is to bring them into our priorities regarding the Reconstruction and Development Programme . . . and that is now happening."

But South African had to be sure it had the budgetary capacity to follow through on any borrowing.

Meanwhile financial markets have given enthusiastic approval to Mr Liebenberg's first budget, which could herald faster economic growth, reports Deputy Business Editor Alide Dasnois.

Business was full of praise for the way in which the minister balanced the need for tight money management with demands for more social spending.

But some trade unions have expressed reservations.

The SA Democratic Teachers' Union said the budget had not addressed low teachers' salaries, overcrowded classrooms and a general lack of resources.

The SA Health and Public Service Workers' Union expressed disappointment that "only R2,5 billion" had been allocated to civil servants."

In a clear sign of confidence on currency markets, the rand strengthened further against the US dollar in active trading, opening today at R3,5650 from last night's R3,5990 close.

● See pages 3 and 21.

Higher marginal tax expected to slow car sales

PAT CANDIDO
The Argus Bureau

PORT ELIZABETH. — The new top marginal tax rate of 45 percent on incomes of more than R80 000 a year will have a restraining affect on the sales of new vehicles, says Willie van Wyk, chairman of Port Elizabeth's Regional Chamber of Commerce and Industry.

Mr Van Wyk, who is also managing director of Delta Motor Corporation, said today the closing of the tax loophole for more than one company car would also affect sales.

"Top earners — who are likely to run second and third company cars — will now pay significantly more tax on this particular perk. ARG 16/3/95

"While the affect on sales cannot be quantified at this stage any additional tax must have a depressing effect, specially on sales of smaller cars.

"However the massive infusion of capital into the Reconstruction and Development Programme will stimulate the building and small business sectors, both of which are more likely to rely on the fast-growing commercial vehicle sector for transportation needs."

He said the increase of two cents in the price of fuel — although implemented to minimise inflationary effects — still resulted in an absolute increase in costs with all attendant adverse implications.

It was encouraging that the government had allocated R11.5 billion to the Eastern Cape region. (192)(32C)

"Overall we believe it is a positive budget in line with requirements of the times that we live in and the issues which need to be urgently addressed."

ANC women hail tax equity, defence cuts

(320) (254)

BY BARRY STREEK
POLITICAL STAFF

CT 17/3/95

THE ANC's women parliamentarians said yesterday they had been instrumental in the reduction in defence spending in the budget and the shift away from militarism, and welcomed "the long-awaited abolition of the gender discriminatory tax system".

They said in a statement that the 1995/6 budget could be described as the first of the new South Africa and reflected the contribution made by ANC women in and outside Parliament.

They welcomed the single rate of income tax and the primary rebate of R400, effectively the child rebate for four children.

"However, we are disturbed that single earners with more than five children will not be granted a rebate.

"The increase in social expenditure on health, education and housing is heartening, as is the reduction in defence spending.

"For too long public expenditure has disproportionately been devoted to militarism ... ANC women will continue to push for a reduction in defence spending in subsequent budgets."

Life offices praise holistic retirement fund approach

(300) (320) BD 17/3/95

SAMANTHA SHARPE

LIFE offices and retirement fund representatives applauded yesterday Finance Minister Chris Liebenberg's call for a holistic review of retirement fund taxation, including the cap on pension funds.

Life Offices' Association chairman Gerhard van Niekerk said the decision not to introduce ad hoc measures and to opt instead for a holistic review was welcome.

The industry had proposed that any decision on retirement fund taxation be deferred for further investigation in an attempt to stop any "rash change" of pension taxation.

Van Niekerk said the industry agreed with proposals about lump sums payments, but it was important to draw attention to the greater difference in the tax treatment enjoyed by members of public sector pension funds and members of private sector funds.

Institute of Retirement Funds president Maurice Harding said the insurance industry could now afford to sit down with government and plan for the future on long outstanding retirement fund issues.

The potential merger of government pension funds and the actuarial underfunding of the government pension fund were now on centre stage, he said.

Debate could focus on the type of structure the government fund should take, with the state seemingly prepared to work through the debate on whether or not its pension funds should be government funded.

Institute of Life and Pension Advisors spokesman Chris van der Walt said he was relieved that the Minister had decided to discard the notion of a cap on pension contributions.

Retire 'before new tax laws'

(320) CT 17/3/95

JOHANNESBURG: Individuals who are thinking of retiring should consider doing so immediately before the new tax laws come into affect, according to Syfrets tax consultant Mr James Wolfson.

Mr Wolfson said although Finance Minister Mr Chris Liebenberg's budget appeared to be reasonably "retirement-friendly", the fine print "may have a marked effect on individuals' retirement decisions".

Amendments to the taxation of retirement lump sums would increase the effective tax for retirees.

"With proper tax planning, individuals were able to bring their average rate of tax on their retirement lump sum down to 17%. The amendment now precludes this," he said.

According to the amendments, retirees could no longer rely on the low rate of tax in the year of retirement.

The retirement lump sum would now be subject to the higher of the current and the previous year's tax rate.

Furthermore, retirees were no longer able to deduct from tax a percentage of their retirement lump sum in their year of retirement. — Sapa

BUDGET REACTION

R8bn in tax outstanding

(320) BD 17/3/95

TIM COHEN

CAPE TOWN — Inland Revenue currently had R8bn outstanding on its books and could collect this money within a very short time if plans to reform the service were implemented quickly, Commissioner for Inland Revenue Trevor van Heerden said yesterday.

Addressing the Parliamentary finance committee, Van Heerden said the service was currently studying the implications of operating autonomously.

He said the international trend was towards towards autonomous tax collection. Such systems had proved "hugely" successful.

The new system would require a new way of assessing the service's performance. Only those offices that performed should benefit, he said.

Although no immediate measure had been implemented, Van Heerden said he was convinced Finance Minister Chris Liebenberg was very serious about the problem.

In the meantime, Internal Revenue had R8bn outstanding on its books, which he said was more than the total amount allocated to the reconstruction and development programme.

The service could begin to collect that money very soon if the right people could be found, he said.

He said SA spent 0,8% of revenue on collection, substantially less than other countries. Singapore, for example, spend about 1,6% of revenue on collection.

The biggest problem was that staff were often poached by the private sector after they had worked for the service for about two years, he said.

He said the service was completely in the dark about what the administrative consequences of the tax amnesty would be, and could not be sure whether it had the resources to deal with new taxpayers should they come forward in large numbers.

Sapa-Reuter reports Van Heerden told Parliament only one man stood between SA and chaos.

"We have a computer system that was designed in 1962. It was modern then ... now it really needs upgrading," he said in a plea for a new computer. "In fact, there is only one man who knows how to maintain it. I hope that the buses in Pretoria drive carefully because if they ever knock this chap down, that's the end of us."

□ Sapa reports the service's director of legal drafting Ian Meiklejohn said the new income tax tables took effect on March 1.

The changes to income tax tables proposed in Wednesday's Budget would be implemented by employers from May. Larger employers would receive the new tables on computer disks from Inland Revenue. Other employers would probably receive the printed tax tables after June 1.

"They are a lot simpler than the old ones," he commented on the administration of the new income tax structure which has abolished tax discrimination on the basis of sex or marital status.

The increased excise on various goods, like cigarettes and alcohol, came into effect on Wednesday at 3.18pm, a spokesman said.

Satour's share is 'peanuts'

BD 17/3/95

THEO RAWANA

THE R57m allocated to the SA Tourism Board in the 1995/96 Budget was peanuts which would make selling SA overseas against well-funded international competition an almost impossible task, Satour executive director Walter Msimang said yesterday.

For this reason, the board would approach stakeholders in tourism soon to impress upon them the importance of investing in the industry that guaranteed the highest returns.

Msimang said Satour's slice of the Budget was R56,7m. It was allocated R79m last year.

Msimang said SA — a "long-haul destination" with markets in the Far East, the US and Europe — could not hope to compete against countries such as Australia and Canada, which spent six times more than SA on tourism.

"About 15 years ago, SA had more tourists than Australia, then the Australians realised the value of tourism and invested in it — and it paid off.

"Today we are looking at 800 000 tourists a year, while the Australians are talking of 3,6-million tourists a year. Even small New Zealand spends more than us on tourism."

For Satour to be able to sell SA overseas, more money should be spent on developing the industry to its fullest potential.

Mining and the manufacturing sectors were faltering as competitors on the world trade stage. SA could depend on the service industries, but even in this area, countries such as the US and Switzerland were far ahead on information and technology.

"So we are left with tourism to export — and it is the cheapest way of getting foreign exchange for this country — and the returns are far more than the investment," he said.

"We are going to sit down with the decision-makers — decision-makers in the industry — and demonstrate to them in specific terms how the appropriate level of investment would enhance the objectives of the reconstruction and development programme," Msimang said.

Sacob's Parsons warns of worse 'brain drain'

EDWARD WEST (320)

CAPE TOWN — Negative sentiment created by the raising of the maximum marginal tax rate to 45% on a taxable income of R80 000, announced in the Budget, could aggravate the "brain drain," Sacob director-general Raymond Parsons said yesterday.

Speaking at the Old Mutual budget forum, Parsons said that from January to October last year 2 000 skilled people had left SA, according to official statistics, and that figure was probably an underestimation.

"We cannot afford to aggravate this by tax levels perceived to be onerous." BD 17/3/95

He said the R80 000 threshold, substantially lower than the R150 000 proposed by the Katz commission, should be revised, perhaps in the next Budget.

Life Offices Association tax convener Abri Meiring, interviewed at the forum, said the changes to single premium, lump sum tax benefits on retirement annuities announced in the Budget could result in a rush to utilise the benefits before the cut-off date of September 1.

Southern Life life assurance marketing senior GM Patrick Sheehy said the changes to the lump sum benefits were unlikely to result in a shift by policy holders away from retirement annuities, even though tax benefits had been reduced, as the annuities still offered substantial tax benefits.

He said tax advantages were a major marketing tool of retirement annuities.

NICOLA JENVEY reports from Durban that Frankel Pollak Vinderine economist Mike Brown said the Budget was tough for the man in the street, but he could expect a worse one next year. He told an Ernst & Young Budget presentation that government would have to spread the tax base through capital gains, inheritance and land taxes or grow the economy at 6% to cover the deficit.

ARG 17/3/95 (320)

Taxman can't get at R8-bn owed

CLIVE SAWYER
Political Correspondent

THE taxman is owed R8 billion — enough to pay for the reconstruction and development programme in a year — but he can't get his hands on it.

Plagued by staff shortages, the department of inland revenue is unable to collect the money which is already on its books.

"Within a year you would see results if we had the right type of people," commissioner of inland revenue Trevor van Heerden has told parliament's joint standing committee on finance, which is hearing evidence about the budget.

Mr Van Heerden strongly backed proposals to "commercialise" the department.

His office should have the flexibility to be able to keep up with taxpayers.

This included being freed from bureaucratic shackles so as to be able to open offices where they were needed, particularly with a new crop of taxpayers because of political changes.

The office should have the power to hire and fire.

Mr Van Heerden said his department was practically outgunned in the computer department.

The department was shedding staff because they were recruited by the private sector, which could offer much higher salaries.

Commercialisation would not imply that salaries of all staff would double overnight.

It meant that a worthy performance could be rewarded.

Asked by Barbara Hogan (ANC) whether the department was confident it could carry out Finance Minister Chris Liebenberg's order to crack down on tax evaders, Mr Van Heerden said that action would be taken.

Resources would be redirected to take a close look at financial institutions and the highly complex tax avoidance schemes used.

He confirmed that the tax burden had shifted in past years from companies to individuals. But the effective rate of company tax was increasing with the phasing out of various concessions.

South Africa was not out of line with international average ratios of revenues from individuals and companies.

Replying to a question, he said steps were being taken to tax casinos, but the department had not yet had a chance to examine the tax implications of recommendations in the report by the Lotteries and Gambling Board.

A taxing job for one man in Pretoria

SMILE A WHILE

THE entire South African tax collection system depends on the continued good health of one man, Commissioner of Inland Revenue Trevor van Heerden said.

Appealing at a meeting of the parliamentary joint committee on finance for a new computer system, Mr Van Heerden said the existing model was 30 years old.

"There is only one man who knows how to maintain it. I hope that the buses in Pretoria drive carefully because if they ever knock this chap down, that's the end of us," he said. — Reuter.

Amnesty will benefit only a few

Tax dodgers be warned

Star 18/3/95 (320)

A TAX amnesty has been granted by Minister Liebenberg which will "close the book on disobedient taxpayers". But the amnesty is narrow — only the naughtiest of citizens and business organisations stand to gain.

Although Liebenberg set out the broad terms of the amnesty in his Budget speech, the exact terms will be known only when the relevant Bill is tabled in Parliament.

The amnesty applies to three broad streams of "taxpayers": those who had not registered on or before April 27 1994, those who were registered on or after that date, and those who were registered before that date but whose whereabouts was unknown to the taxman.

Reward

The terms of the amnesty are such that within three months (of a date to be announced by the minister) individuals and organisations who meet the amnesty criteria can come forward and register as taxpayers.

The amnesty extends to income tax as well as other taxes.

TOUGH new measure to ferret out tax dodgers as well as an improved tax collection system have been announced by the Minister of Finance. LEIGH ROBERTS reports.

The reward to errant "taxpayers" for owning up is that all pre vious tax liabilities will be forgiven. Effectively this means:

- No income tax is payable for the tax years ending on or before February 28 1994.
- Outstanding employees' deduction tax owed by business organisations need not be paid for the period before March 1 1995.
- VAT need be paid only on goods and services supplied after March 1 1994.
- No liability will arise on transactions made before March 1 1994 relating to stamp duty, donations tax or Secondary Tax on Companies.

In addition, any person — whether qualifying for the amnesty criteria or not — who is liable for sales tax and who pays up in the nine-month period after the announcement will not be required to pay penalties.

Martin Kourie of Momentum Life Assurers says it's important to note that the amnesty does not apply to those taxpayers who have been submitting and paying their annual income tax but who have underpaid as a result of not disclosing part of their income.

These taxpayers, he says, now have even more to worry about over their non-disclosure.

"Liebenberg made two warnings in his Budget speech.

Improved

"Firstly, there are going to be tougher new tax evasion measures brought in to ferret out tax dodgers.

"Secondly, he has committed himself to an improved and more efficient tax collection and administration system."

It's the second warning that might cause sleepless nights to those who have hidden income in the past, as detection could be easier.

Liebenberg's tough new measures mean that proper compliance by taxpayers is going to be better than it has ever been.

New concessions will benefit the little guys

Star 18/3/95 (320)

RECOGNITION of the contribution by small businesses to job and wealth creation is expressed by tax relief in the Budget, writes LEIGH ROBERTS.

SMALL businesses have been afforded some light relief in the Budget. They now have the option of being taxed on a cash-flow basis, which could render them significant working capital benefits.

Importantly, Minister Liebenberg's comments in his Budget speech show that the Government recognises the critical role of the small business sector in the growth of the economy and in job creation.

But Liebenberg said that more research and consultation on the tax issues affecting small business was necessary before any major progress could be made.

The Commissioner for Inland Revenue is charged with the difficult task of setting the criteria that will identify a business as small and hence eligible for the concession.

The cash-flow option allows for income and expenditure to be recognised for tax purposes only when the cash is received.

Brendan Dardis, of accounting firm Ernst & Young, says there are two main potential benefits of this option to a small business.

Taxable income calculated on the Accrual Basis		R200 000
Add	Opening stock	40 000
	Opening debtors	30 000
	Closing creditors	65 000
Deduct	Closing stock	(60 000)
	Closing debtors	(45 000)
	Opening creditors	(50 000)
Taxable income on the cash basis		R180 000

Firstly, there could be a cash-flow benefit in that additional working capital will not be required to fund the higher tax calculated on the normal accrual basis.

This is particularly important to small businesses which often have great difficulty in raising external finance, says Dardis.

Secondly, many small businesses keep their accounting books on a cash basis anyway, and the concession will make submitting tax returns a lot easier and quicker.

The cash-flow option is not unique in our tax system: it might currently be adopted for VAT calculations where the value of taxable supplies is less than R2,5-million in any 12-month period.

The cash-flow basis will be particularly beneficial to those businesses where, at year-end, the value of stock and debtors is greater than creditors, Dardis advises.

The example in the accompanying table illustrates the potential benefit of the cash-flow concession.

If the business is a close corporation and hence taxed at the company rate of 35% (excluding Secondary Tax on Companies), the tax paid on the cash-flow basis will be R7 000 less than the tax paid on the accrual basis.

Full details of how the cash-flow basis will be applied will be known only when the Income Tax Amendment Bill is tabled in Parliament, around June or July.

WeekendStar
March 18-19 1995

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Those retirement nest eggs might take a knock

Star 18/3/95

Tax loophole gets boot

LEIGH ROBERTS

RETIREMENT planning enters a whole new ball game after the dramatic changes announced in the Budget. To many wealthier retirees, the amendments mean a significant increase in the tax payable on their retirement nest eggs.

The changes — which are effective only from September 1 1995 — might well push many taxpayers into early retirement.

Minister Liebenberg announced two changes to the existing taxation of lump-sum receipts from pension, provident and other retirement funds.

Both affect the calculation of the average tax rate.

The average rate is used to determine how much tax the retiree will pay on the taxable portion of his lump-sum receipts. It's a concessionary rate as it's lower than the retiree's marginal tax rate.

The average rate is applied to the taxable portion of lump-sum receipts (which is the excess portion of, very broadly, the R120 000 tax-free limit).

The first change is that the average tax rate will no longer be based solely on the taxable income earned in the year of retirement. It's now the higher of that rate and of the average rate paid in the immediately preceding year of assessment.

This is a significant move, says Beric Croome of Kessel Feinstein, as until now it has been possible to plan one's affairs in such a way as to reduce income received in the year of retirement and so lower the average rate.

Martin Kourie of Momentum Life Assurers says it will now no longer be the best tax practice to retire at the beginning of the tax year in the hope of reducing income received in that year.

Great caution

He says planning will now have to be done over a two-year period, which is a lot more difficult.

The second change announced by Liebenberg closes off a loophole used by wealthier taxpayers for many years and to great effect. It worked like this: in the year the retiree receives his lump sums, he makes a single premium contribution to a retirement annuity.

An anomaly in the tax law allowed the RA to be calculated at 15% of not only the retiree's normal taxable income but also on the lump sum. This hugely inflated RA deduction reduced the taxable income, and hence the average rate, resulting in substantially less tax on the lump sums.

But the loophole is there no longer as the RA deduction will now be limited to 15% of normal taxable income (and not the lump sum).

Croome and Kourie agree that the window period to the date of the changes, September 1 1995, allows for many eligible taxpayers to consult their tax advisers, since there might be definite merits in taking early retirement.

But as Kourie says, "A decision such as taking early retirement to work for one's previous employer on a consultancy basis should be taken with great caution.

"One should do a careful cash-flow analysis of the loss of earnings and benefits, particularly those relating to pension investment and the risk benefits forgone."

Croome notes that the proposed changes would also appear to affect lump sums payable on retrenchment and other cases where the average rate concession is granted.

Some will pay more, some will pay less

(320)

LEIGH ROBERTS Star 18/3/95

THIS year's Budget will be remembered not only for abolishing discriminatory tax practices, but for heralding a new era of higher tax rates for many individuals, writes Money Editor LEIGH ROBERTS. While most married women and single taxpayers will pay less tax under the new rates, divorced parents with dependent children, widows and married men will find they're going to be paying up in the year ahead. Perhaps these taxpayers should find solace in the fact that the Budget damage could have been far worse.

CALCULATING your income tax is going to be a lot different this year after the fundamental changes introduced in Chris Liebenberg's Budget.

A summary of the major changes affecting individual taxpayers follows, with some examples to show their effect on after-tax income.

- There is now one tax table for all individual taxpayers. Gone are the separate — and discriminatory — tax tables for married women and singles.
- The new table (see Page 18) holds tax rates which are higher — above incomes of R30 000 — than the "married person" table applied to married men and certain other taxpayers in the previous tax year.

Child rebate abolished

The higher tax rates stem from the trickle-down effect of an increased maximum marginal rate — now 45%, was 43% — which kicks in at taxable incomes higher than R80 000. (The marginal tax rate should not be confused with the average tax rate, see Magnus Heystek's column on Page 18.)

- The primary rebate has increased by R400 to R2 625.
- The rebate for dependent children has been abolished.
- The old age rebate has been maintained at R2 500. Taxpayers 65 years and older can deduct this in addition to the primary rebate.
- The tax thresholds have increased. This refers to the lowest taxable income earned by taxpayers before they, effectively, start paying tax. For taxpayers under the age of 65 it's now R14 605, for taxpayers over 65 it's R26 786. Last year, the thresholds for a married person were R12 500 for under-65s and R24 881 for over-65s. The thresholds for a married woman were R5 263 for under 65s and R17 292 for over 65s.
- The transition levy has not been renewed in this year's Budget, but taxpayers are still liable for the second portion of last year's levy. For salaried taxpayers, this will be collected as an extra deduction from their salaries over the three months to May 1995.

For provisional taxpayers, the levy will be collected in the payments due in August 1995 and February 1996.

This year's levy payment

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This year's levy payment is calculated at 1,67% on the portion of taxable income that exceeds R50 000. Most married women will pay the levy for the first time this year: many were excluded last year as the levy kicked in after a taxable income of R175 000.

The Budget did not hold many surprises for individuals, apart from the average tax rate on retirement lump sums (see lead story). The expected clampdown on employees' travel allowances did not happen, neither did the capping of pension and retirement annuity contributions. One company perk that was singled out for attack, however, was second (and subsequent) company-owned cars used by an employee or his family: the monthly taxable value of this fringe benefit is now 2% — from 1,2% — of the value of the car.

So how does the new tax scenario affect your pocket? Clifford Goldberg, of Fisher Hoffman Sithole, has done the calculations.

Married women. Most will pay significantly less tax — the saving will be relatively greater at lower income levels. At a taxable income of R50 000 she will pay R10 475 instead of R13 350. At R100 000 she will pay R32 475 instead of R33 350.

Single taxpayers. Most will pay less tax, but greater relative savings will be enjoyed by middle- and lower-income earners. At a taxable income of R50 000 the tax saving is R2 125, at R100 000 the saving is R1 565.

Married persons. Higher-income earners will feel the pinch of having to pay more tax than others. The following calculations assume that the taxpayer claimed for two child rebates last year. At a taxable income of R50 000, R300 more tax will be paid. At R100 000, R1 600 more tax will be paid. At a taxable income of R150 000, there's R2 600 more tax, and at R200 000, there's R3 600 more tax due.

Brain drain looms if tax rates keep on rising

It's never quite 45%

(320) Star 18/3/95

MONEY MATTERS

MAGNUS *Heystek*

THE issue of marginal versus average rates of tax came up in the wake of this week's Budget. A large number of people earning more than R80 000 a year phoned to voice their disapproval about the fact that they are now paying tax at "45%" on their incomes.

This is not correct. To explain why not, I need to illustrate the difference between "average" rates of tax and "marginal" rates of tax.

First, average rates of tax will *always* be lower than the marginal rates of tax. The average rate of tax on someone earning a taxable income of R80 000 is 32,6%. But, and this is where confusion comes in, at a marginal rate of tax of 45%, the taxpayer will pay 45c out of every additional R1 earned.

So, while someone might be paying a marginal tax of 45% at, say, a salary of R100 000, the average is still somewhat lower. In fact, no one pays an average rate of 45% on his or her income, no matter how high the income.

Perhaps an example is needed to illustrate this point.

A taxpayer earning R80 000 pays tax of R26 100, according to the tax table which is published on this page. The tax paid calculates at an average rate of 32,6%. Now the taxpayer gets a salary increase which puts his or her taxable income at R100 000.

The tax payable is now calculated as follows: R26 100 on the first R80 000 plus 45% tax on R20 000 (the tax payable on the income in excess of R80 000 equals R9 000). The average rate has crept up to 35,1%.

Even at a salary of R1 000 000, the average rate still remains below 45%. Someone earning such an income will pay tax of R435 600 (R21 600 plus 45% of income exceeding R80 000. The average rate is now 43,56%. Close, but still not 45%.

Worrying

But whether you are paying a marginal or average rate of tax, there is no denying that the burden on individual taxpayers keeps on getting higher and higher every year.

What is particularly worrying is that South African taxpayers reach the highest marginal rate of tax at R80 000, which, without taking into account bonuses, is attained at a salary of only R6 666 a month.

By no stretch of credulity can such an income be considered high or can anyone earning this income be classified as being rich. In fact, this is a head for countries with lower tax rates, both marginal and average.

This could very well happen should there be no tax relief in the next couple of years.

Already the tax revenue from individuals now exceeds 10% of the gross domestic product, and any further increases in this percentage might well see a flight of intellectual capital out of the country. This is something the country can ill afford.

Most people, I'm sure, will be willing to accept temporary high tax rates, but if the rates do not start coming down in the near future, there might well be a stampede out of Jan Smuts — not because the country does not have a future, but purely because of the high tax rates paid by an ever smaller number of individuals.

Excuses

Excuse me for being cynical. Too often have I watched finance minister after finance minister promise to bring the tax rates on individuals down. And time after time there have been handy excuses why the rates have to a month.

By no stretch of credulity can such an income be considered high or can anyone earning this income be classified as being rich. In fact, this is a very average income, considering the astronomical cost of living.

The point has been made that the tax squeeze on the "rich" could lead to an acceleration of the brain drain as young people take their skills and

cynical. Too often have I watched finance minister after finance minister promise to bring the tax rates on individuals down. And time after time there have been handy excuses why the rates have to keep going up.

The author is the personal investment consultant to The Star. He is director of his own investment company, Magnus Heystek Investment Planning Services (728-3205).

How burden increases

Individuals

TAXABLE INCOME

R	Tax Marginal Rate	Average Tax Rate (%)
0- 5 000	17% of each R1	
5 001- 10 000	850 + 18% of the amount over 5 000	17%-17,5%
10 001- 15 000	1 750 + 19% of the amount over 10 000	17,5%-18%
15 001- 20 000	2 700 ~ 20% of the amount over 15 000	18%-18,5%
20 001- 30 000	3 700 + 21% of the amount over 20 000	18,5%-19,3%
30 001- 40 000	5 800 + 31% of the amount over 30 000	19,3%-22,2%
40 001- 50 000	8 900 + 42% of the amount over 40 000	22,2%-26,2%
50 001- 70 000	13 100 + 43% of the amount over 50 000	26,2%-31%
70 001- 80 000	21 700 + 44% of the amount over 70 000	31%-32,6%
80 001-100 000	26 100 + 45% of the amount over 80 000	32,6%-35,1%
100 001-120 000	26 100 + 45% of the amount over 80 000	35,1%-36,75%
120 001-140 000	26 100 + 45% of the amount over 80 000	36,75%-37,9%
140 001-160 000	26 100 + 45% of the amount over 80 000	37,9%-38,8%
160 001-180 000	26 100 + 45% of the amount over 80 000	38,8%-39,5%
180 001-200 000	26 100 + 45% of the amount over 80 000	39,5%-40%

In addition to the above a transition levy is payable.
Deduct primary rebate of R2 625.
Taxpayers 65 years and older can deduct a further rebate of R2 500.
Source: Kessel Feinstein

Not the end of the Katz probe

(320) Star 18/3/95

LEIGH ROBERTS

WHAT happened to the recommendations made by the Katz commission of inquiry into taxation? While some of the recommendations made it into the Budget, many did not.

But that's not the end of the recommendations or of the Katz commission.

In his Budget speech Minister Liebenberg stressed that although several of the recommendations were not immediately implemented in the Budget, this did not mean they had been discarded.

It rather reflected, he said, the fact that improved administration needed to be secured before certain reforms could be tackled.

Unitary tax structure

Liebenberg commended the commission on its work, and has authorised the commission to continue its investigations.

The commission will focus not only on the issues which it has, itself, singled out for further analysis but further issues that will be referred to it.

The commission's recommendations which made it into this year's Budget include: a unitary tax structure for individuals, the need for improved tax administration, the feasibility of a general tax amnesty, and the need to maintain the current rates for VAT and corpo

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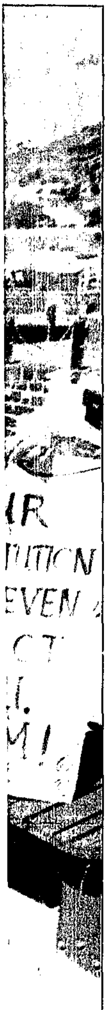

Top 'ghost squad' will hunt down tax cheats

(320)

ST 19/3/95

By EDYTH BULBRING: Political Correspondent

THE government has set up a crack ghost squad comprising some of the country's top private-sector lawyers and accountants to bust multi-million-rand tax evasion scams.

The identities of the new recruits will not be made public to increase their effectiveness and to prevent tax cheats from knowing in which areas they are operating.

Twenty lawyers and accountants have already been seconded by the private sector for a year to bolster the Department of Inland Revenue's understaffed investigation teams. Ten others will be put on the department's payroll for two years.

The new professionals have been recruited from the private sector by Finance Minister Chris Liebenberg's special adviser, Charles Stride.

They will concentrate on special projects like court cases, assessing tax scams and updating the department's detection systems.

Commissioner for Inland Revenue Trevor van Heerden said this week that companies had developed sophisticated schemes to outsmart the taxman.

The main culprits were certain financial institutions and their intermediaries — who were setting up elaborate tax avoidance deals for as much as R2-million in fees.

He said while the Katz commission had identified that tax avoidance and fraud were costing the state billions of rands every year, the department had been unable to put a figure on the cost of these slick corporate scams.

"If we knew how much it was costing, it would mean we had detected them. One scheme we identified cost the Receiver R800-million alone," he said.

However, detection was often difficult because of the nature of the schemes.

Mr van Heerden said the Department of Inland Revenue was understaffed on the Reef, where much of the tax evasion took place.

The department's major weapon against these scams were sections in the Income Tax Act which allowed the department to impose the taxes and a penalty if they assessed the main purpose of a transaction was tax avoidance.

The Katz commission has been asked to strengthen these provisions.

"There is a difference between entering into a commercial deal which is tax-efficient and entering into an artificial deal which has no commercial benefit whatsoever other than a tax break," Mr van Heerden said.

He said that while there was a thin line between fraud and what was legal, it would be fraudulent to mislead the taxman deliberately. Both the company and the tax adviser who designed the scheme would be prosecuted.

"South Africa cannot afford commercial transactions where the only economically useful thing is a tax benefit," Mr van Heerden said.

The government was also looking at making the Department of Inland Revenue independent of the Public Service Commission so that it could attract more skilled professionals by offering salaries that were competitive with the private sector.

Mr van Heerden gave an example of a common scam in use. It involves a corporation putting up a building worth R40-million. The corporation pays R1-million to the builder to establish dominium over the building and an additional R39-million up front for 10 years' rent. Part of the rent is tax-deductible, which means the corporation obtains the building for just over half of what it

To Page 2 ⇨

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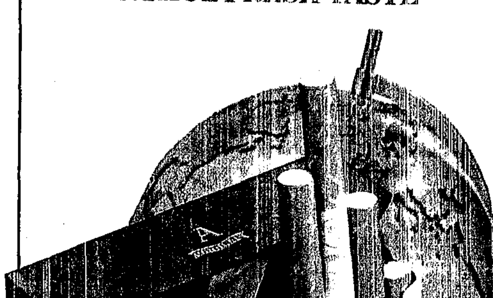

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'GHOST SQUAD' TO HUNT TAX CHEATS

(320) ST 19/3/95

⇨ **From Page 1**

is worth.

"They use a company in Johannesburg and one in another city knowing that it will be difficult to detect them," Mr van Heerden said.

Mr Liebenberg said in his Budget speech this week that the government was taking a hard line against the erosion and misuse of the tax system by various tax avoidance schemes.

"Although many are legal, some of these schemes militate against the general intention of the law and the national interest. In effect, they sometimes border on being fraudulent."

He said the government had introduced legislation in 1993 to allow the Commissioner for Inland Revenue to settle tax avoidance disputes concerning schemes for films, music recording, aircraft and plantations.

"This offer was made in a spirit of partnership with taxpayers, and a similar response was sought from the private sector parties and their advisers,' he said.

However, the government had learnt that some tax advisers and their clients had continued to introduce schemes which bore the hallmarks of the previous schemes, he said.

The schemes involve fixed property acquisitions, convertible debenture issues, intellectual property and leasebacks.

The Commissioner for Inland Revenue had been instructed to apply all the sanctions in the law against the taxpayers involved and, where possible, the advisers, he said.

"In circumstances where taxpayers in general are being asked to pay more tax, it is unacceptable that a few taxpayers should artificially manipulate their affairs and escape their liability to tax," he said.

ST(BT) 19/3/95

Taxation's new table a winner for singles

(320)

BUDGET '95

Reports by TERRY BETTY

UNMARRIED people have gained the most and high-earning married women have lost the most by the tax tables being unified.

The table alongside (top) shows that married women earning R200 000 a year will pay an extra R5 798 in annual tax.

This is the result of them now paying a marginal rate of 45% plus the 1,67% transitional levy. Under the old regime the top rate was 40% and the transitional levy only kicked in on earnings in excess of R175 000.

Married men in the higher tax brackets also stand to pay slightly more as a result of the marginal tax rate being increased from 43% to 45%. This despite relief granted from the primary rebate increase.

Major beneficiaries from a unified tax table include married women earning under R100 000 a year and all unmarried taxpayers.

The child rebates which allowed for R100 per child for the first five children and R150 per child thereafter to be deducted from tax has been removed.

As compensation the primary rebate has been increased by R400 to R2 625.

The accompanying tax table applies only to people under the age of 65. Pensioners would have been heavily penalised had the Katz proposals been implemented. However, these have been softened, and their R2 500 rebate has been retained.

Married people over 65 will pay less tax if they earn under R40 000 a year. Widows are included in the married person category.

Married people over 65 earning more than R40 000 a year will pay only slightly more tax. For example, a pensioner with annual earnings of R200 000 will pay R910 more tax each year.

Pensioners classified as married women will pay less tax if they earn under R100 000 a year. The increases thereafter are greater than for their male or widowed counterparts.

For example, a married woman over 65 with annual earnings of R200 000 will fork out an additional R5 798 each year.

The Budget shows that total receipts from personal income tax are expected to be R49,8-billion — an 11,2% increase on the previous year.

This burden is carried by around 10% of the population. Figures from the Receiver of Revenue show there were only 4,5-million taxpayers registered in October 1994.

The majority of taxpayers (18,7%) earn between R15 000 and R20 000 a year and contribute to 2,5% of total income tax receipts.

Most of the tax collected is from people in the R100 000 to R150 000 a year income category. Here 137 863 totalling 3% of all taxpayers finance 15% of the income tax revenue.

Only 1,1% of taxpayers earn more than R150 000 a year, yet they contribute towards 14% of total tax receipts.

The tables show that 15% of total taxpayers are married women, and most of these are in the R30 000 to R40 000 a year income category. This means that most married women will pay less tax because of the unification of the tax tables.

Some 22% of taxpayers are unmarried, and all of these will benefit from the new tax tables.

Unification of tax rates has had the effect of pushing a greater burden onto the higher earners, further skewing the burden of tax payments.

The total revenue table published in the Budget shows that Vat will net R32,7-billion for the fiscus — a R3,7-billion increase over last year.

Beer drinkers will pay R1,8-billion in excise duties — a R170-million increase. Other increased excise duties include another R31-million from wine and R212-million from cigarette tobacco.

Estate duties will raise an estimated R140-million for the fiscus — a R10-million increase.

Individuals will will also indirectly contribute to the fiscus through the R1,8-billion secondary tax on companies, which is a 25% tax payable on company dividends.

The Receiver may have had the last laugh on donations tax, where payments have risen nearly 2 000% since 1991 from R6,5-million a year to R120-million. The Receiver says everyone thought they would quickly donate their assets and pay tax on it ahead of possible changes, which of course have not been introduced.

TAX CHANGES ON RETIREMENT

	Year 1	
Taxable income	200 000	
Tax payable before rebates	80 100	
Effective rate	40%	
	Year 2	
	Old	New
Lump sum	1 000 000	1 000 000
Other income	50 000	50 000
RAF deduction	(80 000)	(7 500)
Taxable income	970 000	1 042 500
	All income taxed at 17%	
Tax on other income less RAF deduction		9 950
Effective rate		23%
Therefore lump sum taxed at year 1 rate of 40%		400 000
Tax payable	R164 900	R409 950

Graphic: FIONA KRISCH Source: ERNST & YOUNG

Lump sums lost to loophole's closure

RETIREES face a multiplying in the tax payable on their pension lump sum if they postpone their retirement past September 1 1995.

The example in the table alongside is of someone earning R200 000 a year with a R1-million lump sum payout from the pension or provident fund on retirement. Under the old regime he would have been able to reduce his tax payable to R164 900. Now he cannot get it below R409 950.

Brendan Dardis Of Ernst & Young says this is because the loophole whereby taxpayers could manipulate their income in the year of retirement to pay the minimum 17% on the lump sum has been zipped up.

Mr Dardis says lump sums received on retirement have been taxed at the average rate applied to all other income received in that year. Executives have been able to reduce that other income to a minimum by paying a large, tax-deductible single premium into a retirement annuity.

But the amount they can now pay into the retirement annuity will be limited to 15% of all other income received in that year.

In the example, the taxpayer will be able to lower the tax rate to 23% only instead of the previous 17%.

the taxpayer, because the other budgeted change is that the Receiver will look at the average tax rate the individual paid in the year prior to retirement as well as the average tax in the year of retirement and tax the lump sum at the higher of the two.

The proposal has been met with mixed reaction from the retirement industry. It stands to benefit from a spate in single premium retirement annuities before September as people rush to retire under the more generous provision.

Chris Newell of Old Mutual says this is not completely unexpected as it has been an area of significant tax leakage.

"We hope that the issue will be posted back (to the Katz committee) for a holistic review and that some equity can be achieved."

Graham Kerrigan, joint managing director of Alexander Forbes criticises that: "The private sector gets thumped while the public-sector carries on as before with totally tax-free lump sums on retirement.

"This is an ad hoc change that has not been discussed and debated with the retirement funding industry.

"Everyone accepts abuses must be looked at and legislation changed, but they should not pick and choose between which to address."

Mr Kerrigan says people save for their retirement over many years under a certain fiscal environment which creates a vested right. If the rules of the game change before retirement then some people are being unfairly prejudiced.

Pay increases keep losing to fiscal drag

EFFECTIVE TAX CHANGES

Taxable income	Proposed tax*	Married with two children**	Married woman**	Unmarried person**
15 000	75	-200	-1 875	-825
25 000	2 125	-200	-2 425	-1375
30 000	3 175	-200	-2 775	-1725
40 000	6 275	100	-3 275	-2225
50 000	10 475	700	-2 875	-2125
60 000	14 942	734	-2 408	-2231
70 000	19 409	668	-1 941	-2397
80 000	23 976	702	-1 374	-2463
100 000	33 310	770	-40	-2395
150 000	56 645	940	3 295	-2225
200 000	79 980	1 110	5 798	-2055
250 000	103 315	1 280	7 468	-1885
300 000	126 650	1 450	9 138	-1715
350 000	149 985	1 620	10 808	-1545
400 000	173 320	1 790	12 478	-1375
500 000	219 990	2 130	15 818	-1035

* The taxation payable includes the 1.67% transition levy and deducts the rebate of R2 625. This tax is payable by all taxpayers irrespective of their marital status or sex.

** Reflects the difference between the taxationpayable in terms of the budget proposals and that payable in terms of the current tables (taking into account the 3,33% transition levy and the various rebates applicable to the respective taxpayers).

All the above calculations assume that the taxpayer is under 65 years of age.

Graphic: FIONA KRISCH
Source: ERNST & YOUNG

EFFECT OF FISCAL DRAG ON TAKE-HOME PAY

Annual earnings the equivalent of R30 000 in 1995 rands

Take-home pay in real terms	1985	1994	1995	1996	% change '85 - '96
Married man	28 106	26 068	26 425	26 268	-6,54%
Married woman	28 106	23 455	24 050	26 268	-6,54%
Single person	27 362	24 610	25 100	26 268	-4,00%

Annual earnings the equivalent of R45 000 in 1995 rands

Take-home pay in real terms	1985	1994	1995	1996	% change '85 - '96
Married man	40 381	37 627	36 825	35 668	-11,67%
Married woman	40 381	34 115	33 550	35 668	-11,67%
Single person	39 094	35 240	34 450	35 668	-8,76%

Annual earnings the equivalent of R120 000 in 1995 rands

Take-home pay in real terms	1985	1994	1995	1996	% change '85 - '96
Married man	88 369	81,518	77 994	76 141	-13,84%
Married woman	88 369	79 315	78 650	76 414	-13,84%
Single person	82 249	78 256	75 029	76 141	-7,43%

Annual earnings the equivalent of R250 000 in 1995 rands

Take-home pay in real terms	1985	1994	1995	1996	% change '85 - '96
Married man	166 320	155 618	147 765	145 470	-12,54%
Married woman	166 320	157 315	154 153	145 470	-12,54%
Single person	159 758	152 356	144 800	145 470	-8,94%

- 1995 is the base year. All figures are adjusted by an inflationary margin. No dependants and age under 65.
- Inflation is calculated using CPI from 1985 to 1994 - average of 13,88%. Inflation for years 1994 to 1996 assumed at 10%.

Graphic: FIONA KRISCH
Source: DELOITTE & TOUCHE

TAKE-home pay has declined in real terms over the last 10 years as tax has nibbled into pay packets.

While the table alongside (below) shows mainly the results of fiscal drag, it also incorporates the effects of the new tax tables and the transitional levy.

Figures supplied by Willem van Ryswyck of Deloitte & Touche show how the take-home pay of people earning R30 000, R45 000, R120 000 and R250 000 in 1995, or the equivalent in other years, has dropped since 1985.

Those earning R30 000 have seen the smallest decline in standards of around 4% and 6%.

The worst impact in the example has been felt by people earning around R120 000 — they have seen their take-home pay packets drop by up to 13,84% in real terms.

In all cases single people have seen the smallest decline. This is because the effect of fiscal drag has been partly offset by the new tax tables being most favourable to them.

Fiscal drag increases the tax burden by pushing inflation-linked salary increases into a higher tax bracket. Even though in real terms a wage-earner may be paid the same amount as the year before, he pays a larger portion of it to the Receiver.

Fiscal drag also affects those in the top tax bracket. Even though they cannot be pushed into a higher bracket, the salary level at which the marginal rate kicks in is a smaller portion of the total taxable income. The effect of the lower tax rates on income is diluted and the average tax rate rises.

Fiscal drag partly explains why even though unifying the tax tables is said to have cost the fiscus R2-billion, total income tax receipts from individuals is budgeted to rise by 11,2%, or R4,9-billion.

Mr van Ryswyck says people may think rising tax rates have pushed up tax collections, but the 1985 tax tables show fiscal drag to be the culprit. He says the top tax rate of 50% kicked in at income in excess of R40 000 for married people.

Adjusted for inflation, this means that the marginal tax rate was reached only when people earned the equivalent of R142 000 in today's terms.

The table shows that in the last two years some of the lower earning individuals have actually seen an improvement in their take-home pay, even though they are down on 10 years ago.

This is because for all categories fiscal drag took its greatest toll between 1985 and 1994, particularly on the lower-earning married woman.

For example, a married woman earning R45 000 saw a 15,6% decline in the value of after-tax pay over the nine years from 1985 and if she earned the equivalent of R120 000, her pay value would have declined by 10,2% in real terms.

Billions lost to tax collection chaos

CT 20/3/95 (320)

SPECIAL CORRESPONDENT

JOHANNESBURG: South Africa's tax collection system is in crisis, with skilled staff at a critically low level and with only one man able to maintain Inland Revenue's 33-year-old computer system.

Tax experts have warned that the problems cost billions in lost revenue.

At the heart of the problem are years of underfunding and ongoing uncertainty about remuneration packages.

DP finance spokesman Mr Ken Andrew said Inland Revenue had been hit by a wave of resignations of skilled staff who had found higher-paying jobs in the private sector. Many skilled personnel had also taken advantage of early retirement packages.

Mr Andrew said the Department of Inland Revenue spent 0,8% of tax received on revenue collection, compared with 1,5% to 2% spent by many First World countries.

In his Budget speech Finance Minister Mr Chris Liebenberg welcomed the Katz Commission's proposals on increasing the efficiency of tax administration, and said the Commissioners for Inland Revenue and for Customs and Excise would prepare strategic plans.

● Mr Andrew confirmed weekend reports that a squad of top private sector accountants and lawyers would be seconded to Inland Revenue to bolster the department's investigation teams.

Land tax mooted by Gauteng legislature

Star 21/3/95 (320)

■ BY JO-ANNE COLLINGE

The Gauteng government is considering a tax on agricultural land to encourage the release of property for reform programmes, says MEC for Land and Development Planning Sicelo Shiceka.

Speaking in the legislature yesterday, Shiceka indicated that the land tax could be a significant form of revenue for local or provincial government: "It has worked in many countries in the world, and where it has been applied productivity has actually increased."

Trish Hanekom, head of the standing committee on agriculture and the environment, said there were clear arguments for a land tax:

■ It discouraged speculation in land and pushed land that was not being utilised on to the market. Hanekom pointed out that the mining houses had vast, strategically located land holdings which were not utilised but which cost the mines next to nothing to keep since they were not subject to property rates.

■ A land tax tended to exert a slight downward pressure on land values. The increased availability of land and lower prices would benefit those groups who had historically been deprived of land ownership rights, Hanekom argued.

■ A land tax tended to encourage more productive use of land and it was very difficult to evade land tax. It was possible that a land tax could be off-set against the income tax payable by farmers.

Far from being a socialist plot, a land tax was intrinsically part of an economy based on private ownership of property, said Hanekom. And it had worked best in advanced capitalist countries like the US.

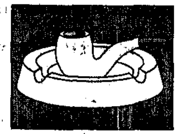
She also took issue with the Freedom Front's claim that farmers did not want the tax. It was true to say that the SA Agricultural Union disliked the idea of a land tax — but the SAAU did not even speak for all white farmers, let alone black farmers.

Hanekom said she had held discussions with successful, conservative farmers who supported a land tax because they were tired of competing with wealthy farmers who "parasited" on the State.

Keeping up with the neighbours' tax systems

CT(BR) 22/3/95 (320)

INSIDE OUT



Countries are under pressure to conform to international corporate norms

Tax regimes around the world are beginning to resemble each other. Driven on by the growth in cross-border transactions, foreign capital flows and multinational operations, governments are increasingly finding it necessary to incorporate many common elements within their tax systems. Countries are coming under more and more pressure not to be out of line with their competitors in the field of corporate tax in particular, in order that they do not discourage direct foreign investment inflows.

It is these considerations which explain the decision of the South African government to abolish the 15 percent non-resident shareholders' tax in the March Budget. This tax is payable on dividends paid to foreign shareholders, and has been bringing in roughly R400 million in revenue a year for the government.

The Katz commission, which reported last December, recognised that South Africa's corporate tax rates were uncompetitive in an international context. Bearing in mind the desirability of limiting the cost to the fiscus of relief from the non-resident shareholders' tax, it therefore recommended that the tax should be abolished for those foreign investors who had at least a 25 percent control of a company in South Africa.

This was justified on the grounds that there was a certain legitimacy to favouring the more heavily committed foreign direct investor in South Africa. This recommendation, if implemented, would in particular have benefited foreign subsidiaries and local branches of foreign companies operating in South Africa.

It can be argued, however, that the commission should not have been influenced by revenue considerations, and should have decided in favour of the complete abolition of the tax. This is what the government has decided, even though the removal of the tax only takes place on 1 October 1995.

There have been strong grounds for eliminating this tax for many years. The existence of this tax, side by side with the absence of any tax on interest on previous financial rand balances and no tax on interest from fixed interest securities held by foreigners, had created a significant distortion in the tax treatment of foreign investors.

The Margo commission on taxation back in 1987 recommended that the non-resident shareholders' tax be retained. It argued that the relevant foreign shareholders were often credited by foreign tax jurisdictions for the withholding tax imposed by the Republic, either unilaterally or in terms of double taxation agreements.

Any abolition of the non-resident shareholders' tax would, according to Margo, simply increase the tax liability of such investors in their own countries.

On the other hand, it is very questionable whether the taxes paid by investors in their countries will automatically increase now that the South African tax has been abolished. Some investors no doubt do not declare such dividends to their respective tax authorities. Moreover, considerable funds are now held offshore in financial centres free of taxes, or in low countries such as Switzerland.

The rise in dividend income which will therefore now be received by foreign investors will attract new funds into South Africa, render non-resident investors in South African equities stronger holders of the scrip, and encourage a shift of non-resident bank balances into local equities.

It should have a similar positive effect to that which occurred in the wake of the scrapping of the withholding tax on interest earned by foreigners on fixed interest stocks in 1988.

Equally important, the removal of the tax will strengthen the new unitary exchange rate system for the rand, and the timing of its abolition has clearly been influenced by this consideration. It should also impress foreign investors in the sense that it represents a policy move which is "investor friendly".

Eliminating the non-resident shareholders' tax was also supported by the consideration that such tax would be virtually impossible to apply if exchange controls on residents were abolished, since non-residents would simply have their shares registered with South African addresses and then transfer the dividends abroad addresses.

This should remain in force because the country would still need to export all of its gold except for the small amount devoted to domestic production of gold jewellery and Krugerrand products. South Africa therefore could not afford to allow some of its gold bullion production to be diverted on to the local market.

Gold's role in the balance of payments will decline as capital account transactions become more important

This argument, however, disregards several other considerations. The amount of gold bullion emanating from gold production sold in the domestic market under a liberalised regime would probably be small. In addition, the importance of gold as a generator of export revenue is falling in relative terms.

Whereas in 1980, gold exports constituted roughly 44,5 percent of total export proceeds, in 1993 this proportion had fallen to 24 percent, and further falls in this percentage contribution could materialise in coming years as both old export markets are regained and new markets tapped in a sanctions-free environment.

What is more, gold's importance in the balance of payments arena would decline in an environment characterised by an absence of exchange controls, since capital account transactions would become a more important component in the overall balance of payments structure.

The foreign reserves would also presumably be at a much higher level than is currently the case, thereby strengthening the overall balance of payments position.

☐ *The writer is a senior government economist*

Tax rules open SA to treaty shoppers

(320) CT 22/3/95 (BR)

By Audrey D'Angelo

Cape Business Editor

The abolition of Non-Residents' Shares Withholding Tax (NRST) in October while retaining Secondary Tax on Companies will be of no benefit to many of the foreign investors it is supposed to attract — such as those in Britain who will have to pay an equivalent amount of tax in their own countries.

This is the view of Anne Bennett, a partner at Deloitte and Touche. She points out this makes South Africa the only country on the African continent which can be used as an intermediary to reduce tax payable on dividends from countries with which it has a tax treaty.

Bennett explains: "To give an example of the opportunities opening up to tax planners, assume a Bermuda company wishes to invest in Switzerland. The Swiss withholding tax rate on dividends to Bermuda is 35 percent.

"Of a dividend of 1 000 Swiss francs, therefore, only 650 francs will be received in Bermuda. By interposing South Africa, that sum would increase to 925 francs because dividends paid from Switzerland to South Africa suffer only 7,5 percent withholding tax under the Swiss-South African tax treaty.

"Consequently a dividend of 925 francs will be received in South Africa and can be paid through to Bermuda without any South African tax liabilities arising.

"Since South Africa's tax treaties are relatively old, they do not contain the kind of stringent anti-treaty shopping clauses found in more recent treaties which would prevent this country from being used as an intermediary holding entity purely to reduce levels of taxation elsewhere.

"Could our government have intended this effect?

"It seems unlikely, given the minister of finance's disapproving reference to schemes aimed at tax avoidance. Admittedly, however, South Africa's use as a treaty shopping vehicle will not adversely affect our local tax base and is in fact likely to have positive economic consequences.

"It seems somewhat cynical, however, to imagine that the South African government would deliberately take a hard line on local tax avoidance while consciously encouraging it elsewhere."

Discussing the effect of abolishing NRST on genuine investors in South Africa, Bennett says residents of countries which have no tax treaty with this country and do not tax dividend income will save 15 percent of the dividend.

But in countries that tax dividends and have higher tax rates than South Africa "the shareholder will not pay less tax than before but will simply pay it to a different government".

She gives the example of Britain where, because no tax credit is given for STC although it would have been given for NRST, the amount of tax paid on a dividend from South Africa is unchanged.

Doubts raised over secret squad

Expert warns of potential 'tax disaster'

BD 22/3/95 (320)

GRETA STEYN

TAX expert Dennis Davis warned yesterday it would be "utterly disastrous" if the Public Service Commission (PSC) was allowed to torpedo the Katz commission's proposals to radically restructure the Inland Revenue Department.

He also warned that the appointment of a secret tax squad on secondment from the private sector was probably unconstitutional, if newspaper reports were true that its members' identities would be kept under wraps to heighten their effectiveness.

Davis, a member of the Katz commission of inquiry into taxation, was commenting in his personal capacity on government's response to the urgent need to beef up tax collection as outlined in the commission's interim report. He was not speaking on the commission's behalf.

Davis was worried the PSC would stop government from implementing key proposals. The PSC told the parliamentary finance committee on Monday it would oppose independence and separate salary scales for the Inland Revenue Department — as recommended by the commission.

Reuter reports from Cape Town that PSC acting director-general Lucas Stoop opposed a special salary scale for the department, an incentive scheme for tax collectors and proposals for partial privatisation of the service.

Davis said when the commission met this week, he would raise his concerns over government's failure to give a clear response to the commission's recommendations to improve tax collection. "The budgetary response was short and unsatisfactory," he said, noting there had been only a brief reference to the need to draw up a business plan for the department.

He did not believe the secondment of 30 private sector lawyers and accountants would address the problem in a sustainable way. The fact that the identities of crack squad members would be kept secret was probably unconstitutional, amounting to an invasion of privacy. "The whole idea is to get away from snooping around. If reports about secrecy are true, then government has not properly digested our report when it comes to the constitution."

If the commission's recommendations on salaries and independence were not implemented, it would have "terrible consequences" for tax collection. Government would not be able to implement reforms.

Commission chairman Michael Katz said it had recommended what ought to be done. "It is government's prerogative to decide what it wants to accept."

Finance Minister Chris Liebenberg said earlier it was not necessary to draw up a White Paper spelling out government's response to the Katz commission as it would be dealt with in the Budget. But it is understood commission members feel a more complete response is required.

Chief tax collector Trevor van Heerden told the parliamentary finance committee last week up to R8bn in unpaid taxes could be collected in the short term if he had adequate staff. But government pay scales made it impossible to retain skilled staff for more than about two years. He supported a Katz commission proposal for greater independence for Inland Revenue.

THE TAX SECRET POLICE

Old-style bureaucrats 'support status quo'

CT(BR) 23/3/95 (320)

BY CLAIRE GEBHARDT

ECONOMICS EDITOR

Old-style bureaucracy is threatening to strangle Finance Minister Chris Liebenberg's plan to make tax collection more efficient and thereby reduce the Budget deficit.

Business Report has learnt that many bureaucrats resent the idea of the Department of Inland Revenue hiring young whiz-kids at market-related salaries to rout out tax evaders.

The Public Service Commission, responsible for pay scales, told Parliament on Tuesday that Inland Revenue should not receive any special treatment.

Tax experts and economists warned yesterday that many of Chris Liebenberg's Budget promises would come to nought if the crisis situation continued.

Even though Inland Revenue had tried to staff its special investigative unit in Sandton with a handful of qualified people, it had failed to get results, say informed sources.

"Glitzy offices took care of the prestige proble.

"But chartered accountants had to report to old-style civil servants who tended to stymie their every proposal."

The crisis situation was underscored at a recent Budget Forum in Cape Town.

Director general of the Department of Finance, Dr Estiaan Calitz, said the department was unable to attract staff because of poor pay.

But a senior official at Inland Revenue said part of the problem was an affirmative action freeze on posts which had been in effect since November 1993.

Kingfisher Group chairman Chris Frame said attempts to draft qualified chartered accountants into a system where they had to report to an old-style civil servant would fail.

Although it was costly, government would have to look at redundancy pay-outs and offer market-related salaries to people throughout the structure.

Revenue squads labelled McCarthyist

(320) CT (BR) 23/3/95

BY BRUCE CAMERON

POLITICAL EDITOR

The South African Chamber of Business, in a parliamentary hearing on the Budget yesterday, strongly opposed the introduction of secret tax squads to track down tax dodgers.

Appearing before the standing parliamentary committee of finance, Sacob spokesmen warned high tax rates were lowering the standard of tax morality.

They said the introduction of secret squads to track down tax offenders would be reminiscent of US Senator Joe McCarthy's Anti-American Activities committee which persecuted suspected communists. "We don't want a society spying on each other," one Sacob spokesman said.

Sacob deputy president Philip Krawitz reacted strongly when ANC MP Barbara Hogan asked whether Sacob was not creating the impression that it was opposed to a crackdown on tax offenders.

He said this was not the case, adding: "Sacob supports investigations into anything that distorts the system, where some pay and others don't."

This had been proved by the way in which Sacob had approached the department of customs and excise to help it crack down on smugglers.

Said Krawitz: "We want to see an effective team at inland revenue, with trained people and with good, strong investigators. We have moved to a society which is open."

He agreed with committee chairman Gill Marcus that there was a grey area between illegal tax evasion and legal tax avoidance. He described this area as tax "avoision", and suggested legislation be tightened up to make the division between evasion and avoidance clearer.

Krawitz added that tax "avoision" also be controlled by better tax morality. Tax rates had reached such a high level that tax morality was being undermined and the amount of tax being collected could start declining.

Sacob says it's against secret tax probes

(320)
ARG 23/3/95

SACOB vice president Philip Krawitz has supported calls for a crackdown on tax cheats, but said the South African Chamber of Business would oppose secret tax squads.

Mr Krawitz told the joint parliamentary committee on finance in Cape Town yesterday he believed most South African businesses would be more willing now than ever before to pay fair taxes as a contribution to the post-apartheid redevelopment of the economy.

But he said the successful evasion by people owing up to R8 billion was undermining the tax morality in the country.

"The South African Chamber of Business fully supports investigation into tax evasion. It destablises the entire system if some people pay tax and others don't.

"What we are against is losing the transparency of the process," he said.

Sacob called in a written submission to the committee for upgrading of the tax administration.

Sacob tax commissioner Des Kruger said the Inland Revenue department should be allowed to become more independent of the public service. — Reuter.

(320)(Ø) Sowetan 23/3/95

Farmers union not happy about taxes

LAND taxes would inevitably contribute towards the impoverishment of farmers, Transvaal Agricultural Union president Mr Dries Bruwer said yesterday.

Reacting to land tax proposals by Gauteng's MEC for urban and rural planning and development, land reform and environment Mr Sicelo Shiceka, Bruwer said such a tax would also lead to higher food prices because agricultural inputs would be taxed, regardless of farming conditions

"It would also mean that no money could be generated in droughts when inputs were being taxed although no crops were being harvested."

Bruwer said Shiceka's comments were "insensitive" and showed "ignorance of the need for a sound financial agricultural sector".

Source of income

Shiceka had said the land tax would be used as a source of income to provincial and local governments. Land would be bought or even expropriated for redistribution to the landless.

In instances where people had been forced off their land because of the apartheid system, the land would be given back to them. — *Sapa.*

Main fiscal focus on basic needs

Star 23/3/95 (320)

BY JO-ANNE COLLINGE

The social services of health, education and welfare account for 87,5% of spending in Gauteng's R10,77-billion budget.

Education claims the lion's share (R4,5-billion or 42%), health (R3,1-billion or 29%) and welfare (R1,8-billion or 17%).

On the income side, 92% of the budgeted amount comprises transfers from the central government, while the remainder is generated by the province itself — mainly in vehicle licence fees and tax on horseracing.

The huge increase in national government expenditure on housing — an increase of almost 80% — is not reflected in the Gauteng budget. The reason for this is that the subsidies will be channelled via the National Housing Board to the Gauteng Housing Board, which will be responsible for their allocation. Gauteng expected about double last year's R192-million.

Also absent from the Gauteng budget at this point are allocations from the RDP Fund. Finance MEC Jabu Moleketi explained in his budget speech that the procedure for securing RDP financing was distinct from the general budgetary process.

"Funding for the RDP is obtained from the RDP Fund after rigorous planning and preparation of business plans which, after approval by the national RDP Ministry, become the contract between the implementing agency and the RDP Ministry," he said.

"This province is currently in the process of preparing plans for submission to the RDP Ministry. As a minimum, I have set a target of R500-million for projects to be funded from the RDP Fund. These amounts will be focused on the areas of greatest need."

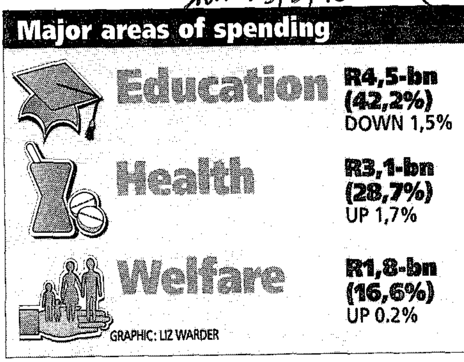
These additional allocations from the RDP Fund would form part of the adjustment estimates later in the financial year.

The amount of R2-million budgeted for the ministry of safety and security is only a fraction of the amount to be spent on policing the province this year. Budgetary responsibility for policing functions has been retained at national level and the Gauteng entry covers only the direct expenses of the ministry.

Moleketi highlighted the fact that the bulk of the R299-million allocated to the department of housing and local government would be spent on local government. He also warned that "this government has no funds to bail out local authorities if service charges are not paid".

The cost of running the 86-member Legislative Assembly for the coming year will be R60-million — 0,55% of total budgeted spending — while the premier's office will cost R14-million (or 0,1%).

Moleketi summed up the budget as a "holding budget, intended to maintain the current level and quantum of services". But, he said, with RDP Fund input and housing board allocations, it would was also a spending plan to start addressing the basic needs of the poorest members of society.



GRAPHIC: LIZ WARDER

PUBLIC FINANCE (320)

Double take

FM 24/3/95

The 1993 constitution changed the way in which responsibilities were allocated to various tiers of government. This will bring changes in revenue collection and in the way funds are spent.

But it has not been possible to simply make the changeover and adjust the historic figures to make them comparable. The former relationships between central and regional governments have collapsed, with the disappearance of former homelands and restructuring of provinces, but the new fiscal arrangements are not yet in place.

For this interim period, the former State Revenue Account has been renamed the National Revenue Account. When transition is complete it will be replaced by the National Revenue Fund.

In the 1994 *Fiscal Review*, published without a Budget last March, revisions dating back to fiscal 1975, were published on central government revenue. This represents 90% of general government collections and "therefore is a good indication of the direction which tax levels and the tax composition of consolidated general government is moving." Similar, but less complete, revisions were made to expenditure figures.

This year the revised presentation has been repeated.

The system of accounts used by the Department of Finance is one proposed by the IMF in 1986. It is called Government Finance Statistics and figures are derived from cash flows to and from government.

However, for analytical purposes national accounts figures are presented according to the system proposed by the UN in 1968, known as the System of National Accounts. This measures transactions "relating to production, income, consumption, saving and capital accumulation on an accrual basis." ■

Katz: Estate duty hike preferable

(320)(BR)24/3/95

By John Sherrocks

KWAZULU NATAL BUSINESS EDITOR

A hike in estate duties would be preferable to capital gains tax as it would avoid penalising emerging black businessmen just beginning to accumulate wealth, Michael Katz said at a post-Budget seminar in Durban yesterday.

Katz stressed that this was a personal view and that the Katz commission, which began its second sitting this week, still had to consider the matter.

However, he said there was a need to be careful of introducing measures which had not applied in the past and could be viewed as punitive.

Commenting on the Budget, Katz said it was "gratifying" that the government had made reference to the commission's eight key proposals.

Katz said the commission had struggled to come to a decision on the issue of VAT and amnesty.

"Amnesty can undermine tax morality as those who have complied can be left feeling resentful."

Commenting on the restart of the commission, Katz said the terms of reference remained the same: the massive income inequalities in the country had to be taken into account and the tax system had to support the reconstruction and development programme.

Responding to suggestions that South Africa follow the route of the Asian tigers by offering tax incentives, Katz said research had shown that as a criteria for investment, tax incentives ranked very low.

He said that in making changes to the tax system it was important that once a direction was determined, there were no erratic changes.

Govt may relent on highest tax bracket

BD 24/3/95 (320)

NICOLA JENVEY

DURBAN — Government would investigate raising the highest income tax bracket from R80 000, as had been recommended by the Katz commission, Deputy Finance Minister Alec Erwin said yesterday.

Speaking at a Budget presentation, he said government had made "a very difficult and unpopular choice" by recouping the bulk of the shortfall created by a unified tax structure through increased personal income tax.

Doing away with gender discrimination had cost about R4bn, he said.

There had been "a degree of justification" in looking to higher income earners for the recovery, since they would most likely benefit from the unified tax tables.

Erwin also said a first draft for a long-term expenditure programme would be tabled in June, posing targets for education, health and police expenditure.

Budgeting would become increasingly transparent, with the man in the street having access to proposed expenditures. This would enable business and organised labour to play a role in Budget-structuring.

Using this year as its base, government would unveil new programmes and priorities in the 1996/97 Budget, and Erwin promised 1999/2000 would be "the most fantastic Budget SA has ever seen".

Erwin reiterated government's commitment to combat inflation. "Containing inflation and stabilising wages will ensure the reconstruction and development programme's success and benefit everyone participating in the economy.

"The government has reasonably controlled expenditure, because it consulted with the Cabinet as a whole and not just the Finance Department. The advantages of good economic management are already paying dividends in SA."

Task groups had been established to identify shortfalls in education requirements and the 1995/96 Budget had set aside funds to make the necessary adjustments.

Government would not retrench teachers, as this was self-defeating, but it could redistribute teaching skills. "Public servants said this was the most significant reprioritising and restructuring of the Budget that had taken place in their memory," he said.

Star 25/3/95 (320)

Wealthier married women to pay up

LEIGH ROBERTS

WEALTHIER married women will pay significantly more tax on their incomes under the new tax table.

That's the finding of Ian MacKenzie, national tax director of accounting firm Ernst & Young, who was speaking at Monday night's meeting of The Star/FNB Investors Club.

"Married women with taxable incomes of less than R100 000 will pay less tax, but those earning higher incomes will pay a lot more tax," he said.

The reason for this is twofold. First, the married women tax tables of yesteryear were structured so that wives paid higher taxes than their husbands after an income level of R180 000, and higher than their single friends after R50 000.

Thereafter, the tax paid by a married woman was actually less than that paid by other taxpayers.

Tax discrimination was abolished in the Budget last week, and now all taxpayers are taxed according to a unitary tax table.

Second, more married women will be paying the transition levy this year (payable at 1,67% on the portion of taxable income that exceeds R50 000).

Last year, married women paid the levy on the portion of their income that exceeded R175 000.

The accompanying table shows the figures. The tax payable has been expressed as a percentage of taxable income. The excluding-levy figures ignore the 3,33% levy paid last year and this year's 1,67%.

		1995	1996
A.	Taxable income	50 000	50 000
	Effective tax	26,7%	20,9%
	Excluding levy	26,7%	20,9%
B.	Taxable income	150 000	150 000
	Effective tax	35,6%	37,8%
	Excluding levy	35,6%	36,6%
C.	Taxable income	400 000	400 000
	Effective tax	40,2%	43,3%
	Excluding levy	38,3%	41,9%

Incorporating could be tax saver

(320) Star 25/3/95

LEIGH ROBERTS

SMALL business entrepreneurs will be wondering whether to incorporate their sole proprietorships and partnerships in the light of the tax rate changes announced in last week's Budget.

While incorporating is not the answer for all small businesses, some could enjoy significant tax savings, Ernst & Young national tax director Ian MacKenzie said at this week's meeting of The Star/FNB Investors Club.

The new tax rates announced in the Budget tipped the scales further in favour of corporations

The maximum marginal rate for individuals was raised to 45% (from 43%) on taxable income exceeding R80 000.

Added to this year's portion of the transition levy, at 1,67%, the maximum rate paid by individuals is 46,67%.

The corporate rate has not been touched: companies and close corporations pay tax at a flat rate of 35%.

While the difference between the two tax rates — at 11,6% — seems to incline a business into incorporating, the deciding factor is secondary tax on companies, an extra tax companies are obliged to pay at a rate of 25% of their net dividend distributions.

Said MacKenzie: "If you are reinvesting your company profits to finance future growth, it makes sense to do so through a company or close corporation as your reinvestment is 11,6% cheaper.

"If you are operating as a company and you draw your profit as salary or dividends, you will end up paying the same amount of tax as you would have if running your business as an individual.

Squaring up to changing rules

Star 25/3/95

(320)

Katz weighs up benefits of tax reform

TAXING pension funds could cost the Government more than it receives in tax, as the funds lend to the State and would require higher interest rates to fund the additional tax. LEIGH ROBERTS reports.

PEOPLE close to retirement age are in an invidious position: they have to decide whether to retire now or to brave an uncertain future in the face of further changes to the tax treatment of their retirement monies.

This year's Budget paved the way for a new tax era, clamping down on the taxing of lump-sum retirement receipts.

Next year's Budget is likely to hold more far-reaching changes.

The Katz commission of inquiry into taxation has been charged with investigating aspects of taxation pertaining to the retirement industry.

The commission will most likely report back to Finance Minister Chris Liebenberg in about six months — time enough for its proposals (or at least some of them) to make it into next year's Budget.

Favour

Commission chairman Michael Katz, at a meeting of The Star/FNB Investors Club on Monday night, outlined the complex issues the commission needed to consider in its investigation.

Worldwide, people were reviewing the question of how much a government should — through its tax system — favour the retirement industry.

The philosophy behind pension and other retirement funds receiving favour was that they relieved the State of the burden of providing for pensions.

A government, said Katz, could give tax incentives to retirement funds in three different phases: by granting a tax deduction on the contributions made by employees and employers; allowing the build-up (the income and gains) of the assets of the pension fund to be tax exempt; or granting tax concessions on withdrawal from such funds at retirement or early retirement.

It was important that when moving away from the so-called bad of today to the good of tomorrow, the transition was sensible, Katz said.

"People have planned their affairs on the basis of the rules of the game as they are and it's very difficult to change the rules overnight.

"We will be sensitive to the protection of vested rights."

Putting a cap on pension fund contributions — suggested by the commission in its report — would probably be the method of changing tax treatment that would least affect vested rights, he said.

The recommendation of a rand limit on the contributions to pension and retirement annuity funds drew a great deal of criticism.

Taxing pension funds would affect vested rights and could indirectly cost the Government more than it received in tax as the funds were lenders to the Government and would require higher interest rates to fund the extra tax.

The Government, said Katz, had shown its sensitivity to retirement fund members' rights by implementing the changes announced in this year's Budget only on September 1.

The issue was further complicated by the existence of different retirement vehicles such as pension, provident and retirement annuity funds.

The commission would be examining whether a single tax treatment should govern all types of funds.

Savings

It would also investigate the issue of tax neutrality with regard to retirement funds in the private sector and State pension funds.

A further consideration was the question of the effect on savings.

It was felt that capping pension fund contributions would have an adverse effect on savings.

"Interestingly, universal wisdom has it that tax does not impact on the total quantity of savings in a community — it affects the direction of savings.

"Money goes where you get the tax incentive," Katz said.

Many countries were wrestling with these difficult issues.

ST 26/3/95 (320)

Hackles rise over land tax plan

By JACOB DLAMINI

THE GAUTENG government is headed for a showdown with mining houses and farmers' organisations over its proposal to introduce a tax on farm land.

The plan, announced by Provincial Land and Development Planning Minister Sicelo Shiceka this week, is intended to encourage the release of land for reform programmes.

It is the first time the ANC has proposed any action against big landowners.

A total of 41 percent of land in Gauteng is classified agricultural.

The chairman of the standing committee on agriculture, Trish Hanekom, said the proposed tax would discourage speculation and give black farmers access to the agricultural sector.

The tax, which would be calculated according to the value of the land and the income it made, could be a major source of revenue for local councils, she said.

But mining houses say the proposal will serve only to push up their operating costs.

Anglo American spokeswoman Charmane Russell said mining companies were "not in favour of additional taxation".

She said Anglo owned two plots in the East Rand — Sallies and Ergo. One was being mined while the other was being sold off.

The company also owned land north of Vereeniging, which had been leased out to farmers.

"We do not own any unused land and Anglo's policy is to constantly evaluate land usage," she said.

Chamber of Mines spokesman Llewellyn Kriel said the proposal would add to mining houses' tax burden.

He challenged the claim that mining houses were not paying tax on farm land. "We pay a substantial amount in taxes to the relevant local authorities," he said.

"Existing levels of mining taxation are already too high. The imperfections in the current tax system will only be aggravated by yet more secondary and indirect levies and imposts."

Agricultural organisations also protested against the proposal.

The Freedom Front leader in the Gauteng legislature, Mr Danie Bisschoff, said the tax would render many farmers bankrupt.

"We have just come through a very severe drought and many farmers are saddled with huge debts," he said.

It is very unreasonable to expect them to repay their debts and pay tax at the same time."

The president of the Free State Agricultural Union, Freedom Front senator Piet Gous, said the tax plan would "burden many farmers who are struggling to survive".

"We strongly reject the use of land tax as a source of revenue. The system will take money away from hard-pressed farmers and will mean less jobs in the agricultural sector."

The non-governmental Land and Agricultural Policy Centre said it supported the proposed tax, provided the rates were set lower than the productive value of the land.

Centre director David Cooper said: "Land tax is something worth investigating as a system that will introduce rates to the land."

But he said the plan should not add to farmers' tax burden.

"Many farmers have enjoyed government support for a long time. But that's gone and they feel that they are paying more tax as the situation normalises," he said.

Mrs Hanekom dismissed fears that the proposal would lead to conflict.

"There is no reason the proposed tax should cause a collision with any stakeholders," she said.

"We don't want to introduce it in a way that will disrupt the economy."

There were "very sound" reasons for the plan, she said. It would be used to root out tax evaders.

"Many corporations have bought land in a bid to evade tax.

"Most of this land is neither mined nor utilised and they pay sweet nothing for it. This is a more equitable form of taxation. You can hide your profits but you can't hide land," she said.

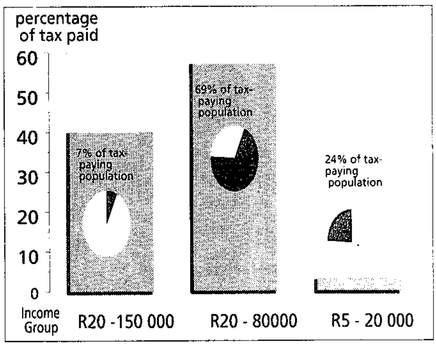
Eight million workers fall outside tax net

(320)

Star 27/3/95

ONLY one third of South Africa's economically active population paid income tax in 1994

BY CLAIRE GEBHARDT



Startling statistics show that two-thirds of South Africa's economically active population paid no income tax whatsoever in 1994.

According to the Department of Inland Revenue there were only 4,4 million registered taxpayers out of a total of 12,7 million economically active people.

Distribution

And seven percent of taxpayers, those earning between R80 000 and R150 000 a year, paid 40 percent of the taxes.

High levels of unemployment and the extent of the inequality in the distribution of income also show up in numbers which indicate that there were 23 million people over the age of 18 eligible to vote in the April election.

While only about 9 percent of whites are unemployed, 37 percent of blacks, 24 percent of Coloureds and 17 percent of South Africa's Asians are without jobs, according to Central Statistical Services figures.

Although official figures put unemployment at about 29 percent, the Reserve Bank recently came out with a figure closer to 50 percent.

Legal drafting director for Inland Revenue Ian Meiklejohn says the data base doesn't purport to represent the full detail, but the percentage contributions by the various income groups — for instance people earning above R150 000 a year represent only 1 percent of taxpayers — has remained the same.

"Of the 4,4 million registered taxpayers, only 1,7 million render returns, the rest are SITE cases."

Standard Income Tax on Employees (SITE) is applied to the first R50 000 of net remuneration earned by employees.

Cabinet awaiting Katz Commission finalisation

Capital gains tax notice

Star 28/3/95

(320)

BY BRUCE CAMERON

Somerset West — Finance Minister Chris Liebenberg has given notice that a capital gains tax is still on the cards.

Speaking at the Institute of Life and Pension Advisors annual conference, Liebenberg also announced a major new investigation into the retirement funding industry.

He hinted the investigation would almost certainly result in increased taxation of what he termed a "little (too) tax-rich" industry, which generates billions of rands in savings a year.

His comments follow the non-introduction in the budget of the Katz Commission recommendation for a capping on retirement fund contributions for tax purposes.

Liebenberg also announced that a comprehensive study was being made of civil servant pension benefits, including the current non-taxation of retirement gratuities and why returns on state pension funds were substantially lower than those in the private sector.

Other statements made by Liebenberg included:

- It would be best to scrap Marketable Securities Tax as soon as possible, but this had to be considered in conjunction with the derivatives market, particularly the proposed introduction of futures on specific shares.

Chris Liebenberg

- He had wanted to get rid of Secondary Tax on Companies this year, because of its horrific effects on foreign investors, but decided to fly with it for another year. The whole question on the taxation of dividends had to be resolved as part of the decision to get rid of STC.
- There is no Cabinet decision on capital gains tax yet as the Katz Commission "still has a lot of work to do on it". Before a capital gains tax could be introduced "we must get the definition right first. We must not have a tax on inflation profits. Hopefully we will have a definition by the end of the year".
- The introduction of a presumptive tax on companies would be looked at in the context of a capital gains tax, but "this does not mean it will not come".
- None of the Katz Commission recommendations had been rejected by the Government but he would not besurprised if some of the recommendations were rejected.
- An investigation into the possible creation of state pension fund. Liebenberg said the Government was concerned about a frightful escalation in pension payouts and a solution had to be found.

Liebenberg said the assurance industry would have to continue to play a crucial role in convincing people about the need to plan for retirement.

The less the state had to pay in social pensions, the easier it would be to maintain fiscal discipline.

The current savings rate was 17,5 percent of GDP, but could be 22 percent if it were not for the ggovernment deficit.

To keep up with the population growth rate and to eat into unemployment required a growth rate of at least 3,6 percent — and this required a savings rate of 23 percent.

Capital gains tax still an option

(320) CT(BE) 28/3/98

Chris Liebenberg hopes the Katz commission will have a workable definition of the tax in place by the end of the year

By Bruce Cameron
Political Editor

The minister of finance, Chris Liebenberg, has indicated that a capital gains tax may still be introduced.

Speaking at the annual conference of the Institute of Life and Pension Advisers, Liebenberg also announced a major investigation into the retirement funding industry.

He hinted that the probe would almost certainly result in increased taxation of an industry he described as a "little (too) tax-rich", and which collects billions of rands in savings a year.

His comments have come after recommendations by the Katz commission that retirement fund contributions be capped for tax purposes were not introduced in the budget.

Liebenberg also announced that a comprehensive study was being made of civil servant pension benefits, including the current non-taxation of retirement gratuities, and why returns on state pension funds were substantially lower than those in the private sector.

Liebenberg also said :

☐ It would be best to scrap marketable securities tax as soon as possible, but this had to be considered in conjunction with the derivatives market, particularly the proposed introduction of futures on specific shares;

☐ He had wanted to get rid of secondary tax on companies this year because of its "horrific" effects on foreign investors, but decided to continue it for another year. The question of the taxation of dividends had to be resolved as part of the decision to get rid of STC;

☐ The Cabinet had not yet taken a decision on capital gains tax, as the Katz commission "still has a lot of work to do on it". Before a capital gains tax could be introduced, "we must get the definition right first. We must not have a tax on inflation profits. Hopefully we will have a definition by the end of the year";

☐ The introduction of a presumptive tax on companies would be considered in the context of a capital gains tax, but "this does not mean it will not come";

☐ The government had not rejected any of the Katz commission's recommendations, but he would not be surprised if it rejected some of them; and

☐ The creation of a state pension fund was being investigated. The deputy minister of welfare, Abe Williams, would visit Chile soon to investigate its state pension scheme. The government was concerned about a "frightful" escalation in pension payouts, and a solution had to be found.

Liebenberg said the assurance industry should continue to play a key role in convincing people of the need to plan for retirement. The less the state had to pay in social pensions, the easier it would be to maintain fiscal discipline.

He admitted that state dissaving was retarding the economy. The current savings rate was 17,5 percent of GDP, but this could be 22 percent were it not for the budget deficit.

Keeping up with the population growth rate and reducing unemployment required a growth rate of at least 3,6 percent — and this required a savings rate of 23 percent.

Really successful countries, such as Japan, had savings rates of 30 percent.

Some lessons from Australia on company tax rates

SAAN 29/3/95

(320)

BY JOHN SPIRA

An important cornerstone to the success of the Australian economy has been the reduction of the company tax rate from 46 to 33 percent.

That's one of the messages conveyed — with clear lessons for South Africa — by Senator Bob McMullan, Australia's Minister for Trade, who is currently visiting this country.

He points out that 10 to 15 years ago the Australian economy was similar to that which South Africa has today.

But by the mid-1990s it had successfully overcome many of those economic challenges.

While acknowledging that South Africa has its own priorities and would need to devise its own solutions to its problems, McMullan suggests "we can all learn from each other's experience".

The reforms that Australia introduced to revive an economy which had fallen badly behind in its competitiveness with the rest of the world included:

- The deregulation of financial markets and the floating of its dollar.
- Tax reform which reduced the company tax rate dramatically — "not a package of tax holidays and special privileges; just a low base rate and a competitive economy".
- The encouragement of a more outward-looking traded goods sector through eliminating quotas and a commitment to reducing tariffs to 5 percent by 1996.

"Reforms to the education system have made it more cost effective and labour market oriented, while the labour market has been made more flexible by encouraging wage restraint and improving the job-readiness of the unemployed."

One of the results had been a dramatic reduction of labour unrest.

Individual tax 'doubled in 5 years' — DP

(320) CT 29/3/95

ANTHONY JOHNSON
POLITICAL CORRESPONDENT

INDIVIDUAL taxpayers — who will have to fork out an extra R2,5 billion this year — are paying double the amount of tax they were five years ago, the Democratic Party said yesterday.

The government was gunning for middle-income taxpayers, old age pensions and children as "soft targets" while billions of rands were going to waste because the state could not collect taxes, DP finance spokesperson Mr Ken Andrew told Parliament.

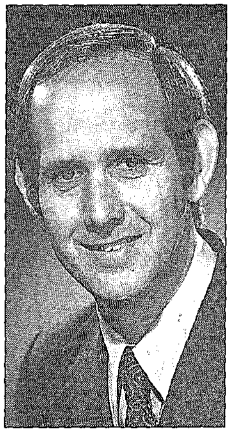
Speaking during the first debate on the Budget, which the DP is refusing to support, he said middle-income people were being squeezed yet again because the government could use inflation to tax people without having to announce any increases.

"These taxpayers are also being targeted because they don't spend their time taking hostages, blockading traffic, toyi-toying in the streets or trashing universities," he added.

Mr Andrew said hundreds of thousands of taxpayers in the R30 000 to R100 000 income bracket would be substantially worse off, even if they were lucky enough to receive salary increases that kept pace with inflation.

In real terms, a person who was earning R50 000 last year and received a 10% increase would be 4,2% worse off, and would be short of R150 a month.

Mr Andrew said the second soft target being attacked were social old-age pensioners, who had consistently received increases lower than the rate of inflation.



CRITIC: DP Finance spokesperson Mr Ken Andrew slated the new Budget yesterday.

This year their increases covered only about half of the increase in the cost of living. "This gives the government about R500 million extra to play with but adds considerably to the misery of millions of our senior citizens as they battle to survive on meagre and diminishing incomes," he said.

Mr Andrew said the Budget deficit was, in rand terms, at its highest level ever at a time when the economy was growing.

"The government is making RDP objectives more difficult to achieve in the future as debt-servicing costs become increasingly onerous," he said.

Serious problems in tax collection

ARG 29/3/95 (320)

Political Correspondent

SERIOUS shortcomings in tax collection have been exposed in auditor-general Henri Kluever's annual report to parliament.

"It is undoubtedly in the national interest that the collection of taxes should be placed on a sound footing forthwith," he said.

Problems included:

- Record-keeping and information on taxpayers were unsatisfactory.
- Control of submission of outstanding income tax returns was unsatisfactory.
- Receivers of Revenue seldom used the procedure set out in the Income Tax Act for issuing estimated assessments where taxpayers had failed to submit returns or give information.
- Revenue offices accepted incomplete employees' tax certificates, which "complicated" assessments.
- Control of tax calculations on employees' tax certificates was inadequate.

"Incorrect tax deductions are not followed up regularly, which particularly in Standard Income Tax on Employees (Site) may result in loss of revenue."

- The allowable deduction for retirement annuity fund contributions was not always correctly calculated by assessors, because employees' tax certificates did not give adequate information.
- Interest paid by the revenue office on credit balances of taxpayers was not always picked up by assessors, causing a loss revenue.
- The Commissioner of Inland Revenue had not yet succeeded in registering the owners of minibus taxis on a structured basis or taxing their income.

Mr Kluever said there had been several cases where claims for the repayment of input tax — part of the value-added tax system — had been put in unlawfully by taxpayers.

The claims, totalling about R214 million, had been investigated and prosecutions could result.

In some cases, claims submitted were based on fictitious transactions.

"It emerged that in certain cases where material claims were paid out, the co-operation of VAT inspectors was obtained.

"Prosecution may also arise from these cases."

Mr Kluever said problems were partly caused by staff shortages, lack of expert staff and inadequate pay for specialised staff.

Serious shortcomings were found in income tax collection in former self-governing territories.

These included poor control over IRP5 certificates, registration of taxpayers, issuing of assessments, and collection of taxes.

The tax affairs of office-bearers and senior officers were not up to date and outstanding amounts were not collected.

- District offices of a former self-governing territory spent R452 million in four years without ever writing up their books, Mr Kluever's report disclosed.

The self-governing territory was not named in the report.

He said audit opinions had had to be withheld on all reports for former self-governing territories for that year.

Tax responsibility plan mooted to stop evasion

BD 29/3/95 ERICA JANKOWITZ (320)

A TAX responsibility contract was being considered in a bid to stop tax evasion, Arthur Andersen senior tax partner Pierre du Toit said yesterday.

Du Toit told a conference such a contract might be more meaningful than a bill of rights for taxpayers as the interim constitution seemed to offer the necessary protection. In terms of the mooted contract, tax responsibility would involve government giving an undertaking not to take more tax than the law required and to guarantee civil and fair treatment for taxpayers.

A reciprocal obligation on taxpayers would be not to pay less than the law dictated and to be transparent in their dealings with Inland Revenue.

Pointing to the near crisis in tax administration as a result of widescale tax evasion for political and other reasons, Du Toit said such a contract would "de-emotionalise the tax issue".

In dealing with tax, companies had to accept the law had absolute morality and no compromise was possible, Du Toit said.

In addition, disclosure and transparency were essential to the effective administration of tax.

Companies which did not administer their tax payments and those of their employees properly were in dereliction of their fiduciary duty and should be treated accordingly. This administration would have to comply with the letter of the law, he stressed.

Kluever warns of state financial chaos

CT(BR) 30/3/95 (320)

BY BRUCE CAMERON
ASSISTANT EDITOR

The auditor general, Henri Kluever, warned of chaos in the administration of the state's financial affairs unless urgent action is taken.

Kluever, speaking to the parliamentary public accounts committee prior to tabling his report for 1993/94, put inefficient tax collection at the top of his list of problems.

There was R8,5 billion in uncollected taxes on the Inland Revenue books with at least an equal amount lost to tax dodging.

In an interview, Kluever added his voice to demands that Inland Revenue be given autonomy to enable it to employ and retain highly skilled staff.

He said the administration of the country was being threatened by the early retirement of a high number of skilled and experienced people as well as by the ongoing problems of the former independent homelands and the creation of the new provinces.

In his report to parliament, Kluever said the scope and complexity of the amalgamation of the civil services involving 1,2 million public servants was "undoubtedly being underestimated".

He said his criticisms should not be interpreted as "signifying resistance to the new dispensation. ... We are merely doing our work in an independent and objective way in support of the constitution of promoting transparency and effective accountability," Kluever said.

REPORT HIGHLIGHTS LACK OF EXPERT STAFF

Uncollected taxes 'could fund RDP'

(320) (297)

CT 30/3/95

THE AUDITOR-GENERAL's report exposes serious problems in South Africa's tax collection system which cost the country billions each year. **SAPA** reports.

SOUTH AFRICA's uncollected taxes would be enough to fund the Reconstruction and Development Programme, auditor-general Mr Henri Kluever said yesterday.

The Inland Revenue and Customs and Excise Commissions had recorded R8,5 billion in unpaid taxes, he said. This figure would at least double if tax evasions were added.

Taxes were not always collected efficiently, largely because of staff shortages and a lack of expert staff.

Some of the problems included:

- Extensions for submissions were granted when returns for previous years were outstanding;
- Unsatisfactory record-keeping;
- Estimated assessments were seldom issued by the Receiver of Revenue where taxpayers had failed to submit returns, and
- Incorrect tax deductions were not followed up.

Shortcomings

Fraudulent VAT claims to the value of about R214 million had been made. Claims had also been made based on fictitious transactions, in some cases with the assistance of VAT inspectors..

There were "serious shortcomings" in the collection of income taxes in the TBVC states, Mr Kluever said. In two of these, the tax affairs of office bearers and senior officers were not up to date and outstanding amounts had not been collected.

The report also noted shortcomings in the accounting system.

Increased costs

These included that dishonoured cheques collected by the Receiver were not deducted from the total. The amounts shown were therefore overstated by R815 000. The cost of collecting customs and excise duties had also increased significantly. For 1993/94 it had cost R81,7m to collect just over R19bn. In 1992/93 it had cost R59,7m to collect R17bn.

Double payment on tax refunds cost R4-m

Political Correspondent (320)

UNLAWFUL cashing of tax refund cheques cost the government R4 million in extra payments to those meant to get the cheques in the first place.

The Department of Finance recovered R918 968 of the illegal payments, an auditor-general's report for the 1993/94 financial year said.

The risk of losses remained, because it had not yet been possible to fully implement electronic payments into private bank accounts.

● A television advertisement that was never screened was part of "fruitless expenditure" of R70 000 by the SA Communication Services.

The rest of the expenditure was for promotional material for the new constitution.

The responsbility for production and distribution of this material was taken over by the Transitional Executive Council.

ARG 30/3/95

R6 for debt, R1 for RDP

ARG 1/4/95

Huge burden could be lighter at end of century

CLIVE SAWYER
Political Correspondent

IN a stern warning on the perils of the debt trap, Finance Minister Chris Liebenberg has said South Africa spends R6 on servicing debt for every R1 on the reconstruction and development programme.

South Africa's huge debt burden would begin to recede at the turn of the century, provided the government kept to its policies of fiscal discipline.

He urged a commitment to reducing consumption expenditure and re-prioritising capital spending.

Replying to comments during this week's budget debate in the national assembly, Mr Liebenberg said he was worried that not everyone understood the implications of running a budget with a constant deficit.

Interest would continue to mount and lenders would put up their rates.

The only way to avoid the debt trap was to follow the previously-agreed milestones of economic policy.

"We cannot afford to make an error," Mr Liebenberg said.

Noting that shortages on pension funds and inherited debts of the former TBVC states were funded by borrowing, he said discipline was needed on a broad front.

If creditors chose to reduce the terms of loans from five years to one, "this could bring us back to where we were in 1985".

Responding to criticism of the cut in the budget for economic spending, Mr Liebenberg said this was necessary as a short-term sacrifice.

Critics, including parliament's joint standing committee on finance, said that economic services were crucial to agricultural and land reform policy.

Mr Liebenberg said the state of balance of payments was a major factor inhibiting growth.

A comprehensive strategy to address this was being worked out by the National Economic Development and Labour Advisory Council.

He said South Africa had to become investor-friendly because of the lack of domestic savings.

Growth of at least 3,6 percent was needed before there could be any reduction of unemployment.

Welcoming work by Minister of Trade and Industry Trevor Manuel on developing small, micro and medium enterprises, Mr Liebenberg said these could be the "real engine of growth".

He called for efforts to turn the tourism industry "from a novelty factor to a sustainability factor".

STERN WARNING: Finance Minister Chris Liebenberg warns of perils of the debt trap.

Heat is on for Bantu Holomisa

TYRONE SEALE
Weekend Argus
Political Staff

ARG 1/4/95

THE African National Congress should use its code of conduct to act against Deputy Minister of Environment and Affairs and Tourism Bantu Holomisa, under whose rule corruption and administrative collapse occurred in the former Transkei.

Speaking in the national assembly budget yesterday, Manie Schoeman (NP) said Mr Holomisa had been a reluctant leader of the 1988 coup to eradicate corruption.

Mr Schoeman asked why 50 percent of industry had withdrawn from the Transkei during "the dictator's rule".

"Why was the state pension fund robbed of its assets?" asked Mr Schoeman.

"Maybe the general would explain to the former Glen Frey teachers why their rightful pensions were never paid to them and how he overturned two Supreme Court judgments against the Transkei government by issuing Decree No 14," he said.

Even more disturbing was that the Transkei auditor-general's report did not reflect the total administrative collapse that occurred in the last year of Mr Holomisa's rule.

Mr Holomisa then challenged President Mandela to prove that corruption in the Transkei actually amounted to millions of rand.

The evidence existed, said Dr Schoeman, who asked what the ANC would do about this, given that Mr Holomisa had apparently been the first to sign the ANC code of conduct.

Tax revamp to go ahead

Political Correspondent

RESTRUCTURING of the departments of inland revenue and customs and excise will go ahead, says Minister of Finance Chris Liebenberg.

Speaking at the end of the national assembly debate on the budget, he said the restructuring would be done as soon as possible.

(320)

The auditor-general's reports and the report of the Katz Commission on income tax had exposed serious crises in tax administration. These problems had contributed to a R8 billion shortage in revenue, which, if collected, could be a significant boost to the reconstruction and development programme.

ARG 1/4/95

He lashed out at Press reports which had labelled an offer from professional bodies of lawyers and accountants to help in restructuring as setting up "ghost squads".

Minister criticised over tax system

(320) BD 5/4/95

SAMANTHA SHARPE

THE SA Fiscal Association has come out strongly against Finance Minister Chris Liebenberg's lack of commitment to remedying the weaknesses in SA's tax system.

In a recent paper on tax administration, the association's "think tank" said the lack of concern had caused a serious dent to the recommendations of the Katz commission, with enhanced tax administration its most important thrust.

"Although mentioned in the Budget Review, the critical issue of the administration's status and autonomy did not even warrant a mention in the Minister's Budget speech".

The damage was made worse by Liebenberg's apparent preoccupation with other measures of "an ad hoc and problematic nature".

It said the appointment of the two commissioners to look at measures to improve efficiency was galling when enhanced tax administration rested on the commissioners' own status and autonomy, which could only be changed by Liebenberg himself.

C.T. (BR) 6/4/95

(320)

SOUTH AFRICA'S TAXPAYERS

Income Category	Number of People	% of Total	Tax Assessed	% of Total
1 - 10 000	127 741	7,59	10 176 118,78	0,06
10 001 - 20 000	158 089	9,39	68 046 462,67	0,44
20 001 - 30 000	152 579	9,06	194 535 508,77	1,26
30 001 - 40 000	136 344	8,10	360 505 724,40	2,33
40 001 - 50 000	133 548	7,93	615 408 568,21	3,98
50 001 - 60 000	221 702	13,17	1 521 561 385,50	9,84
60 001 - 70 000	204 731	12,16	1 881 632 447,16	12,16
70 001 - 80 000	155 039	9,21	1 776 303 439,30	11,48
80 001 - 90 000	109 663	6,51	1 521 762 683,24	9,84
90 001 - 100 000	75 669	4,49	1 228 077 891,80	7,94
100 001 - 150 000	144 495	8,58	3 103 795 295,22	20,07
150 001 - 200 000	34 030	2,02	1 128 864 453,94	7,30
200 001 - 250 000	13 136	0,78	581 057 510,19	3,76
250 001 - 300 000	6 167	0,37	336 338 456,36	2,17
300 001 - 350 000	3 328	0,20	220 257 359,22	1,42
350 001 - 400 000	2 005	0,12	157 272 176,46	1,02
400 001 - 450 000	1 252	0,07	111 430 288,86	0,72
450 001 - 500 000	879	0,05	84 732 628,66	0,55
500 000 +	3 334	0,20	566 924 896,39	3,66
TOTAL	1 683 732	100,0	15 468 683 295,13	100,0

The table shows the breakdown of South Africa's taxpayers by income category, the number of people within each category and the percentage of the total that each category represents. The information covers 83,91 percent of the total registered taxpayers and is culled from information supplied by Finance Minister Chris Liebenberg in reply to questions asked in parliament by DP MP Ken Andrew

High earners bear brunt of tax burden

(320) BD 6/4/95

ADRIAN HADLAND

CAPE TOWN — Salary earners taking home between R100 000 and R150 000 a year contributed more than 20% of SA's income tax receipts even though they represented only 8,6% of taxpayers, Finance Minister Chris Liebenberg said yesterday.

In reply to a question from DP finance spokesman Ken Andrew, Liebenberg said the 144 000 taxpayers in the R100 000-R150 000 bracket paid more than R3,1bn to the fiscus in the 1993/94 financial year. The largest bracket, covering 221 702 people earning between R50 000 and R60 000 annually, contributed just more than 12%, or R1,8bn, of the state's total tax income.

Individuals in the lowest income category, taking home between R1 and R10 000 a year, paid R10m — 0,06% of the total.

The 3 334 people in the top bracket, earning more than R500 000 a year, paid R567m in 1993/94 — about 3,66% of total receipts. The 40% of taxpayers earning R60 000 to R200 000 contributed almost 70%.

Sapa reports that altogether 1 683 732 people paid R15 468 683 295,13 in taxes — an average of R9 187,14 a head.

Tax consensus requires respect for rule of law

CT(BR) 7/4/95 (320)

From Sapa

Tax consensus was possible only when the rule of law was accepted, Pierre du Toit, a member of the Katz commission said yesterday.

In calling for tax consensus, he said that those who chose to take part in the economy and thereby accepted they must contribute what the law required, had to know that the same law would protect them.

A tax system that was administered by anything other than clearly defined laws, enforced with consistency and fairness, became self-defeating, Du Toit said.

Speaking at the same conference, advocate Peter Solomon said there was nothing immoral or dishonest in tax avoidance or trying to pay a minimum amount of tax, as long as this was done within the letter of the law.

Referring to Finance Minister Chris Liebenberg's Budget speech, in which he said tax avoidance schemes, although legal, mitigated against national interest, Solomon said the solution lay in effective legislation and not in emotive pleas.

Du Toit said poor administration had led to massive leakages and that this favoured the dishonest and ultimately undermined the rule of law. The Revenue administration therefore needed to receive priority for government resources.

Du Toit said Liebenberg had asked the Katz commission to consider a taxpayer's bill of rights.

He said such a bill would provide a statement of intent from the authorities and a rallying point for a new morality and mutual trust between taxpayer and the Receiver.

He said that in the last few months South Africa had moved closer to a tax consensus and there was a growing common concept of a future tax system.

Such a system would seek to minimise interference in normal economic processes, maintain a balance between income, indirect and wealth taxes and support the reconstruction and development programme.

Outcry from accountants (320)

BD 7/4/95

Taxman seeks more power to end avoidance

SAMANTHA SHARPE

INLAND Revenue commissioner Trevor van Heerden called yesterday for more power to clamp down on tax avoidance schemes through expanded legislation — sparking an outcry from accountants.

Speaking at a conference sponsored jointly by Business Day and the SA Fiscal Association, Van Heerden said SA's anti-avoidance legislation should be expanded to impose penalties on the use of tax avoidance schemes which sailed "dangerously close to the tax evasion wind".

But his call met with strong disapproval from tax experts, who said any extension of the Income Tax Act's anti-avoidance clause would mean granting dangerous discretionary powers to the commissioner.

Van Heerden said Finance Minister Chris Liebenberg had already asked the Katz commission to look at the Income Tax Act's general anti-avoidance provision, with tax avoidance costing the fiscus an estimated R36bn.

The use of legal tax avoidance schemes easily turned into tax evasion when improperly used and penalties for "improper tax avoidance" should be governed by specific legislation, he said.

Arthur Andersen senior partner Pierre du Toit told the conference there was always a danger the state could start operating in "the murky areas beyond the law".

The threat of "fiscal terrorism" where the state threatened legislation without at least some minimum degree of specificity could result in uncertainty. This could in turn stifle the honest taxpayer's normal business initiative for fear of falling foul of unknown new rules. However, business should refrain from pushing tax avoidance schemes to the extreme. The danger was for "legitimate deduction to become a provocation for anti-avoidance laws".

Vorster & Perreira senior partner Henry Vorster said any extension to Section 103 (on anti-avoidance) was bound to create uncertainty and raise the hostility of business. Regulation required a sense of balance and further discretionary powers to the commissioner under the anti-avoidance clause were a danger. Government should also guard against "bleeding international legislation", which would sit uncomfortably with the SA system.

"Section 103 in its present form is as near to perfect as you can get. The alternative is to give the commissioner unfettered discretion in this regard."

Reuter reports Van Heerden said: "I, as the tax commissioner, personally have great admiration for people who can craft a tax avoidance scheme", but these tended to become evasion schemes as they were refined and adopted by many taxpayers.

Tax lawyer Peter Solomon said government should be wary of introducing a penalty in Section 103 (tax avoidance legislation). "We seem to be entering a new era of taxpayer bashing.... I find certain of the Finance Minister's (Budget) remarks, with respect, totally inappropriate."

Liebenberg said in his Budget speech that government would take a hard line on tax avoidance schemes. "Although many are legal, some of these schemes militate against the general intention of the law and the national interest," he said.

Receiver to restructure tax system

(320) ST(BT) 9/4/95

THE Department of Inland Revenue is to embark on a major restructuring exercise to recover a shortfall in revenue collection estimated at up to R15-billion.

Ever since the Katz committee highlighted the department's shortcomings Trevor van Heerden, the Commissioner for Inland Revenue, has been seeking remedies for a department described "as close to collapse".

Staff problems, inadequate computer equipment, lack of resources and an expected over-burdening due to the tax amnesty are among the problems awaiting the Receiver in the new fiscal year.

The biggest problem was the inability to retain experienced staff, who were invariably poached by the private sector, Mr van Heerden told Parliament last month.

The office, battling with limited resources, was not keeping up with the private sector, he said.

The computer system had been bought in 1962, and although it had been updated, was inadequate.

"Our concern is that only one person in South Africa knows how to operate it," he said, adding that if something should happen to him "that's the end of us".

The office would also have to deal with the consequences of the new tax amnesty.

Finance Minister Chris Liebenberg has yet to announce the amnesty's cut-off date.

"We need a lot of preparation to assist those who wish to apply for amnesty", he said.

New offices needed to be built to accommodate the flow and provide information, although the new Budget had not allowed for this.

Greater autonomy would help avoid some of the problems. A blueprint was being drawn up to improve tax collection efficiency.

Some of the money could be collected this year, "if the right people are put on to it".

Other problems included the incorporation of former homeland tax administrations. Staff had to be trained, systems changed, and funds diverted, he said.

Mr van Heerden also issued a warning on tax avoidance schemes, a target of the recent national Budget speech.

Taxpayers found to be "sailing too close to the wind" could be penalised, Mr van Heerden told a conference at Mintek in Johannesburg this week.

But tax experts warned against such measures, saying any attempts to clamp down on avoidance should take the form of legislation which made taxpayers' positions less ambiguous.

Mr van Heerden said: "To discourage the use of tax avoidance, where it is sailing too close to the wind, we should have a penalty ... I believe we have to put in something like that."

His comments followed remarks by Mr Liebenberg in his Budget speech that the government would take a hard line on tax avoidance schemes.

"Although many are legal, some of these schemes militate against the general intention of the law and the national interest," Mr Liebenberg said.

Mr van Heerden said the Finance Minister's references to a clamp on avoidance schemes suggested "nothing but specific legislation" to curb it.

"I, as the Tax Commissioner, personally have great admiration for people who can craft a tax avoidance scheme," he said, but added that this tended to become evasion as they were adopted by large numbers of taxpayers. — Sapa.

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COMMENT

Avoiding tax

TAXPAYERS naturally avoid paying money to government that they can legitimately keep for themselves, and that is why accountants and lawyers make a good living in helping them find loopholes in the tax laws. Governments, on the other hand, do their best to close the gaps — that is the nature of the game.

Now Inland Revenue commissioner Trevor van Heerden, whose department is under considerable pressure from a cash-strapped government to improve its performance, wants more power to clamp down on tax avoidance schemes, which are said to cost government billions a year in lost revenue. He wants the law to provide for penalties on the use of schemes which sail "dangerously close to the tax evasion wind".

It is not so much the idea of closing tax loopholes that has caused the outcry against Van Heerden's call, but the fear that an extension of the Income Tax Act on the lines he suggests would place discretionary powers in the hands of civil servants who are bound to have a very subjective view.

On what basis will the commissioner — in practice his staff as well — decide on what constitutes "improper tax avoidance"? Is a tax avoidance scheme legal or illegal when it "sails dangerously close" to evasion? There may well be good reason to take a fresh look at the tax avoidance provisions of the Act, as Finance Minister Chris Liebenberg has asked the Katz commission to do. But what government must not do is muddy the water to the point that taxpayers' rights are obscured.

If there is one requirement of good law, it is that it should provide certainty. When it comes to tax, there has to be a balance between the interests of the state and those of the individual guarding his hard-earned cash. If the test of an investment scheme is whether it has a normal commercial purpose, for instance, and is therefore a legitimate undertaking from a tax point of view, the taxpayer's adviser should be in a position to tell him, "Yes, you can do it." If discretion is left to officials — and secret discretion at that — there can be no such certainty, and no consistency in the application of the law.

Government is obviously entitled to stop tax avoidance schemes which it regards as being against the public interest. But any prohibitions must be spelt out. It will then be for the courts to interpret the law, not tax officials. On the face of it, discretionary powers for the commissioner would place him above the courts, and that can never be the intention of legislators.

Also essential to any legitimate judicial system is the right of the citizen to challenge a finding against him. A law which places discretion in the hands of an official enforcing it denies that right, and can therefore have no place on the statute book.

Expose illegal tax schemes, urges Manuel

(320)

JOHN DLUDLU

TRADE and Industry Minister Trevor Manuel yesterday challenged the accounting community to expose illegal tax schemes and to join government in its campaign against secrecy.

At an Employee Report Award function organised by the SA Institute of Chartered Accountants (Saica), sponsored by Anglo-Alpha, Manuel asked whether the accounting profession was ready to accept that promoters of illegal tax schemes were as accountable as the people who used them. He also asked the institute whether it would be prepared to name the people involved in such schemes. BD 11/4/95

Disclosure rules for companies in SA were notoriously lax, he said.

SA faced the challenge of restructuring its industries to increase international competitiveness. Employees could play a critical role in this at plant level. However, companies would have to improve disclosure of information to enable all stakeholders to take part in decision making.

The government was committed to transparency, he said, noting that it had circulated a discussion document on small business before drawing up a White Paper.

The fact that he would appear before parliamentary standing committees on finance and trade and industry — where he was expected to outline his department's direction and contribution to the reconstruction and development programme (RDP) — demonstrated the openness with which he ran his department.

Secrecy had allowed substantial moral decay, which had spilt over into business.

He suggested an annual presidential award, along the lines of the President's Export Award, be used to recognise corporate commitment to the RDP.

Absa won the Employee Report Award while Adcock Ingram and Murray & Roberts were runners-up. The award is intended to stimulate interest in the value of qualitative reporting to employees. Judging panel chairman Geoff Everingham said entrants' reports had failed to provide details about directors' payments.

● Picture: Page 3

More smokes tax mooted

(320)

CT 13/4/95

STAFF REPORTER

AN extra 10c tax on each pack of cigarettes sold would produce R100 million a year, which could fund the promotion of health, Dr Derek Yach of the Medical Research Council said yesterday.

Dr Yach said the concept had the support of the Department of Health.

He said the money generated would be used to fund a health promotion foundation:

- To sponsor sports and the arts and to buy-out the tobacco industry's sponsorship.
- To support priority health promotion campaigns such as safe sex programmes and child safety.
- To channel a small amount into research.

South Africa had one of the lowest tax rates on cigarettes (38%), with Zimbabwe at 50% and Canada and Australia over 70%, Dr Yach said.

Tax hikes boost early retirement

(320)

ST(BT)16/4/95

By TERRY BETTY

TAX increases on lump-sum payouts will mean many top executives may work for nothing over the next three to five years if they do not retire before September 1.

Despite the rush of retirements before February in anticipation of changes being introduced from March 1, sources in the industry say the trend has accelerated since the Budget.

"Just about everybody over 50 is looking at their options," says Ernest Lai King, Sentrachem's group tax consultant.

Peter Stephan of Old Mutual says their agents have been "bombarded" with queries. He says Old Mutual's legal services department has had many queries, including from Old Mutual staff, about early retirement.

Vernon Cresswell of Fincorp says while Fincorp has been involved with early retirements since last year, it has also been called in to consult to major companies.

"If companies can structure themselves to ensure succession planning and continuity then they are going to do it."

The effect on a taxpayer's liabilities could be the difference between being taxed at 17% as opposed to, 38% on the lump sum paid out on retirement from pension and provident funds and retirement annuities.

One person is said to have saved R1-million in tax by retiring before September 1. As his pre-tax income is R400 000 a year, it would take many years of employment to compensate for what has been lost to the heavier tax bill.

Another two people jointly have R8-million in their provident fund. As they each earn R600 000 a year they are able to wipe out their entire salary with a single premium retirement annuity and thereby reduce the tax rate levied on their lump sums to 17%. This translates into a R1,6-million tax saving on the lump sum.

There are generally three ways for people to take advantage of the existing favourable tax legislation. They can retire early and stop working, they can retire early and continue working on a consultancy basis or they can withdraw from the pension fund should the rules allow.

In one company the entire top management is said to have taken early retirement and continued working for the company on a consultancy basis.

But it is uncertain how the Receiver would view such a move. Some people believe as it is not a genuine retirement the Receiver will tax the pension lump sum as a withdrawal rather than a retirement.

What this basically means is that where on retirement the first R120 000 or more of the lump sum is tax free, on withdrawal only the first R1 800 is tax free, the rest being taxed at average rates.

BOMBARDED . . . Old Mutual's Peter Stephan, who reports a sharp increase in requests for early retirement

Mr Cresswell says in order to be taxed as a retirement benefit even though the individual is continuing to consult to the company, the move must be commercially justifiable, and not just a tax-driven decision.

Vlok Symington of the Receiver's office says at this stage it is difficult to say what the Receiver's reaction to such a move would be.

"We would not like to elaborate until it has happened."

He says the Receiver would not allow withdrawal from a pension fund before employment has been terminated. He says if the pension fund's rules allow for that then they should not have been passed by the Receiver's office.

While many people are panicking about early retirement, there are other factors to consider that may show it to be more worthwhile to remain employed.

Mr Stephan says: "People must not be too tax-paranoid, they should consider other factors as well."

For example, for every year a person retires before 65 for men and 60 for women, depending on the rules of the fund, a heavy penalty is levied. So someone retiring 10 years early would be forfeiting a substantial portion of his or her pension.

Other people cannot afford to make a large payment into a retirement annuity, and so would not be able to substantially lower their tax rate anyway.

In many cases people are just not ready for retirement. They are also giving up on another 10 or so years of active employment with annual increases, bonuses and other benefits, such as growth within the pension funds.

Tax man upsets unit trust industry

JOHN DLUDLU

THE Association of Unit Trusts has threatened to take tax authorities to court over VAT on unit trust management companies' services, introduced on April 1. (320)

The association said the move had resulted in unit trust management companies increasing the maximum initial charge levied for units to 5,5% from 5%.

The industry had been negotiating with tax authorities to have unit trusts exempt from VAT on its services, believing the initial and service charges were not subject to VAT. However, tax authorities interpreted this differently.

Association executive director Dick de Groot said that when VAT was introduced, a 0,75% levy on financial institutions was imposed in lieu of VAT on financial services. "The financial institutions behind unit trusts have all been paying that levy. Now VAT is imposed on unit trusts and the levy has not been lifted. We don't believe this is equitable."

Further representations were being made to Inland Revenue. If these failed, the association was prepared to take the matter to court, De Groot said.

Inland Revenue VAT chief director Mike du Toit said: "It is the fee they charge for managing the trust that is taxable." The unit trust industry had been informed of this, he said. BD 18/4/95

B

NATIONAL

Sigcau appoints advisers: The minister of public enterprises, Stella Sigcau, has appointed two experts to advise her on the "reorganisation" of state assets. Accountant Jeff van Rooyen has been appointed for one year and K Mabentsela for three years.

(320)

Civil servants worried about tax: Civil servant organisations, worried that their pension benefits, particularly their tax-free retirement gratuities, could be taxed, have made representations to the minister for public service and administration, Zola Skweyiya. In reply to a question in Parliament, Skweyiya gave the assurance that changes would have to be negotiated with the chamber of the public service bargaining council.

CT(BR)24/4/95

Metropolitan Life declares bonus: Black-con-

Receiver seeks to close loopholes

(320)

BD 24/4/95

SAMANTHA SHARPE

INLAND Revenue was considering ways to close the loopholes foreign companies were using to avoid paying secondary tax on companies (STC), Inland Revenue spokesman Ian Meiklejohn said at the weekend.

Meiklejohn said the department was aware of the loopholes and had looked at the proposals of the Katz Commission. The commission recommended the institution of a provisional withholding tax to cover the collection of STC, or as a replacement.

"Our feeling was that a full-blown branch office tax would be preferable to a withholding tax in terms of simplicity, although the department has yet to take an official stance."

Meiklejohn said it was virtually impossible for the department to police STC beyond the borders of SA.

It was also difficult to determine just how many companies were operating in SA through branches and to quantify the STC being avoided.

But tax sources warned the taxman could be losing out on a significant revenue pool through foreign companies operating in SA through branches successfully avoiding STC.

When an offshore company, represented locally by a branch, declares a dividend at head office, it is technically liable for STC and the non-resident shareholders tax on the SA portion of the dividend.

But neither of the taxes were enforced by Inland Revenue, "who's reach is not as extensive as the realm of the Roman Empire", sources said.

They said that while it was difficult to quantify the amount of tax the fiscus was losing out on, most foreign companies investing in SA were taking the branch route in an effort to counteract SA's internationally uncompetitive tax rate.

Independent tax consultant Willem Cronje said the use of branches to avoid STC weakened respect for the rule of law. "This is the final straw. STC must go," he said.

Deloitte Touche tax consultant Louise Vosloo said that while some might construe the issue of STC as a storm in a teacup — STC was on its last legs — the fact was that the tax could be around for a while.

However, foreign companies which decided to open a branch were exercising a legal right to operate their businesses tax efficiently.

One source said that given the investment options in China and the East, the inability to utilise branches as a means of bringing SA's effective tax rate to more competitive levels would discourage a great deal of investor interest.

He said it was hard to say how much tax was being avoided through non-STC payment as companies had only recently started to return to SA.

Many of these companies might be keeping post-tax profits in SA — instead of repatriating them to head office — to fund growth locally.

SA may face tax on energy consumption

(320)

STEPHANE BOTHMA

PRETORIA — South Africans could face tax on domestic energy consumption and a road fuel duty as government tries to combat air pollution, which contributes to global warming, Environment Affairs Minister Dawie de Villiers says. BD 25/4/95

At the International Geosphere-Biosphere Programme conference on global environmental change, which began yesterday, De Villiers said SA was the biggest producer of greenhouse gases in Africa. "With the extra requirements of the reconstruction and development programme, production will in the short term increase rather than decrease."

A tax or duty on domestic energy consumption, a road fuel tax and an energy saving trust could be used in a local climate change action plan to finance the basic energy needs of the less privileged.

Release of greenhouse gases should be included in integrated environmental management parameters. Overstepping limits "should lead to taxation or penalties". A road fuel duty could lead to faster development of electrical transport and better use of other options for private transport and deliveries in urban areas to cut down on pollution.

Burning waste and agricultural residue should not be unrestricted. Although fire was an indispensable tool in veld management, unseasonal and unauthorised veld burning should be curtailed and penalties considered for transgressors.

An information programme should be launched to help local trade, industry and the public sector adopt efficient energy-saving technologies.

The conference continues today.

TAX AVOIDANCE

(320)

FM 28/4/95

Is there a grey area?

More than a decade ago, the then Commissioner for Inland Revenue, Mickey van der Walt, coined the pernicious term "avoision." He was referring to what he considered a grey area between evasion and avoidance. At the time, practitioners reminded him (as if he needed reminding) that taxpayers are entitled to arrange their affairs, within the law, so as to pay the least amount of tax.

The issue is still with us and was the subject of a recent seminar arranged by the SA Fiscal Association.

Arthur Andersen tax partner Pierre du Toit stoutly maintained the rights of taxpayers. In defending that right, they defend not only their own position, but the rule of law and therefore the constitution itself.

At the same time, he warned that the use of concessions, extraneous to the business of the taxpayer, may in fact be bad business. If it is perceived by Revenue as "tax speculation" it may provoke vigorous anti-avoidance action (whether by an administrative challenge to the transaction under the Act as it stands or through swingeing amendments). The same risk is run by taxpayers who push their legitimate claims for deductions to the edge.

Most tax systems have a general anti-avoidance section. In the SA Income Tax Act it is Section 103 and in the Vat Act it is the more draconian Section 73. This confers on the Commissioner the power to ignore, for tax purposes, arrangements which are abnormal and reduce or postpone the payment of tax. Our Section 103 is relatively narrowly drawn compared with some overseas tax systems (including Australia's on which ours was modelled). There has been a seemingly endless running debate between Revenue and tax practitioners over the redrafting of Section 103 so as to give it more teeth.

Tax attorney Henry Vorster argued that Section 103 is soundly drawn as it is. Du Toit agrees: any broadening of the section undermines the precise codification of the tax system embodied in all the other sections of the Act.

Revenue can prevent situations where practitioners drive a horse and cart through the Act, by drawing tax statutes with a minimum of special concessions. These are inviting targets for aggressive tax planners.

Secondly, if tax practice demonstrates a tempting gap exists, Revenue should recommend to government that the Act in question be amended. And Revenue should accept it has been outwitted by practitioners in relation to past tax years and stick to the cardinal principle that taxes should not be applied retroactively. (If this rule is ignored, certainty in tax planning flies out of the window.)

The latest Budget included a statement of intent to sharply restrict the ingenious mechanism of up-fronting interest deductions for the borrower, while contracting for interest accruals to the lender to take place far in the future. Taxpayers can hardly complain if this game is to be spoiled but they can cavil at the element of retroactivity in the proposed amendment.

The best defence against evasion (which is nothing but fraud through nondisclosure or fraudulent statements in a return) is effective policing of the tax collection process. In a recent occasional paper written for the association, Anglo American tax consultant Marius van Blerck criticised Finance Minister Chris Liebenberg for diverting attention from the need to restructure Inland Revenue and Customs & Excise by sniping at legitimate avoidance.

This requires new administrative arrangements, both for Inland Revenue and Customs & Excise, outside the civil service framework to enable them to recruit properly qualified personnel in sufficient numbers to keep a sharp eye on tax fraud.

Speaking at the seminar, Gill Marcus, chairman of the Parliamentary Standing Committee on Finance, renewed her support for this proposal — which emanated most recently with an added note of urgency from the Katz report. ■

SA a world beater — at squeezing taxpayers

(320) CT (BR) 21/4/95

Taxation on middle-income earners is among the steepest in the world thanks to fiscal drag, says Econometrix

By Claire Gebhardt
Economics Editor

Econometrix researchers have confirmed what many South Africans have long believed — the country has one of the steepest marginal tax curves in the world on incomes up to R50 000.

Only a few African countries fare worse.

South Africa also has one of the higher top marginal tax rates on incomes exceeding R50 000.

In other words, fiscal drag is a much more vicious form of taxation in South Africa than in most other countries. (See accompanying graphs). Fiscal drag, or bracket creep, is the process whereby salary increases which keep pace with inflation simply move the recipients up the tax ladder into a higher tax bracket where they are hit by an increase in their average tax rates.

This leaves them worse off after tax than before — even if tax rates per income group remain unchanged.

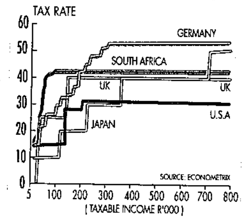
Azar Jammine, Econometrix director, said that although the Katz commission's objective was the diminution of fiscal drag, its recommendations would have had little impact on flattening the tax curve. "In analysing the hefty proportionate increases in marginal tax rates on incomes between R30 000 and R70 000, these tax brackets can hardly be classified as belonging to the rich, but rather to average run-of-the-mill middle-income persons."

Having forfeited around R2,5 billion to R3 billion in revenue by abolishing gender discrimination in the Budget, it was not surprising that the marginal tax rates on incomes between R30 000 and R70 000 were increased so sharply, he said.

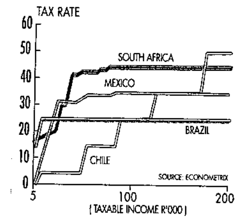
As these were the income levels where the highest proportion of South Africa's personal tax was sourced, they were milked the most vehemently. "Although more than half of all taxpayers earn less than R30 000, based on 1993/94 figures, their contribution to the fiscus cumulatively amounts to a mere 12 percent of the total. In contrast, taxpayers earning between R30 000 and R70 000 number 35 percent of the total, but account for 42 percent of all tax paid."

The 4 percent who earn in excess of R100 000 account for nearly 30 percent of all personal tax paid — illustrating why South Africa rates as a country with one of the most progressive personal tax structures in the world.

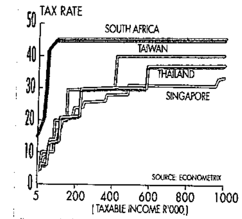
Marginal tax rates: G4 countries vs South Africa



Marginal tax rates: South American countries vs SA



Marginal tax rates: Asian countries vs SA



Tax changes could spur big firms to help small business

320

By Roy Cokayne CT(BR) 19/4/95

PRETORIA BUSINESS EDITOR

South Africa's income tax laws should be reworked to encourage large corporations to help small, medium and micro-enterprises (SMMEs), if the RDP and its drive to create small businesses are to succeed.

So says Don MacRobert, managing director of the Get Ahead Foundation, the small business development organisation in Pretoria.

However, MacRobert was full of praise for government efforts to stimulate small business development.

He referred specifically to the SMME conference held recently in Durban, which was addressed by President Nelson Mandela and a range of international speakers, and where the minister of trade and industry, Trevor Manuel, described his vision for the development of the SMME sector.

MacRobert said: "We were delighted the government has for the first time made such a special effort to address this very important sector. This is where so many fledgling entrepreneurs are to be found, and more particularly where jobs are created.

"It is the boiler room of the economic wealth creators of the future."

In Malaysia tax breaks are generous for big companies assisting small businesses

However, the co-operation of the department of finance would have to be solicited to properly address the problem, he said.

MacRobert said Section 18A of the Income Tax Act made it possible for donor companies to deduct their donations only where they were made to secondary education institutions.

There is nothing to encourage or assist companies giving money to an organisation which could be used to stimulate SMMEs through business loans, mentoring and so on.

The Katz commission on tax in Section 12.5.3 states that the Income Tax Act should be changed so donations made in furtherance of the RDP should be tax deductible.

The commission states in Section 12.5.6 that the tax deductibles granted thus far in terms of Section 18A are minimal, amounting to some R33 million a year, he said.

MacRobert said research by Get Ahead showed that the stimulation of SMMEs created considerable wealth which would ultimately flow back to the fiscus.

For example, a large company could give an organisation such as the Get Ahead Foundation a grant of R1 000. If this was lent to an emerging small business, such as a spaza shop, to buy stock, research showed that, conservatively, this amount would turn over at least four times a year.

Every time a purchase is made on this amount, VAT of 14 percent — R140 — is paid and thus the fiscus in a year will receive R560.

In five years, to take an arbitrary time period, this amount increases to over R2 000.

The fiscus stands to gain handsomely from VAT alone. As the business gets bigger, other taxes may be paid including SITE and income tax, MacRobert said.

He said representatives from Malaysia told the conference that tax laws there were extremely generous in cases where a large company assisted a small company.

For every rand spent in training a small company, or its employees, there is rand-per-rand tax deduction allowed.

Where the small business is encouraged by its larger partner to start exporting goods, the latter can claim on a one-to-two basis.

MacRobert said the Malaysians showed good economic sense because through these tax incentives they were not only creating jobs but also promoting the export market and therefore gaining foreign currency.

He said that in the Far East, new small businesses were given a honeymoon period during which time they didn't have to pay tax until they reached a certain age or turnover figure.

If South Africa is to succeed with the RDP, and its drive to create small businesses, it will have to address the income tax laws and make them more user-friendly towards the SMMEs and their large corporate counterparts, MacRobert said.

March 15 1995.

Revenue does not intend the amendment to apply to an instrument already issued, even if it is acquired after the cut-off date. The amendment will therefore have to make clear that ceded instruments already in being before the date should continue to be taxed as previously.

A weakness of the proposed amendment is that it will use the approach employed in Australia for taxing interest and adopted by SA in Section 24I as the basis for taxing forex gains and losses. This is an attempt to codify the tax rules without relying on accounting concepts.

Section 24I and its need for significant amendment has made it clear this kind of codification does not take account of the fundamental character of a transaction. Thus it ignores the hedging element in forex transactions, whereas the accounting treatment of forex transactions automatically encompasses the substance of the transactions.

As the law on taxing forex transactions stands — though amendments already passed went some way towards mitigating the damage — amounts are being taxed where no accounting income has been earned. To make matters worse, Inland Revenue has not yet published a practice note on taxing forex transactions (promised in January 1994). The note should help because of indications that it will come closer to the accounting treatment.

The statement of intent in the Budget implies the imposition of a similarly codified approach to the accrual and deduction of certain categories of interest. The proposed system, argues Pappenheim, will therefore suffer from the same disadvantage. It will require considerable extra work and — in the case of interest — often extremely complex recalculations.

Applying a basis of taxation which differs from the financial statements of a company when Inland Revenue and the private sector are short of skills is courting danger in two areas.

Firstly, the taxpayer has to devote significant human resources to produce "tax accounts" based on a formula. Even worse, Revenue will most likely be powerless to check that what companies and their tax advisers have done is acceptable. To employ the new army of tax experts to do this is a huge waste when there is so much within the existing tax system which needs urgent attention.

Secondly, the built-in checks and balances provided by financial accounts in their present format will not be used.

It would be far better to tie the basis of taxing interest as closely as possible to the existing accounting one. In most cases, the economic return or cost of a borrowing or lending transaction will be reflected in the income statement over the period of the transaction.

If the calculation of taxable income under the new rules is kept to the accounting basis, few adjustments to the accounts to calculate taxable income are needed. Far fewer errors should result. Any that do creep in will be detected the next year at the latest and easily reversed.

TAX ON DIVIDENDS — 1

Who benefits?

Budget tax proposals disappointed analysts, who hoped to see the phasing out of the ill-conceived secondary tax on companies — currently levied at 25% on dividends declared. Instead, government opted to abolish nonresident shareholders' tax — a move that will not be much of a tax incentive to investors. The main bene-

LIFE ASSURANCE: CONSUMERS' VIEW

Research from the Life Offices Association on consumer attitudes to life assurance contains some surprises — more so for champions of consumerism than for the life assurers, who emerge almost unscathed.

One myth exploded is that agents and brokers should disclose their commission earnings to their customers. Few buyers are interested, it turns out, though some suspect financial intermediaries earn too much. "It was determined that policyholders were basically interested only in the amount they would be paid out on maturity/claim of the policy and, to a lesser extent, concerned as to how much of the premium they paid was actually invested for them."

Consumers do, however, want to know more about the value of policies, when they have surrender value, and they want regular updates. The research is so much at odds with assumptions made about consumer protection that it is bound to influence the Investment Business Advisory Committee — the committee studying the registration and regulation of financial intermediaries.

The widely held view that high lapsing and surrender rates are caused by poorly qualified sales staff and pressure selling finds no support in the research. Most policyholders, even those who have had policies lapsed, bear little or no resentment against the agent.

The research was undertaken among white, black, Indian and coloured groups. The types of insurance bought (life, investment, funeral) showed no surprises. General attitudes to life agents and brokers were established: "Life insurance salespeople are perceived as neither dishonest/untrustworthy nor honest/trustworthy — a perception which places them in a slightly better position than journalists, lawyers, estate agents, politicians and used car salespeople."

As an investment option, life assurance was favoured over all others, with unit trusts a close second.

Though life offices are a favoured investment avenue, "three in 10 policyholders were indecisive whether life companies are honest and trustworthy."

Life salespeople were perceived to be "fairly knowledgeable and trained, and reasonably professional and businesslike." Ideally, the researchers note, a better perception could have been hoped for: if life agents were considered to be more honest and trustworthy, more interested in clients than in commissions, this could result in an enhanced image for the industry. Yet respondents generally thought they had been given good advice, mainly consisting of how their policies worked. Where dissatisfaction emerged, it was often because insufficient information was given — confirming the importance of this to average consumers.

In general, respondents did not consider their agents or brokers more interested in their commissions than in clients' needs. And few believed they had been put under pressure to buy policies they were not sure they needed.

Even among respondents who had lapsed or surrendered policies, most — Indians in particular — were mainly positive they had received adequate policy information.

There was agreement that a cooling off period, after receipt of the contract, was necessary.

Repudiation of claims drew a mixed response. Indians had a more positive attitude than others, while blacks and coloureds seemed slightly more negative, mainly because fewer of them believed that life assurers could be relied on to pay out policy claims. Though Indians expressed considerable faith in their agents and brokers, they displayed some suspicion that the companies tried to use the small print clauses to avoid paying claims. There was considerable variance among the groups on the issue of repudiation where the insured has dangerous employment. Most Indians favoured the payment of all such claims but many whites disagreed.

Focus on Business

Dialogue on small business

(30) Sowetan 30/3/95

WHITE PAPER Local and foreign delegates at summit will focus on the plight of the small business:

By Mzimkulu Malunga

SMALL BUSINESS IN KwaZulu could be the biggest beneficiary of this week's President's Conference on Small Business.

Currently taking place at the Durban Exhibition Centre, the gathering is discussing the government's White Paper on the promotion of small business.

Running concurrently with the conference is an entrepreneurs' week — a trade fair where small business people in KwaZulu ranging from manufacturers to artists exhibit their products to the conference delegates.

The event's coordinator, Thabo Mpakanyana, says the objective is to highlight the plight of small business in the country while at the same time facilitating interaction between big and small business.

Since the conference is attended by overseas business people as well as representatives of foreign governments, Mpakanyana believes it is an ideal occasion to expose small business people who are taking part in the exhibition.

The highlight of the trade fair is tonight where a food fair — concentrating mainly on indigenous KwaZulu food — will take place at the Durban Point Water Front area.

The occasion will be accompanied by an entertainment package which includes performances by Busi Mhlongo and a London-based South African music band called Ngoma Group.

As for the President's conference itself, there are a number of working groups in place to discuss a variety of issues affecting small business.

The special adviser to the Minister of Trade and Industry, Dr Alistair Ruiters, pinpoints six crucial areas on which discussions will centre at the conference.

Financial assistance, access to markets, training, infrastructural upgrading, improvement of business services and the restructuring of institutions currently servicing small business are key issues close to the hearts of many small business people, he says.

One issue bound to spark heated debate is the restructuring of the Small Business Development Corporation.

After initially taking a hard line on the SBDC, the government softened towards the end of last year and the two sides reached a compromise where the SBDC agreed to confine its activities to lending. The rest of the activities, it was agreed, should be taken over by the newly created Small Business Development Agency.

However, the compromise between the government and the SBDC did not appease all stakeholders in small business. There are those who believe in a much more radical approach.

Many black business people, who comprise a majority of small businesses in the country, believe the SBDC is dominated by a group of whites who are not enthusiastic about black economic empowerment. Some have called for a total dismantling of the SBDC.

"Objective is to highlight the plight of small business in the country"

BUSINESS Severe staff shortage

Tax collectors win the battle

(320) Sowetan 30/3/95

By Isaac Moledi

Carl Niehaus, chairman of the joint finance committee.

A LONG-STANDING argument between the Department of Inland Revenue and the Public Service Commission about the administrative autonomy of the department concerning beefing up tax collection has been resolved.

The joint finance committee this week recommended that the department be granted the autonomy, despite the PSC's opinion to the contrary,

This follows JFC's concerns in its 1995-96 Budget tabled on Tuesday that about R8 billion of taxes were uncollected.

This also answers the Katz Commission's proposals to reform tax collections and administration.

The Katz commission report said insufficient staff in the audit, inspection and investigation sections of the Inland Revenue and Custom and Excise resulted in R8 billion in outstanding tax at the end of September 1994.

About 150 000 VAT audits were in arrears. Refunds of almost R1 billion had been incorrectly made and 68 percent of company tax assessments were outstanding at the end of February 1994.

The joint parliamentary standing on finance unanimously agreed with the Katz Commission that the Commissioner should, "as soon as possible" be given administrative autonomy to perform its function.

Although the PSC was opposed to administrative autonomy in principle, the committee said, the commission had not presented a convincing alternative.

The South African Chamber of Business expressed strong concern last week about the Government's lack of urgent and concrete steps to rectify the state of tax administration.

"We need a focus on the restructuring and reorganisation of the Inland Revenue and Customs Excise to promote their long-term effectiveness, instead of short-term provision of expertise to attack legitimate structures aimed at minimising tax liabilities," said Sacob's taxation committee.

"It is, however, clear that the ability to restructure both departments will be severely hampered, unless they are given greater autonomy and flexibility," the committee added.

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R8,5-b tax still owing

Sowetan 30/3/95

(320)

SOUTH AFRICA'S PUBLIC ACCOUNTS are in disarray with unpaid taxes amounting to R8,5 billion and "serious shortcomings" in tax collection systems in the former independent homelands.

The gloomy picture of the country's public finances was painted in Parliament yesterday by auditor-general Mr Henri Kluever.

In his report, Kluever noted an inadequacy in the Government's accounting system and warned that the public service would collapse within two years unless steps were taken to remedy the situation. Inland revenue and customs and excise had recorded R8,5 billion in unpaid taxes, he said in his report.

Kluever told the politicians there were "serious shortcomings" in the collection of income tax in the former TBVC states.

In two of the ex-homelands the tax affairs of office bearers and senior officers were not up to date and outstanding amounts had not been collected.

For 1993-94 it had cost R81,7 million to collect a gross revenue of just over R19 billion. In 1992-93 it had cost R59,7 million to collect R17 billion.

Uncollected taxes would be enough to fund the Reconstruction and Development Programme, Kluever said. These included dishonoured cheques paid to the Receiver of Revenue.

Giving examples of spending trends, Kluever said the South African National Defence Force had lost R5,8 million on one secret project alone, (a total of R23,8 million had been spent on covert projects); the Goldstone Commission had cost the taxpayer more money than the entire amount spent on nine official commissions in the 1993-94 financial year. Just over R10,6 million had been spent on commissions in the review year, compared to the R10,9 million spent on the Goldstone Commission probe into public violence since April 23 1991.

Expenses incurred by the Goldstone Commission totalled R6,17 million in the 1993-94 financial year.

Problems arose for various reasons:

- Extensions for submissions were granted when returns for previous years were outstanding, record keeping was unsatisfactory, the Receiver of Revenue seldom issued estimated assessments where taxpayers had failed to submit returns and incorrect tax deductions were not followed up;
- Fraudulent Value Added Tax claims to the value of about R214 million had been made. Claims had also been made based on fictitious transactions, in some cases with the assistance of VAT inspectors; and,
- Taxes were not always collected efficiently, largely because of staff shortages and the lack of expert staff.

The report said there were deficiencies in the internal control of the South African Police Service's secret funds, and in its asset register, but police were correcting this. — *Sapa.*

TAX AVOIDANCE/EVASION

How far can the Receiver go?

FM 24/3/95

(320)

A crackdown on tax evaders is good news for law abiding taxpayers who are obliged to cross-subsidise their activities. However, it is essential the distinction between avoidance and evasion remains clear, that Inland Revenue itself acts within the law and that the authorities don't resort to counterproductive retroactive legislation.

However, nothing short of radical reorganisation of Revenue outside the outmoded civil service framework will provide the necessary administrative muscle.

Meanwhile the arrangement which allows civil servants over 50, who have served 30 years, to take early retirement is aggravating the crisis of administration.

The arrangement could deprive Commissioner of Inland Revenue Trevor van Heerden of a good proportion of his remaining experienced tax collectors and administrators.

Charles Stride, newly appointed special adviser to Finance Minister Chris Liebenberg, has proposed — as an interim measure — using senior tax accountants and lawyers to help collect taxes. Van Heerden says he and Stride are co-operating closely on key issues, which have to be addressed before private sector tax practitioners could be engaged, even on a contractual rather than employment basis.

The first is confidentiality. Anyone who wants to work at Inland Revenue and needs access to confidential files, is required under the Income Tax Act to take an oath of secrecy. This requirement might complicate a return to private practice.

Secondly, there can be conflict of interest. Clearly, the same person cannot act for a client in year 1, help Revenue to collect taxes from that client in year 2 and then go back to private practice to advise the same client in year 3.

Although schemes devised to avoid tax create a problem theoretically distinct from that of shortage of skilled personnel at Inland Revenue, they are linked in practice.

Liebenberg says government is taking a hard line against misuse of the tax system. Disputes over earlier schemes (notably affecting movie-making and plantations) were settled on an ad hoc basis. But some tax advisers and their clients are continuing to introduce schemes with many of the undesirable (if technically legal) aspects of the previous generation. (See *Property.*)

Van Heerden says the existing general anti-avoidance section of the Income Tax Act (section 103) does provide a basis for countering schemes of this sort. But Revenue hopes to extend the scope of the section, in line with overseas tax laws, to make it easier to challenge transactions whose only purpose is to reduce tax.

Moreover, the Income Tax Special Courts have recently given several judgments on tax avoidance — not based on Section 103 but on general principles of our law — which are of potential value to Revenue. They held that the courts must look to the substance of a transaction, rather than its form, in deciding on tax consequences.

The amendment of the Act to allow deductions for interest on financial instruments only on a day-to-day basis, will also help Revenue; as will day-to-day accrual of interest income on financial instruments, with a term longer than a year.

Deliberate timing mismatching of deduction for interest (in the hands of the borrower) and accrual (in the hands of the lender) is a feature of many schemes.

Van Heerden's comments should be read in the context of the Katz commission's call for a separate administrative charter both for Revenue and for Customs & Excise (whose administrative plight is, if anything, worse) outside the civil service framework. Anything less is likely to prove as effective as putting bandaid on a cancer.

NONRESIDENT BORROWING

No relaxation

Abolition of the financial rand has not been accompanied by a relaxation of nonresident local borrowing restrictions. If a company is 100% owned from abroad, then it may only borrow locally up to 50% of the amount it brings into the country.

This includes share capital, shareholders' loans, undistributed profits and hard core trade credit.

Reserve Bank exchange control GM John Postmus says the Bank would react to pressure from abroad to relax this element, if it arises. "At present, there is no perceived pressure from foreign shareholders. If it does arise, it would be our duty to take it up with the policy makers."

Abolition of nonresident shareholders' tax raised questions about benefits to companies more than 25% owned by a nonresident. Officials point out normal company tax is paid by the company on its trading profit. Thereafter, the company declares a dividend making further provision for the standard tax on companies. Whatever component of that dividend is paid to nonresidents is further reduced by nonresident shareholders' tax. This will cease on October 1.

INSURANCE

'... into the breach'

Insurance brokers may, if some conditions are met, control insurance underwriters. The Financial Services Board now acknowledges this. Separation of broking and underwriting, once inviolable, is no longer maintained.

Two brokers, Price Forbes and MIB, have a controlling interest in insurer Guardrisk. Jan Erasmus, who made broker Prestasi a major force in personal lines of insurance, is now chairman of Compass Insurance, which draws most of its business from Prestasi, though Compass is owned by Aegis. All major banks now have both broking and underwriting arms.

There is no statutory reason brokers cannot have a stake in underwriting.

Yet some Registrars of Insurance took the issue seriously. It was argued that if brokers earned commissions, which were controlled, they would have a financial stake in sending business to a high-price underwriter. And, as brokers supposedly earn their income by serving clients' interests, they should negotiate the best deal.

Possibly the strongest argument for separating the functions was that financial institutions are in a position to force clients to buy insurance and, if both broker and the underwriter are owned by the institution, the chances of a fair deal are limited.

But recent breaches of the convention —

WRONG ADDRESS

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State aid for small business expected soon

By Bruce Cameron and Thabo Leshilo

Fairly rapid movement can be expected on government support for the development of small business after the president's conference on the issue to be held in Durban this month.

In an interview, the minister of trade and industry, Trevor Manuel, said his department would be restructured on April 1. That would create, among other things, a chief directorate of small business.

In Johannesburg yesterday, the National Economic Initiative's executive director, Monde Tabata, urged the government to pass anti-trust laws that would weaken cartels and facilitate competition to help small and medium enterprises (SMEs). Also required was an integrated strategy that would ease the entry of SMEs into the economy, enhance their competitiveness and allow them access to new markets.

Speaking at a conference on outsourcing to SMEs, Tabata said South Africa's small and medium enterprises sector could never be made competitive or gain access to new markets as long as conglomerates dominated every facet of the economy.

He said a process needed to be established to evaluate existing support for SMEs. "The plight of SMEs has become an industry itself and for itself: an industry that is infested with tsotsis masquerading as trainers and counsellors — particularly in the black business sector," he said.

Free Market Foundation of Southern Africa director Leon Louw said an important challenge was to persuade the government to discontinue "its plethora of anti-small-business policies".

CT(BR)24/3/95

Davis: Budget imperfect

CT(BR)24/3/95 (320)

By Audrey D'Angelo
CAPE BUSINESS EDITOR

The Budget was "an unimaginative exercise in book-keeping" which failed to address the problem of "milking people earning between R40 000 and R80 000 a year", Dennis Davis, a member of the Katz Commission, said yesterday.

Davis, professor of commercial law and host of the TV show Future Imperfect, was speaking at the Seeff-Cape Times Executive Breakfast Club at Sea Point.

He said he found it astonishing that so many thought it was a good Budget, and wondered what the response would have been if it had been produced by former finance minister Barend du Plessis: It had "made full use of the best and most innovative tactic developed by Barend du Plessis — fiscal drag."

Davis said ideally secondary tax on companies (STC) should have been abolished, VAT increased and fiscal drag stopped.

The government would either have to reduce its expenditure or become more efficient, he said.

Davis said he was concerned that no provision had been made for budget performance auditing by government departments.

Another important issue, said Davis, was that any tax reform should be in the context of an overhaul of tax administration.

He said he was surprised the minister spent so much time castigating people for legal tax avoidance when there were other, more pressing matters, to be dealt with.

Ghost squad will be transparent (320)

SAMANTHA SHARPE

THE identities of members of the "tax police" squad would not be a secret, Inland Revenue Commissioner Trevor van Heerden said yesterday.

The identity of a special tax task force, seconded from the private sector to enhance tax collection, was no more secret than the identity of other Inland Revenue employees, he said. It was "unfortunate" that the media had latched onto the idea of a secret force. BD 28/3/95

Reports of a secret squad surfaced soon after the Budget and drew an angry reaction from business while government remained silent. Van Heerden said the team's identity "had not been decided" when reports about a "ghost squad" surfaced. This had led to false assumptions that its identity was secret.

He said Inland Revenue was continuing with its strategic business plans, which would outline a plan for enhanced tax administration, despite criticism from the Public Service Commission. The commission argued that enhanced autonomy of Inland Revenue would spark similar demands in other government departments.

The plans — which would help guide the decision on whether the Katz commission's recommendations about improved tax collection through increased Inland Revenue autonomy would be implemented — would be ready "quite soon", Van Heerden said.

Finance Ministry spokesman Nicholas Mason-Gordan said Finance Minister Chris Liebenberg had not yet taken a decision on the Katz commission's tax administration recommendations. Liebenberg's special adviser Charles Stride, who was looking into the issue, was in the "embryonic" stage of his investigation.

TAX ON ROYALTIES (320)

Anomaly unresolved

FM 24/3/95

Treatment of royalties is an important part of double tax treaties. They provide for transfer of profits, from subsidiaries or associates, to parent companies abroad which have licensed processes and other intellectual property, such as trademarks.

This year's Budget, says Deloitte & Touche tax partner Anne Bennett, did not address an anomaly in the tax treatment of royalty payments, which arose last year with the imposition of the transition levy. The levy was not payable on the first R50 000 of corporate profits.

Amendments to the Income Tax Act included a provision for a 12% flat rate of withholding tax on royalties, paid to countries with which SA does not have tax treaties. The formula, used to calculate the tax, is 30% of the royalty, multiplied by the ordinary corporate tax rate.

This had the administrative disadvantage that nonresident companies receiving royalties needed to submit a tax return here, to claim relief from the levy on the first R50 000 of their local taxable income.

It was hoped — with the disappearance of the transition levy this month — that the flat rate of withholding tax for royalties would be reduced from 12% to 10,5%.

This would correspond to 30% of royalty income times the current 35% company tax rate. But no hint of this came in the Budget.

The amending Act, to be published later in the year, may remedy the omission but until then royalties to nonresidents will continue with a higher rate of withholding tax than is actually due. In the case of companies, the excess is 2,5%. And, as things stand, the only way to claim relief will be for the recipients to continue to file tax returns in SA at the end of their financial year, showing their tax prepayments have exceeded their actual liability and they are entitled to a refund. ■

FM 24/3/95

PROPERTY FINANCE (320)

Tax threat to grey area

In his Budget speech, Finance Minister Chris Liebenberg spoke of the "misuse of the tax system through various tax avoidance schemes." His point is that though many are legal, "some militate against the general intention of the law and the national interest."

These schemes, he said, can be challenged in terms of the anti-avoidance provisions of the Income Tax Act. "But they are deliberately engineered in such a complex manner that detection is very difficult. Their success, as an avoidance measure, relies to a large extent on nondisclosure to the tax authorities."

It is, of course, up to legislators, not taxpayers, to ensure Inland Revenue gets its due. However, there is a grey area between avoidance and evasion and the Minister clearly places nondisclosure firmly in it.

He intends to act against those involved. "The Commissioner for Inland Revenue has been instructed to make resources available to detect and challenge these schemes and to apply all the sanctions in the law against the taxpayers involved and, where possible, the advisers. The Katz Commission has also been asked to investigate the possibility of introducing further anti-avoidance provisions and to make this a priority of the commission."

The schemes he referred to "involve, among others, fixed property acquisitions, convertible debenture issues, intellectual property and leasebacks."

There are two variations of the schemes in the property finance industry. They maximise interest and rental costs on the income statement, at the expense of capital outlays, because the former are tax deductible and capital outlays are not.

One tax expert argues Section 103 of the Tax Act could be used to attack those using it. However, at least three companies are always involved and each of their transactions, viewed individually, appears simply commercial.

In one version of the scheme, a developer purchases land and erects a building. He then leases the property for 10 years to an operating company which occupies the building for business. And he receives a single upfront rental payment.

His next step is to sell the property to a subsidiary of the operating company at current market value. Because the property will not derive any rent for the next 10 years, its value is low and it is sold at a loss. To illustrate with hypothetical figures, the building might have cost R5,5m to develop but the developer sells it for R1m after getting an upfront rent of R6m. This leaves R1,5m profit on which he pays tax.

The operating company and its subsidiary gain a tax benefit. In a routine transaction, the purchaser would have paid R7m for the building and this sum would not be tax deductible. By splitting the R7m purchase price between a R6m rental and a R1m purchase price, the group has disguised a major portion of the purchase price as rental and the operating company would get a considerable tax deduction.

There is a more complicated scheme. A company issues debentures to a bank for an amount greater than required, at a market related rate of interest. The excess is typically used by the company to repay a shareholder's loan. The borrower signs a series of promissory notes to cover the interest for the first 10 years.

The bank discounts these promissory notes in the money market and sells the debentures to the property company's holding company. Because no interest will be paid for 10 years, the debentures are sold at a low value. The holding company uses the cash received from its subsidiary to fund the purchase.

The borrowing group pays interest on the debentures but, because the holding company is buying back the debentures cheaply, the net effect is that the borrower is paying the same in interest it would pay in interest and capital to amortise a smaller loan. But, by paying more of the loan in the form of interest than in capital, it gets a tax deduction it would not otherwise have got.

One way to tackle the problem would be to introduce group taxation as has been done in the US and elsewhere.

If the practice can be eliminated, tax generation from it will be felt only over the period of the lease — typically 10 years — because of the way these schemes are structured.

Katz report to moot controls on foreign investors

SAMANTHA SHARPE

THE Katz commission's first task after its interim report in December had been to make detailed recommendations to government to prevent foreign investors exploiting SA, sources said at the weekend.

They warned there was a greater danger of exploitation because of exchange control liberalisation. This demanded newly defined tax and accounting guidelines for foreigners attracted to SA's markets.

Commission member Pierre du Toit said the body would publish a follow-up report soon. It was expected to deal with transfer pricing and thin capitalisation. Transfer pricing involved the under- or overstating of invoices with a view to exporting funds. Thin capitalisation rules were intended to prevent foreign firms from funding investments via debt rather than equity.

Tax experts said while thin capitalisation rules applied to local and international companies, the "more serious haemorrhage effect" kicked in with offshore investors whose tax savings on interest payments on debt translated into money leaving the country. BD 2/5/96

Du Toit said the report would offer more definitive recommendations than the commission's original report.

The Katz commission in its interim report recommended that basic provisions for anti-transfer pricing be brought into the Income Tax Act. These would have to be accompanied by a facility for advance pricing agreements to provide certainty for foreign investors.

The commission said thin capitalisation rules were linked with SA's uncompetitive corporate tax rates and should be introduced into the tax system speedily.

Foreign investors were particularly sensitive to an aggressive regime against gearing investments. The commission had recommended that the current Reserve Bank debt-to-equity guideline of 3:1 for companies be replaced by a 5:1 ratio. Taxpayers should be able to prove that gearing in excess of this amount was necessary in certain instances. This would create a balance between turning SA into a tax haven, while allowing investors some freedom to gear in a high tax environment.

LUMP SUM TAX

Forcing a brain drain

(320)
FM 5/5/95

An exodus of senior and middle-ranking executives is taking place — ahead of new rules on retirement lump sums to be applied from September 1.

High-profile executives who have announced they are leaving early for tax reasons include Sanlam senior GM Ronnie Masson and NBS CE John Gafney. Pat Retief acknowledges that tax was one factor behind his retirement earlier this year from the executive chairmanship of JCI. The MD of a listed short-term insurer, who is due to retire only next year, is considering taking the bait. And scores of executives with lower public profiles are known to be retiring on August 31.

Gafney says "two or three" other NBS executives are going.

MD of CU Life John van der Linde says the life offices are expecting a flood of single-premium business around August.


Gafney


Masson

This adds up to a premature loss of talent. Gafney, for example, would otherwise have retired in February 1997.

The reason for the rush is, until end-August, it is possible to arrange large tax savings on the one-third of a retirement fund which can be commuted to a lump sum.

Kessel Feinstein tax partner Ernest Mazansky says: "The tax-free portion of a lump sum pay-out is, say, R120 000, and historically the balance was taxed at average rates: that is, the effective rate applicable to other income.

"To tax at the marginal rate would be patently unfair to average income earners on, say, R60 000 a year. Their balance of lump sum would push them into a 45% tax bracket for the retirement year.

"So Revenue introduced the concept of applying average tax rates, as applied to other earnings, in a retirement year. If you arrange your affairs to have no other taxable income that year, the lowest rate of tax, 17%, applies. A common way to effect this was to buy a large single-premium retirement annuity."

A high income earner, due for a R1m lump sum, could invest R100 000 in retirement annuities. This would offset earnings up to R100 000 in the year.

With no taxable earnings, the entire lump sum would attract only 17%.

However, this year's Budget closed out that option. After September, lump sums invested in retirement annuities will no longer qualify for concessionary treatment. They will be taxed at the higher of the average rates, calculated for each of the two years preceding retirement. This will make it impossible to show no taxable income.

The tax benefit — before September — looks impressive but Southern Life legal & tax deputy GM Tony Davey urges caution.

"I have recommended that anyone who was going to retire this year anyway should go before September. Those intending to retire in 1996-1997 should do their calculations carefully. Anyone due for retirement after that would probably be better off staying in the retirement fund, accumulating benefits."

Tax adviser Willem Cronje agrees. He says many executives are planning retirement but in reality are staying on as consultants. "That's dangerous. The Receiver has powers to declare that a retirement is not genuine. Then you could end up paying tax on the lump sum at marginal rates and also lose all the benefits of corporate employment."

He suggests: "A consultant should not be seen to occupy the same office in the corporation. Ideally, he doesn't have an office at all. He must surrender any company vehicle. And he must on no account possess any executive power or be seen to remain in the corporate ladder."

He believes the Receiver will consider genuine the retirement of an executive approaching retirement age. "But people in their 30s and 40s are resigning early." They appear to be receiving undue encouragement from brokers of retirement annuities, says Cronje.

One early retiree has been negotiating a restraint of trade with his employer, with his restraint fee offsetting what would otherwise be classed a consultancy fee. "That is asking for Revenue's personal attention," Cronje warns.

Peter Martin, MD of SA Eagle, which is losing "one or two middle managers" to early retirement, says: "The arithmetic depends on what you want to achieve. Do you really need to commute the total lump sum? If you don't need the lump sum, you could be better off planning a bigger pension."

It may be that some retirees have panicked unnecessarily and will actually damage their financial prospects.

LLOYD'S SHORTFALL

Lloyd's insurance market is awash with solvency problems. To underwrite, individual Names (members) have to establish that they have assets to cover their liabilities. Lloyd's spokesman Martin Leach says about 9 000 Names have been unable to meet this solvency test and are therefore disqualified from underwriting until they do.

There are implications for the Lloyd's market because its solvency is an aggregate of that of its members. The members who can't or won't pay for their losses pushed the solvency shortfall to £1,06bn at the end of last year, compared with £661,6m at the end of 1993.

The UK government will decide in August whether Lloyd's has met its annual solvency requirement. This will not be an easy exercise — Ernst & Young, the accounting firm that audited Lloyd's 1994 results, says there is "fundamental uncertainty" about the "ultimate cost" of liabilities.

However, chairman David Rowland says: "We are confident of passing solvency."

Meanwhile, there is a cash flow problem — the central fund which covers members' debts fell by 18% to £737,5m. Says Leach: "We have to get the money outstanding to ensure there are no shortfalls in future."

INCOME TAX

Taxing winnings

(320) FM 19/5/95

It's not surprising that Benoni businessman Raymond Koedyk was taxed on his Pick 6 winnings of R2,1m. (Pick 6 is a form of totalisator bet on the outcome of horse races). Revenue, according to a press report, claimed R740 000 out of R2,1m. An out-of-court settlement reportedly of around R500 000 was accepted.

As a racehorse breeder, owner and punter, he should have expected that his gains from horse racing would be regarded by Revenue as "part of a profit-making scheme."

The tax principles involved apply to the purchase and sale of shares and property, gambling activities, competing in competitions for prizes and even illegal activities such as prostitution.

What are the criteria for making, say, gambling earnings taxable (and losses and expenses deductible)? A pattern of transactions, as opposed to a one-off win, is crucial. Other relevant factors include a business being linked to the source of income.

A stockbroker has a professional association with the stock exchange; so it is hard for him to argue that he bought shares as an investment, not to trade for a profit. The same would apply to an estate agent undertaking a fixed property transaction. Or to a breeder and owner of race horses. ■

TAX ON LUMP SUMS (320)

FM 19/5/95

Lumped apart

Private-sector retirement benefits are to be more heavily taxed. Yet government remains inert over taxing lump sums received by retiring public-sector workers.

The pension fund members of many municipalities and agricultural boards have opted to close funds, paying out employees and pensioners lump sums, to start afresh as provident funds.

All the staff member of one municipality are said to have resigned and received their payments, only to be re-employed in the same jobs.

A similar practice was adopted with the emancipation last year of the Associated Institutions Pension Fund, which handles the pensions of universities and State agencies.

There is nothing untoward in what the funds are doing. They are simply responding to the fears of members about the tax status of future pension payouts.

But there is always a danger that recipients of lump sums — persuaded to take the lump sums because of the existing tax benefit — will be lured into unwise investments of the Masterbond and Supreme ilk.

Says Old Mutual employee benefits senior manager Kobus Hanekom: "Though the fund emancipation was handled with a degree of government control, I have no doubt many people received poor advice on what to do with their lump sums."

One way to bring public-sector benefits into line with those in the private sector would be to fix benefits on contributions to a certain date and apply the existing tax regime.

Thereafter, pension benefits could be subject to the same tax regime as that which applies to the private sector. Hanekom says the State may decide "to phase out the maximum tax-free allowance on lump sums over five years."

At the heart of the problem lies the attraction of lump sums over regular monthly pensions.

Actuaries Ginsburg Malan & Carsons director Francois Marais says the authorities need to:

- Remove the taxation anomalies between provident and pension funds;
- Establish a single retirement fund vehicle with a simple, unified tax regime for all;
- Encourage the receipt of pensions over lump sums through tax incentives;
- Remove the means test which discriminates in favour of the receipt of lump sums; and
- Discontinue the tax-free status of public-sector lump sums over time.

Hanekom says controlling bodies handling employee benefits should be unified. "The Financial Services Board deals with private pension funds, State-administered schemes fall under the Finance Department and social security under the Welfare Department. Until the authorities speak with one voice, the discrepancies will continue."

Parliament steps in on pensions tax row

CT(BR) 24/5/95 (320)

By Bruce Cameron

Political Editor

Parliament's influential finance committee has stepped in to find a way out of tax changes that will force the early retirement of thousands of skilled artisans and managers, including senior executives of top companies, before September 1.

Committee chairperson Gill Marcus said in an interview that the Commissioner of Inland Revenue, Trevor van Heerden, would appear before the committee next Tuesday to discuss the issue.

Alarm bells have been ringing in companies since the finance minister, Chris Liebenberg, announced in the Budget that changes were to be made to tax laws which would substantially push up the tax individuals would have to pay on their lumpsum retirement benefits from September 1.

Liebenberg's announcement sent people due to retire over the next two to three years hurrying for advice on whether to take early retirement.

Tax advisors have warned that everyone is affected in different ways and no one should retire early without first receiving expert advice.

Alec Erwin, the deputy minister of finance, and tax officials recently told Business Report the measure was not being reconsidered.

The changes will mean the average tax rate, which is used to tax retirement lump sums, will be calculated differently with the result that it will be considerably higher.

Particularly at risk are people with provident funds, whose entire retirement proceeds would be subject to the higher average rate, and wealthier taxpayers due to receive substantial lumpsums.

In many cases, taxpayers retiring after the September 1 cut off date would spend their time working entirely for the Receiver, with a higher average rate of tax on their lumpsums costing thousands.

For example the tax difference on a lumpsum payment of R500 000 for a person earning R200 000 a year could be as much as R115 000, depending on whether the person retired before or after September 1.

The object of the measure was to curb the flood of retirements in February every year as people sought to reduce their average tax rates by having no real income in the first year of retirement apart from their lumpsum.

Legislation spelling out the details of the proposal is due to be tabled in parliament within days. The legislation will be referred to the finance committee.

Marcus said it was not right that the prevention of an abuse should result in thousands of people who were vital to the economy taking early retirement. "This is a matter of real public concern. It is having a serious impact. The country needs skilled people. The result will be that they will go two or three years early," Marcus said

The issue was raised by all parties at a parliamentary finance committee meeting yesterday after which it was decided to call Van Heerden to answer the concerns of the committee

Freedom Front chief finance spokesman Willie Botha said the original intention of the tax measure had been defeated by a flood of early retirements.

☐ See Inside

Parliament joins retirement tax row

CT 24/5/95

PARLIAMENT'S Finance Committee has entered the pensions tax row in a bid to find a way of tackling tax changes that may force thousands into early retirement. (320)

Finance Minister Mr Chris Liebenberg's announced in the Budget that changes would be made to tax laws that would substantially push up the tax on lumpsum retirement benefits from September 1.

Many nearing retirement have sought advice on whether to retire early to avoid paying the lumpsum tax.

● See Page 17

Call to change tax on retirement payments

(320) (305) BD 24/5/95

Tim Cohen

CAPE TOWN — The parliamentary finance committee intends pressing for changes to proposed legislation introduced to outlaw tax reduction schemes on retirement lump sum payments.

The committee agreed that an unintended result of the new legislation was that it was causing large numbers of retirements, particularly from local government.

According to the Budget Review, the schemes involved taxpayers arranging their affairs so that they would have little or no income in the year they received their lump sum payments. This was usually done by arranging for the retirement date to fall shortly after the end of the financial year, resulting in the lump sum being taxed at the minimum rate of 17%.

Government proposed in the review that the lump sum be taxable at the higher of the two rates calculated for the year of retirement or the previous year. But because the provision was due to come into effect only in September this year, many people were retiring this year.

The problem was particularly acute in local government where employees had been given the option of taking early retirement for political reasons. The scheme does not effect public servants, who do not pay tax on their lump sum payments.

The committee resolved that it would lobby the Finance Department for changes to the Act to prevent the mass retirements. The committee did not suggest what measures might be introduced, although NP MP Watty Watson said the NP would favour scrapping the proposed amendments entirely. DP MP Ken Andrew warned that this would result in "throwing out the baby with the bathwater", saying that the issue needed further investigation.

The committee agreed to schedule a special discussion on the issue with Finance Department officials at its next meeting next week.

DP wants VAT to stay in regions

Kevin O'Grady (320) BD 25/5/95

A PORTION of the VAT and national fuel levy raised in provinces should be allocated directly to them and they should be allowed to enter into aid and trade agreements with foreign governments, the DP said yesterday.

The proposals, made by Gauteng DP leader Peter Leon, form part of the submission on provincial powers the party's Gauteng region will make to the Constitutional Assembly.

Because of the redistributive nature of the allocation of revenues to the provinces under the 1995/96 budget, the DP also believed that provinces should be permitted to raise short-term bridging finance.

This should be subject to the consent of the Financial and Fiscal Commission but without the necessity of an Act of Parliament, Leon said.

The setting of provincial budgets at national level was one of the reasons for the Gauteng legislature passing only six Acts and sitting for only 29 days during its first year in office, he said.

The document moots a surprisingly mild form of federalism from what Leon described as a "federal party". It combines provincial autonomy in areas such as housing, education, health and local government with large areas of shared responsibilities between provinces and the national government.

Powers such as foreign affairs, defence and justice should be held exclusively by the central government, said Leon.

The submission suggests provinces should be "obliged, rather than permitted to pass their own constitutions" dealing with the day to day operation of provincial legislatures and provincial ministers. Provinces should regulate the tenure of office, responsibilities, powers and functions of premiers and executive councils.

There was also a "very arguable case" for the election of premiers by the electorate and for the reduction of provincial legislatures' terms of office from five years to four. This would promote accountability, he said.

The government of national unity and multiparty provincial cabinets, had "no useful life" after 1999. They should be done away with although the constitution should allow coalition governments. This would answer the "unsustainable call" by the NP for an extension of the government of national unity.

Leon described the Senate as "a toothless bulldog" and "little more than a potted plant" but motivated for its retention as a body representative of provincial interests. Senators should be elected on a list system subject to genuine residential qualification.

Govt committed to tax policy

(320)
BD 25/5/95

Tim Cohen

CAPE TOWN — Government's policy of tax harmonisation remained in force despite its contribution to job losses in former TBVC states, Trade and Industry Minister Trevor Manuel indicated yesterday.

He disclosed in response to a parliamentary question that 996 jobs had been lost in the Butterworth area since February after four factories closed.

The reasons for the closures included the deterioration of Butterworth's infrastructure, the collapse of its local authority and the harmonisation of the taxation regimes in SA and the former TBVC states announced in this year's Budget.

The withdrawal since 1991 of long-term incentives available under the 1982 Regional Industrial Development Programme was also a factor, with 62 firms closing down in Butterworth between 1992 and 1994, he said.

"The Trade and Industry Department cannot prevent factories from closing, especially in circumstances where they may have been kept operational through the past transfer of taxes to these firms."

The lesson which emerged from these experiences was that incentives should be granted only after careful analysis. Extreme caution should be exercised to ensure that when granted, incentives remained sustainable, he said.

Manuel said he had been informed that the private sector in the Eastern Cape had agreed to fund an investigation into ways to fill the vacant factories.

Sacob joins tax debate

Tim Cohen

(320)

BD 25/5/95

CAPE TOWN — Sacob yesterday joined the parliamentary finance committee in calling for a reconsideration of proposed changes to the Income Tax Act relating to retirement lump-sum benefits.

Sacob said the proposed changes to taxation of retirement lump-sum benefits should be withdrawn and the Katz commission should investigate and put forward new proposals.

The various proposals could have significantly reduced the after-tax value of retirement lump-sum benefits. They were viewed with concern by those nearing retirement, said Sacob.

Every new proposal prompted an increase in the number of people retiring early. As the economic upswing continued to gather momentum, the skills of such people were likely to be sorely missed.

Although Sacob did not favour the solution proposed in the Budget for changes to the Income Tax Act, it did bring certainty to an aspect of tax policy which had long been the subject of debate.

But the fact that the finance committee had asked the commission to re-examine the taxation of retirement benefits made the announcement in the Budget appear "somewhat premature".

The final proposals of the commission might differ markedly from the proposals in the Budget, thereby perpetuating the uncertainty. Sacob suggested the Budget proposals be withdrawn and an announcement to this effect be made as soon as possible.

INCOME TAX (320)

Transfer price trap

FM 26/5/95

When goods are sold by one company to another in the same group, there is an opportunity to shift a tax obligation within the group. This is achieved by adjusting the price to redistribute group income.

But there are pitfalls in the practice, known as transfer pricing, as emerged in a recent case in the Income Tax Special Court.

Writing in the April issue of *Tax News*, Coopers & Lybrand consultant Danie Coetzee explains the taxpayer in this case

delivered products to connected companies (those with an element of common control) without agreeing on a purchase price.

The price was established only at the end of the tax year, with a view to maximising tax benefits within the group. The court found the selling company had not disclosed in its tax return that it had granted discounts to connected companies.

Revenue discovered these facts only after the expiry of the three-year period within which it is entitled to reopen an assessment unconditionally. However, after three years, an assessment may be reopened on the grounds of fraud, misrepresentation or nondisclosure. Though the group companies in question had filed tax returns, accompanied by full financial statements, the failure to mention the discounts comprised nondisclosure of a material fact. Hence Revenue was within its rights in reopening the assessment.

Revenue then applied Section 103(1) of the Income Tax Act (the general anti-avoidance section) on the grounds that the transaction was abnormal. The criterion for abnormality is the creation of rights or obligations which would not normally be created between people dealing at arm's length.

Parties dealing at arm's length when they buy and sell goods would have wanted clarity on the purchase price at the outset.

On these grounds, the court upheld the Receiver's right to assess the taxpayer as if the discounts to other group companies had not been granted. The pain of this decision to the group is, of course, increased because the purchasing companies are saddled with (lower) deductions calculated on the discounted purchase prices of the goods — not the deemed prices from which the imputed income of the selling company was recalculated by Revenue.

The moral of the case is that group accountants or financial directors should require group companies to deal with each other at arm's length.

State faces tax 'catch 22'

CT (BR) 31/5/95 (320)

Bruce Cameron

Political Editor

The parliamentary finance committee yesterday strongly criticised the finance department and tax collection offices for having no short-term plans to overcome the critical staff shortages. The shortages are limiting the government's ability to collect tax.

However, Estian Calitz, the finance director-general, said yesterday at a committee hearing that the Public Service Commission had dug in its heels and refused to consider better pay scales for inland revenue and customs and excise officials. The commission would also not allow the two departments to separate from its authority, which would allow them to pay skilled personnel better salaries.

In documents tabled at the meeting, salaries of accountants and auditors were set at R44 000 a year.

It emerged that the budgets of the two departments were being cut back because of a "Catch 22" situation. They could not spend the money they had been allocated in the budget, because they could not pay the salaries needed to attract the skilled people they required.

Calitz, Trevor van Heerden, inland revenue commissioner and Daan Colesky, customs and excise commissioner, outlined long-term restructuring plans aimed at overcoming some of the problems, but the committee was concerned that the problem would remain unresolved this year.

Gill Marcus, committee chairperson said: "We have a major crisis, and I don't see a crisis plan."

She said that the rest of government depended on the proper functioning of the revenue-collecting departments.

The issue had now been outstanding for more than a year, she said.

Calitz agreed that "profound changes" were required and said a case could be made for removing the two departments from the authority of the Public Service Commission.

BUSINESS REPORT
SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

Tax amnesty lets dodgers, fraudsters off the hook

(320) CT(BR) 31/5/95

By Bruce Cameron
Political Editor

A three-month tax amnesty, announced in April by the finance minister, Chris Liebenberg, is scheduled to be introduced in July and will be the most far-reaching in recent years.

Details of the amnesty, which is aimed at bringing more people into the tax net, were released in draft legislation published in Cape Town yesterday.

Two previous tax amnesties in recent years limited the lure to non-payment of penalties and interest. Neither amnesty period was successful.

This time the government will be letting some tax dodgers off years of unpaid tax.

In limited instances, even fraudsters will escape having to forgo ill-gotten gains. Those qualifying for the amnesty include anyone who was not registered as a taxpayer on April 26, 1994 for employees' tax, normal tax or value added tax and had not applied for registration on or before April 26, 1994; or anyone who was registered but whose whereabouts were unknown to the tax authorities on April 26, 1994.

People who are granted amnesty will not be liable for payment of:

☐ Any normal tax for the year of assessment ending on March 1, 1994;

☐ Any value added tax for the supply of goods or services, or imported services and goods before March 1, 1994;

☐ Any employees' tax that was supposed to be collected and paid to the tax authorities by an employer before March 1 this year, whether the tax was collected or not. If the tax was collected the employer will be able to keep the money and will not be charged with fraud. Any employee who was the subject of the tax fraud would not have to pay the tax not submitted to the tax authorities by the employer if they can prove the tax was deducted from their pay;

☐ Any stamp duty on any instrument or on the registration of any marketable security before March 1, 1994;

☐ Any non-resident shareholders' tax due on any dividend declared before March 1, 1994;

☐ Any secondary tax on companies due from any dividend declared before March 1, 1994; and

☐ Any donations tax due on any property disposed of by a qualifying person before March 1 1994.

Draft law on tax changes published

(320) BD 31/5/95

Tim Cohen

CAPE TOWN — Proposed legislation providing the first indications on how the tax amnesty will be applied — but revealing no changes to new taxes on lump-sum pension payouts — was distributed in Parliament yesterday.

The proposed legislation, which will give effect to Budget tax announcements, also dealt with harmonisation of tax regimes, unbundling and closing tax loopholes.

It disclosed no changes to proposed taxes on lump-sum pension payouts. However, government has indicated it does not intend changing the September 1 implementation date for new tax arrangements on payouts, despite criticism that the proposals are causing mass retirements.

In a letter to the parliamentary finance committee, the Life Offices' Association argued against shifting the date, saying if the issue was deferred until the next Budget, it would lead to a further round of "financial planning" around the new date. Even though a holistic approach to taxation of retirement funds was needed, this review should not lead to a situation where tax that ought to have been paid was not recovered, the association said.

The proposed legislation detailed the general tax amnesty scheme intended to draw into the system thousands of people who, for political reasons, had not paid tax.

Finance Department officials hope the amnesty will come into effect before July. This would give people three months to lodge applications for amnesty.

Finance Department officials acknowledged that there could be problems, particularly in defining who should be eligible for the one-off amnesty and the extent of its application. "In a sense, you are providing the greatest benefit to the worst offenders," one said. However, this had to be weighed against the need to draw defaulters into the tax system.

The draft legislation defined a person qualifying for amnesty as someone not registered with the Inland Revenue Commission or who was registered "but whose whereabouts were unknown to the Commissioner". The amnesty should apply to employers and employees, and the range of taxes against which amnesty might be sought was broadened by including non-resident shareholders' tax. Eligible applicants would be required to pay only last year's tax, contrary to the three-year obligation suggested by the Katz commission. Some relief for personal tax payers in former TBVC territories was envisaged.

Draft revenue laws tighten up on evaders

CT(BR) 31/5/95

(320)

BRUCE CAMERON
POLITICAL EDITOR

The government has published draft legislation detailing how it intends to increase the taxation of private sector retirement lump sum payments.

The pension legislation was part of wider draft tax legislation which, among other things, slams the door on a number of creative tax avoidance schemes. Finance Minister Chris Liebenberg targeted these in his April budget speech.

The legislation comes against the background of disagreement between organised business and the life assurance industry over whether the government should push ahead with it.

The South African Chamber of Business has warned the move could lead to the early retirement of thousands of people in business and industry, including top decision-makers. This is disputed by the Life Offices Association which wants government to go ahead with the legislation.

Sections of the assurance industry came under fire at a meeting of the parliamentary finance committee yesterday when assurance salesmen were accused by department of finance officials of spreading disinformation.

The officials said life assurance salespeople had been incorrectly telling civil servants and municipal workers they would also be affected by the legislation in order to sell them retirement annuities.

The officials said government and municipal workers remained exempt from paying tax on lump sum retirement payments and were not affected by the legislation.

Other legislation will bring a halt to methods used to reduce tax liability on lump sum payments by reducing the average tax rate at which they are taxed. The first method involves using payment of the lump sum into a retirement annuity and the second by reducing income to a minimum in the year of retirement.

The legislation will result in the calculation for average taxation being based on the higher amount in the year of retirement or the preceding year. The structure of tax calculations on payments to retirement annuities has been altered.

Other issues include:

☐ A change to the structure of the devaluation for tax purposes on the purchase of aircraft and ships. The current system which allows a 40 percent devaluation in the first year has been changed to a 20 percent straight line devaluation over five years.

☐ A loophole in the Transfer Duty Act, which allowed trusts to register property at lower transfer duties in the name of a person, and then permitted the beneficiary of the trust to be changed to a company, which would have had to pay a higher transfer duties, will be closed;

☐ The practise of claiming for interest incurred when capital was raised, even if the payment of interest was deferred, while tax on interest accrued only became due when paid, is to be changed. The legislation includes lengthy calculations which will result in the tax being calculated on a daily basis for both tax incurred and accrued; and,

☐ The possibility that individual taxpayers of former TBVC states may be let off the full force of being in the South African tax system. Those whose fringe benefits were mostly not taxed are likely to have their housing allowances phased in for tax purposes.

TAXATION →

1995

JUNE – DEC.

Adviser seeks autonomy for revenue dept

Samantha Sharpe (320) BD 1/6/95

FINANCE minister special adviser Charles Stride had taken the first step towards meaningful reform of tax collection with a call for a fully independent inland revenue department, sources close to Stride said yesterday.

Finance Minister Chris Liebenberg appointed Stride, an accountant, to look into the issue after the taxation commission's chairman, Michael Katz, recommended a drastic overhaul to net uncollected tax.

Recent government estimates, which put uncollected and avoided taxes at about R18bn, have driven home the urgency of tax administration reform.

Government sources said Stride had completed an interim report which would serve as a sounding board for proposals.

The document echoed the Katz commission's call for an independent inland revenue, with "first prize an autonomous revenue department run along proper business lines". This would mean new line functions and performance evaluations.

But much depended on an increased budget as inland revenue faced chronic staff shortages and was unable to lure the right calibre of staff, who demanded market-related salaries.

Sources said it was unlikely that the full details of the report would be made public, with the question of an autonomous department still a political hot potato. "The purpose is not to publish the report, which is essentially a working document that highlights areas where it would be appropriate to gather more information," one said.

Stride would, however, visit Australia, New Zealand, Indonesia, Singapore and London to investigate tax administration systems abroad, which could be followed by a public statement.

A source said Stride had the full backing of inland revenue, with the commissioners of inland revenue and customs and excise in the process of preparing strategic business plans to improve their efficiency. "There is no doubt that inland revenue is backing Stride and his team, with the department offering its full support."

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INCOME TAX BILL FM 2/6/95

Anti-avoidance details

The Income Tax Amendment Bill — now made public — contains a clause which will limit opportunities for dividend stripping.

It restricts the circumstances in which a dividend, declared by a wholly owned subsidiary, may be free of secondary tax on companies (STC).

Kessel Feinstein tax partner Ernest Mazansky explains that, in 1994, the STC

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legislation was amended to allow a wholly owned subsidiary to declare a dividend to its holding company free of STC, subject to certain requirements. These related in particular to the source of income and the place of residence of the holding company.

The concession reopened the door to dividend stripping — in other words, disposing of a company loaded with reserves to another company willing to act as a dividend stripper.

The holding company would pay an appropriate price for the cash-rich company and declare the dividends free of STC, which it could elect to do under the tax law as it stood. (It would get a fee in return.)

This would relieve the seller (an individual shareholder or shareholders) of the potential STC obligation.

To counter this tax-avoidance procedure, two further criteria for exemption from STC are now proposed in the Bill.

Firstly, all the shares in the subsidiary must have been held by the holding company for at least 12 months before the declaration of the dividend. Secondly, the dividend must be declared out of post-acquisition profits. Mazansky argues the first restriction is unnecessary as the second is adequate on its own to protect Revenue.

Another anti-avoidance clause (following a recommendation by the Katz Commission) is of importance to foreign investors. It relates to transfer pricing (the exchange of goods or services between group companies at artificially high or low rates to shift profits to a lower tax jurisdiction). According to the explanatory memorandum to the Bill, this clause will be used to counter thin capitalisation (where an overseas shareholder invests by way of minimal share capital and a large shareholder's loan). This mechanism enables profits to be stripped out pre-tax through an interest charge. (Nonresidents do not pay SA tax on interest remitted from the country.)

The proposed amendment will allow Revenue to adjust the transfer price to an objectively determined arm's-length price. This would increase the taxable income of the SA company and prevent avoidance.

The proposed amendments also provide for the situation where part of the interest payable is disallowed as a deduction in the hands of the SA company. This would be an additional adverse consequence of the adjustment of a transfer price. In this case, the excess will be treated as a dividend subject to STC.

Until now, thin capitalisation has been controlled only by the Reserve Bank through exchange control policies. It is hoped the passage of the thin capitalisation amendment will enable the Bank to hand over control of the matter to Revenue.

TAX AMNESTY

The tax amnesty foreshadowed in the Budget will be introduced when the draft Income Tax Bill is enacted — hopefully in July. According to Commissioner for Inland Revenue Trevor van Heerden, it could last until the end of October.

It will apply to individuals and companies not registered as taxpayers on April 26 1994. Applicants will be liable for taxes due from March 1 1994. These will have to be paid within one year of the end of the amnesty period.

Move to crack down on tax avoidance

Samantha Sharpe BD 6/6/95

(320)

IN A move to crack down on tax avoidance, government has introduced legislation which closes a loophole in the timing of interest payments on financial instruments by ensuring interest is calculated on a daily basis.

If passed by Parliament, it would put an end to the use of stock, bonds, debentures, bills, notes and loans to create tax-efficient leads and lags in the timing of interest payments or finance charges — effectively tax avoidance.

The legislation, which is part of the recently-published Income Tax Amendment Bill, follows proposals in the Budget that interest payable on financial instruments issued after March 15 be tax deductible on a day-to-day (yield to maturity) basis.

But Deloitte & Touche partner Anne Pappenheim said the legislation went further than the Budget proposals, as it would not only apply to instruments issued after March 15, but also to ones sold after that date. It also extended to interest swaps.

Tax sources said the legislation would most affect those involved in financing business transactions, with bankers now compelled to come up with innovative financing schemes if they wanted to emulate the benefits of the old system. The new arrangement would also add to the complexity of tax disclosure, they warned.

The Bill carried other anti-avoidance clauses relating to transfer pricing — over- and underinvoicing of goods to shift profits to a more friendly tax jurisdiction.

Tax crackdown on retirement benefits

(320)

Tim Cohen

BD 7/6/95

CAPE TOWN — Legislation to stop tax avoidance schemes related to retirement benefits appears set to be passed by the parliamentary finance committee despite opposition, although those who retire before the implementation date and are rehired as "consultants" will not be affected.

Inland Revenue commissioner Trevor van Heerden accepted proposals made by tax experts in the committee yesterday that a "practice note" should be issued indicating that the commission would not challenge the validity of rehiring practices.

Tax experts commenting on the legislation agreed that people who retired and were rehired should not find themselves in a situation that a court should decide that they did not in fact retire.

The debate in the committee follows lobbying by various organisations and individuals, including Sacob, who argued the proposed changes on retirement lump sum benefits were causing a flood of retirements before the measures were due to come into force in September.

These provisions in the Income Tax Bill should be withdrawn and the issue investigated by the Katz commission with other pension fund issues, the parties argued.

Law professor Dennis Davis told the committee that the provisions were seeking to close a "clear tax avoidance measure".

The committee had to accept that by closing the loopholes, a flood of retirements would occur to capture benefits.

But if the committee were to cave in on the issue, it would be sending out a message that "parliament is not particularly interested" in tax avoidance measures. However, this implied itshould be dealt with to lessen harm to the economy, Davis said.

Davis was supporting other experts who said if people did retire and were rehired as consultants a hostile court could decide they had not retired at all.

Subcommittee to consider land tax

Samantha Sharpe (320)

THE Katz commission on taxation had established a subcommittee to investigate the possibility of a land tax in SA, an idea mooted by Land Affairs Minister Derek Hanekom, the commission said yesterday.

Land tax committee chairman Dennis Davis said the subcommittee would take as its starting point the efficacy of a land tax with regard to its potential for raising revenue for local government.

BD 7/6/95

Coopers & Lybrand tax partner and subcommittee member Danie Uys said that there were several reasons cited as to why a land tax should be introduced — all of which would be investigated.

These included the benefits of revenue for local government.

It had also been mooted as a means to encourage the productive use of land, with unused land unable to create the income to pay the tax.

Tax sources warned that with many farms already facing bankruptcy the introduction of a land tax could be the straw that broke the camel's back, unless it could be used as a credit against income.

The role of the tax in the efficient redistribution of land was also questionable, they said.

Uys said the closing date for submissions from interested parties was July 15.

Tax amnesty 'will entice only a few'

(320) BD 8/6/95

Samantha Sharpe

SA's sweeping tax amnesty — aimed at encouraging non tax-paying citizens to enter the tax-paying fold — was unlikely to lure even a fraction of those it intended to target into the tax net, industry sources warned yesterday.

Inland Revenue spokesman Sid Pope said the amnesty — one of the most wide-sweeping in SA tax history — had the potential to bring in millions of unregistered taxpayers.

SA had 18-million registered voters and only about 4,4-million people subject to SITE. "We have to question how many of the 14-million odd remaining voters will be subject to tax and how many of these will register in the proposed three-month amnesty period".

Tax sources warned, however, that tax amnesties historically had an abysmal record. They said the amnesty would probably bring only between 5% and 15% of those it targeted into the tax net.

But Pope said while tax amnesties practised elsewhere had not enjoyed the greatest measure of success, they had also not "put as much on the table" as the proposed amnesty.

The amnesty extended a period of grace to all those who have never registered to pay tax for political reasons as well as to those who managed to escape the revenue department's administrative clutches through a change of address.

The third category benefiting from the amnesty was those who had failed to pay their GST. If they came forward they would no longer be subject to penalties.

Tax sources said the real value of the amnesty lay in "wiping clean the political tax slate". This meant any tax dodgers after the amnesty would not be able to use political dissatisfaction as an excuse.

Katz commission member Dennis Davis said amnesty had to be accompanied by a fierce determination by revenue to clamp down on those who had not taken advantage of it.

Independent tax consultant Willem Cronje said it was imperative the amnesty be accompanied by a strong marketing campaign if it was to be at all successful. Previous offenders should learn of the benefits of paying tax, which included operating in the formal sector and gaining access to other government benefits, he said.

Deloitte & Touche tax analyst Louise Vosloo said the amnesty was unlikely to bring a lot of joy unless government went on a concerted education drive to bring tax information to the informal sector.

The problem lay in the existence of government funds for such a project, she said.

Pension fund tax to be probed

(320) Star 9/6/95

A sub-committee has been established to investigate the taxation of pension, provident and retirement funds, the Tax Commission announced yesterday.

The committee will look at uniform taxation of the three funds, how much to tax the payouts and other issues.

Public participation will be sought.

Submissions are to be forwarded to The Secretary, Tax Commission, Private Bag X349, Pretoria 0001 or faxed to (012) 323-2917. — Staff Reporter.

Fuel levy to mend roads, proposed

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269 183

Political Staff

TRANSPORT Minister Mac Maharaj has proposed a fuel levy of another 3,5c a litre to raise nearly R1 billion to repair national roads.

Mr Maharaj proposed this in his introduction to the debate on the transport vote in the National Assembly on Friday.

The present budgetary allocation ot roads amounted to the equivalent of 4c a litre.

"If it were set at 7,5c a litre — only 3,5c a litre above the current allocation from the Budget — it would provide revenue of about R940 million a year," he said.

That would be sufficient over the next 10 years to provide and maintain the appropriate road network vital for South Africa'economic and social development, Mr Maharaj said.

Such a levy would provide a direct link between the road user and the country's roads, which had a replacement value of R130 billion.

ARG 12/6/95

This year the government would spend R522 million on road upkeep, less in real terms than was spent in 1975.

Mr Maharaj warned of an "expensive disaster" unless spending trends were reversed.

Only nine percent of the national roads were in "good" condition, compared with 25 percent in 1991.

Mr Maharaj said road upkeep policy would encourage the use of labour.

R100 million from the reconstruction and development programme fund was being used to strengthen labour intensive projects that would employ an additional 1 500 people this year, Mr Maharaj said.

Zuma to try for tobacco tax rise

(87)

CT 12/6/95

(320)

JOHANNESBURG: Health Minister Dr Nkosazana Zuma says she will try to persuade the Minister of Finance to increase tobacco tax as part of a campaign to discourage smoking.

Dr Zuma, who returned from Canada where she received the No Tobacco Award, said research showed a tax increase on tobacco did not discourage adult smokers. However, it made it difficult for young starters.

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Thousands to get back tax money

Sowetan 13/6/95

(320)

By Joshua Raboroko

THE Receiver of Revenue is to refund millions of rands to thousands of workers who had overpaid on Standard Income Tax on Employees (Site).

The managing director of tax consultants Workers Tax, Mr David Heyman, said yesterday it had been found that more than 100 000 workers, ignorant of tax laws, had overpaid on Site.

He said workers earning less than R50 000 a year had overpaid in taxes mainly because of the negligence of their employers or because they had supplied wrong individual information on their tax forms.

His company had been able to get refunds — more than R7 million — for hundreds of thousands of workers after consulting them. An average worker had received a refund of about R850 a year.

They were waiting for refunds of between R13 million and R14 million for workers. Some workers had received between R4 000 and R5 000.

Consultants estimated that about 60 percent of workers had overpaid R720 million since Site was introduced in 1980.

He said workers could submit claims through the offices of Receivers of Revenue.

Tax dodge Bill tabled

(320) Star 16/6/95

Draft legislation granting amnesty to tax dodgers was tabled in Parliament yesterday.

The Tax Amnesty Bill applies to all who were not registered as taxpayers up to April 27 last year or those registered but whose whereabouts was unknown to Inland Revenue.

The amnesty period applies until October 31 this year. — Sapa.

□ □ □

The Department of Sport and Recreation undertook 675 development projects involving 44 000 people in 1994, according to its annual report tabled in the National Assembly yesterday.

The projects, undertaken by its 10 regional offices at a cost of R635 000, aimed at mass participation and helping to develop young talent. — Sapa.

□ □ □

The Consumer Council handled nearly 53 000 complaints between April last year and this March. In its final annual report tabled in Parliament yesterday, the council — to dissolve later this year — said the complaints involved goods worth more than R19-million. — Sapa.

□ □ □

The Workers' Organisation for Socialist Action will plan for an international conference on socialism when it holds its fourth national conference this weekend. The three-day conference, which begins today, will be attended by representatives of international left-wing movements. — Political Reporter.

TAX COMMISSION

Investigating pensions

(320) FM 16/6/95

The next phase of the Tax Commission's top-to-bottom review of the tax system has been announced — it has established a subcommittee to investigate the taxation of pension, provident and retirement funds.

Commission chairman Michael Katz says the study will be "holistic." Deadline for completion of the report is November 30.

The inquiry will consider deductibility of both employer and employee contributions; the taxation of the various types of funds; the taxation of the payments they make to members; and the possible implementation of uniform tax treatment of the funds.

Existing tax rules set limits to the tax deductibility of the contributions by employers, employees and self-employed individuals. The funds themselves are tax-free (save for the involuntary payment of secondary tax on their dividends received.)

On retirement, the basic rule is that pensions are fully taxable, though there are tax concessions for lump sums.

Life Offices Association executive director Jurie Wessels says attention centred first on assurers. Now that issue has been resolved through the introduction of the four-fund approach.

There are two principles in the taxation of savings.

Depositors and investors should be taxed, at their average rate, on the income derived (when they receive the income).

Savings institutions should be taxed at the corporate tax rate on profits, after paying interest to savers and depositors. Taxation of banks meets these requirements.

The taxation of life assurance meets the principles, with some deviation. The assurer pays tax at corporate rates on its profits, on behalf of policyholders, at an average rate of tax before the policy matures. But no further income tax is paid on the pay-out by policyholders or their heirs.

The way in which retirement funds are taxed implies a deferral of tax, but not a tax break. The employer's contribution is part of his salary bill. It accrues to the employee through his fund credits, which are received only after leaving service. In line with other salary-related payments, the employer's contributions should continue within limits to be made out of pre-tax income.

By making the contribution, the employee (or a self-employed person) opts to defer a portion of his income until retirement, automatically deferring the tax to be paid.

Retirement funds pay no tax on investment income (other than secondary tax). The income is taxable when received by the member. The member does not pay tax on the (deductible) contribution he and his employer make to the retirement fund.

Individuals use after-tax savings to make deposits with banks, so only the income earned on that capital is taxed. Withdrawing the capital does not render it taxable. This applies also to life assurance.

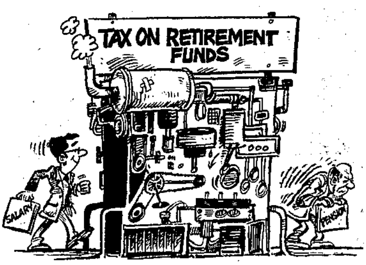
With retirement funds, income tax has eventually to be paid out of the member's stake, which now happens automatically.

Wessels regards the current approach to retirement fund taxation as theoretically pure. There are still two questions: is there any justification for the partial exemption enjoyed by lump sum payments, and can anything be done about the deferral?

Tax on lump sums implies a considerable de facto capital gains tax, through taxability of pensions. If fund members had saved for retirement through investment in unit trusts or direct investment in shares, the capital appreciation would not, usually, have been subject to tax.

There may be better ways to compensate for this effective capital gains tax than the limited lump sum exemption — but there should be some form of compensation.

Given the deferral of tax while members' money is in the hands of the funds, there is no theoretical reason why retirement funds should not use the same approach as taxable life assurance funds, and pay tax on behalf of members during the build-up phase, but pay after-tax benefits as tax-free pensions.



Liberty Life vice-chairman Dorian Wharton-Hood thinks a "modest" rate of tax on retirement funds could be considered, if the rate is fair and does not escalate later.

There are two practical problems, argues Wessels. First, the idea of applying an average rate of tax (which will be necessary if retirement funds pay on behalf of all members) is unpalatable to many people in a country with such wide disparity between affluent and poor as exists in SA.

Second, the transition will be difficult to manage. After the introduction of a tax on retirement funds' build-up, the maturity value of former members' pensions would be partly accumulated from pre-tax money and partly after-tax money. Determining a fair tax could be awkward.

Last, asks Wessels, what role does SA want retirement funds to play in the economy? The solution must be true to tax principles without undermining this role, whatever it may be.

❑ Closing date for submissions is July 15.■

THE RESERVE BANK

A fine line

FM 16/6/95

At the heart of the debate over central bank independence is what monetary policy can realistically be expected to achieve. Cyrus Rustomjee, technical adviser to the Constitutional Assembly, dealt with this issue in a presentation to the assembly last week.

"Previously, the central bank was held responsible for many macro-economic issues, including price stability and the attainment and maintenance of full employment. Developments in macro-economics, and in financial markets, however, challenged the rationale for vesting a spectrum of responsibilities with the central bank. Consequently there has been an international shift towards more independent central banks, closely focused on maintaining price stability."

SA has followed this trend, requiring the Reserve Bank only to maintain the value of the currency.

Recently there has been pressure from those who believe there is a trade-off between employment and inflation and would like to see the Bank become a tool of government policy. The SA Communist Party made submissions along these lines to a subcommittee of the Constitutional Assembly in February (*Currents* February 24).

As a step in this direction, it asked for the interim constitution to be amended. Section 196 now states that the Bank "shall perform its functions independently (provided) that there should be regular consultation between (it) and Minister responsible for national financial matters." The SACP would like "consultation between" changed to "in consultation with." This is based on the interpretation that the latter implies agreement is reached.

The proposal was adopted by the ANC and the proposed changes were drafted.

Now Rustomjee has recommended "reverting as closely as possible to the wording of the interim constitution (which) accu-

Katz to investigate capital transfer tax

(320) BD 19/6/95

Samantha Sharpe

SA's wealthier people faced the threat of increased taxes with the Katz commission set to investigate the possibility of a capital transfer tax, tax sources said at the weekend.

While estate duty taxes netted about R1m for the fiscus, a conversion to a system of capital transfer taxes levied on transfer of assets could boost government coffers by about R1bn, commission sources said.

Commission member Dennis Davis said a subcommittee had been established to look at the possibility of replacing SA's estate duty system with a capital transfer tax system. While it was fair to say capital transfer tax had the greatest effect on the wealthier members of society, it was not a wealth tax, he said.

"This kind of tax has been around since the '50s in one form or another."

Davis said the subcommittee, which would be chaired by Katz commission chairman Michael Katz, would investigate the appropriateness of a capital transfer tax and the form the tax could take.

This was not a radical departure from the past. Taxpayers generally expected, at the very least, a rise in estate duties.

The real beneficiaries would be the life offices. They stood to gain from increased demand for insurance products which prepared people for substantial tax payments on the transfer of their assets later in life, he said.

Other subcommittee members said SA was out of step with the rest of the world in terms of taxes on the assets of the rich. Said one: "SA is a tax haven for the wealthy." A revamp of estate duties, introduction of a land tax or creation of a capital gains tax were all taxes on wealth. However, a capital transfer tax would be difficult to implement in a country characterised by rising inflation and inclined to encourage tax avoidance.

It would also have a negative effect on economic behaviour, he said. Because the tax was levied on the realisation of assets, the tendency was for people to refrain from trading their assets.

This left land tax or a revamp of estate duties as the only alternatives. However, a land tax would also be difficult and expensive to administer.

Local govt could be granted power to levy surcharge on

BD 21/6/95 (320)

Sello Motlhabakwe

THE Financial and Fiscal Commission favoured the introduction of surcharges on national taxes, including income tax, by lower levels of government, the commission said yesterday.

It released a framework document for intergovernmental fiscal relations detailing its approach to financing lower levels of government.

Lower-tier governments could be granted the discretion of implementing flat-rate surcharges on national taxes, fuel levies and transfer duties, it said.

Personal income tax would be most suited to an additional surcharge by provincial authorities. Local governments could be granted the discretion of supplementing revenues from property rates and implicit excises on services such as electricity with a surcharge on, among others, the fuel levy and transfer duties.

"The national tax bases must be used unaltered, but provinces and (in some cases) local governments may add a few percentage points to the national tax rate according to their own discretion," the commission said. It emphasised that surcharges on personal income taxes should be limited to a few percentage points, partly to keep the maximum rates within acceptable limits and not dissuade people from living in particular provinces.

Ideally local governments should raise as much as possible of the revenue that they spent, the commission said. It would recommend that borrowing powers be extended to provinces to finance capital expenditure, but not for recurrent expenditure. However, allocation of loans should be left to capital markets and credit rating institutions as government involvement in these markets was likely to lead to incorrect allocation of resources.

The commission would have access to government's draft Bill on provincial borrowing powers and would make recommendations for inclusion in the Bill.

It would further recommend that lower-tier government debts be guaranteed by national government only if the debt concerned essential services. If national government guarantees were unlimited, the lower government's liability would become part of SA's national debt and affect the country's credit rating.

Commission chairman Murphy Morobe said the commission would, before September, have to draft a final document on a revenue-sharing formula for the 1996/97 financial year.

Revenue-sharing funds would be allocated according to a formula incorporating minimum standards and objective variables such as population numbers. It would be possible to phase in the formula only as suitable statistical data became available. "This is also necessary to avoid disrupting . . . public services," the commission said.

'Drastic changes' for tax departments

CT 21/6/95 (320)

LEGISLATION to drastically restructure the departments of Internal Revenue and Customs and Excise will be submitted to Parliament in February, Finance Minister Mr Chris Liebenberg said yesterday.

It should be approved by Parliament before the 1996/97 Budget in March, although the restructuring would take place gradually. "This is not something you do shooting from the hip in a cavalier way," he said.

Top finance department officials were visiting other countries for advice on restructuring. Mr Liebenberg said he had also held talks with the "top eight" SA companies who were eager to help the restructuring process.

He said it was important to send a signal to taxpayers saying: "If you have a problem, come and talk to us and we'll show you how to pay less tax."

Past tax structures had probably made criminals out of honest people, he added.

● A Finance Select Committee report tabled in Parliament yesterday said the inland revenue department did not have the human or material resources to meet its obligations to integrate revenue offices.

The committee said the department should be given administrative autonomy as recommended by the Katz Commission. In the meantime, more resources should be allocated to deal with the crisis. — Sapa

● See Page 3.

Cautious response to tax proposals

Sello Motlhabakwe (320)

TAX experts yesterday gave a cautious welcome to the Financial and Fiscal Commission's preliminary proposals which suggested that lower tier governments be afforded the discretion of imposing surcharges on national taxes.

They warned that a proliferation of taxes at lower levels of government could lead to an intolerable tax burden. However, if properly implemented, the system could be workable and would be similar to other federal systems.

Sacob economist Keith Lockwood said a chamber committee would look at the tax proposals and give a comprehensive response later but the proposals would make sense if they were accompanied by a commensurate reduction in direct taxes.

He said the danger of small taxes being added onto the national taxes was that individual hikes looked harmless in isolation but added up to a lot more when taken together.

Independent tax consultant Willem Cronje said he would go along with surcharges on personal income tax and a provincial fuel levy as these taxes were fair and easy to administer. He said new taxes should not be introduced before "bad and complex" taxes such as the Regional Services Council levies were scrapped.

Cronje said provinces stood to gain by introducing surcharges on personal income and the fuel levy. A 1% surcharge on the estimated R50bn a year fuel levy could net about R500m for a province.

He said the commission's overall proposals on borrowing powers to second and third tier authorities were sensible in that they endorsed the constitutional position that funds be spent on capital expenditure projects rather than recurrent expenditure.

Kessel Feinstein tax partner Beric Croome said proper tax collection would obviate the need to introduce surcharges at any government level.

A study by the Katz commission on tax had found that of SA's working population – about 14-million – only about 6,5-million paid income tax.

Croome said current tax rates in SA were already high, and an additional surcharge would raise levels even further. BD 22/6/95

The commission was established last year in terms of SA's interim constitution and was charged with working out a formula whereby provincial governments could share revenue from the national fiscus.

In the preliminary draft released yesterday the commission argued for more fiscal powers to the provinces and third tier governments in the belief this would help them generate and boost their own revenue.

Comment: Page 10

Southern warns against new retirement tax law

BD 22/6/95 (320)

Samantha Sharpe

SA's tax environment would discourage inward investment and drive domestic achievers offshore, the Southern Life annual report warned.

Southern Life chairman Neal Chapman said that while the Receiver of Revenue might find it attractive to focus on the "haves" — successful companies or individuals — the consequences could be dire.

Chapman said the group supported the Katz Commission in its efforts to widen the tax net and close loopholes. But proposed retrospective legislation aimed at diminishing retirement provisions was "alarming".

He said retirement planning started well before superannuation and was dependent on certainty. Any sudden change was, in effect, retroactive and had serious implications for those on the brink of retirement.

Changes to the status quo should not undermine the credibility and purposes of the legislation nor invalidate planning, he warned.

Southern Life posted a 27,1% rise in attributable earnings to R306m in the year to March, which led to a total dividend of 116c compared with 94c at the same time last year.

Chapman said that the group's distributable earnings and dividends a share had shown an average annual growth rate of 21,7% since Southern's listing on the JSE in 1985.

He said growth in total income and assets had been modest in the year under review, with the industry trend being to move pension fund assets off the balance sheet. However, the actuarial excess of assets over liabilities, which increased to R3,65bn, reflected the group's inherent strength and its longer-term profit potential.

TAXING QUESTIONS

BY MATSHERU MATSHERU

A combination of aggression and education, not amnesty, is what is needed to encourage people to pay tax

(320)

Tax amnesty is bound to fail

CT(BR) 22/6/95

Four weeks ago, deeply concerned over the implications of the new tax amnesty reported to start next month, I pondered the possibility that the government had gone mad.

It seemed as if little thought had been given to the fact that previous tax amnesties failed to deliver.

According to the Tax Amnesty Bill, all individuals and companies who had not registered by 26 April last year, or those who had registered, but whose whereabouts were unknown to the Receiver of Revenue, will qualify. The taxman's olive branch will extend over a three month period.

Statistics show that two-thirds of South Africa's economically active population paid no income tax last year. Reports also show that there are only 4,4 million taxpayers out of the nation's economically active population. Accordingly, the government is losing billions of rands in taxes as the result of so many remaining outside the tax net.

Untouchable

There is a concern in commerce and industry that millions of people in the informal sector have declared themselves "tax untouchable".

If this culture of tax ungovernability is not nipped in the bud, it will undermine the rule of law and emasculate the tax authorities.

The government has to take effective practical steps — and soon — to bring everyone into the tax net.

I am of the school of thought that you do not necessarily need an amnesty to force people to contribute to the cost of running the state.

Taxpayers are intelligent enough to know that the government is a non-profit organisation and therefore needs to rely on the taxpaying public to help meet its responsibilities. While the political merits of the amnesty might be warranted, there is no guarantee that it would change irresponsible people into responsible citizens.

Awareness

It is government's behaviour that will either influence tax responsibility or discourage it.

To encourage and promote a culture of tax responsibility, the state must punish tax offenders.

For example, if the law provides that a tax offender must be jailed, the authorities must uphold the law. This will send a signal to other tax dodgers that the government means business.

Back to the amnesty. Taxpayers are given only three months to register, reasonable in the circumstances. But the inland revenue department does not have enough staff to handle tax affairs.

So, how will they be able to cope with an amnesty awareness campaign within the given three months?

If, after the expiry of the three month grace period, there remain taxpayers who argue that they were not aware of the amnesty, will they then be punished?

Whatever the merits of amnesty, it can be no more than a short term fiscal plan. What about a long term fiscal plan?

Government should start to introduce tax education at school. Tax exposure at school level will not only create awareness of the reality of how economy works but will also help the next generation understand why taxes are levied.

Before the election the ANC, which represents the majority in the government of national unity, promised to ensure efficient collection of taxes. We're still trying to read their lips.

☐ *Matsheru Matsheru is an independent tax consultant.*

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INCOME TAX (320)

Into the net

FM 23/6/95

Anti-avoidance schemes, targeted by the Income Tax Amendment Bill, include an ingenious arrangement to avoid fringe benefits tax on cars.

It involved an employer taking over an asset, such as a motor vehicle, at the end of a financial lease, for the employee's use. The value of the vehicle would be treated as part of his income. But in establishing the value, the employee would ignore the earlier lease payments.

This would reduce the value of the asset to a derisory amount.

The amendment, says Deloitte & Touche Reef tax partner Anne Bennett, obliges the employee to use the vehicle's market value.

Changes also are intended where employees receive a car allowance, as well as the use of a company car — at a rental equal in value to its fringe benefits value. This practice reduces the value of the company car to nil: the employee then discloses in his tax return only the car allowance and not the use of the company car. In turn, the car allowance would not have been taxable because it would be adjusted to equal the amount which the employee claimed to have spent on travel costs.

The deduction for the rental paid by the employee will be disallowed. From September 1 he will be subject to tax on the full fringe benefits value of the company car.

There are new provisions for accruing interest (if a lender) or deducting it (if a borrower) on a day-to-day basis (*Economy* June 9) to prevent timing mismatches which allow tax to be deferred. But KPMG tax partner Noel de Charmoy explains this will not necessarily apply to instruments or interest-rate agreements held as trading stock. Instead, market value may be used. The Commissioner will have to approve the accounting method applied to determine market value.

Tax consultant Willem Cronje explains that this route — which is administratively simpler — should have much the same tax impact. This is because the market value method influences the value of closing stock at the end of the financial year, and therefore taxable income. Only where interest rates change substantially, during the life of the instrument, will there be a material difference. This is because its market value will closely track the impact of the interest rate shift while the accrual basis, about to be introduced, depends solely on the original issue discount of the instrument. If the accrual basis is used, the impact of interest changes is only recognised for tax purposes when the instrument is redeemed or transferred.

An anti-avoidance section, introduced two years ago, has been extended. It applied to sale and leaseback transactions which allowed the seller to dispose of a capital asset, at a large capital profit, to a financial institution and then lease it back. The tax advantage to the seller, explains Kessel Feinstein tax partner Ernest Mazansky, was first a tax-free injection of capital and second that it could then claim a deduction of the subsequent lease payments, based on the appreciated value of the asset.

The 1993 amendment stopped the financial institution basing its depreciation claim on its cost. Instead, it had to base depreciation on the lesser of the cost to the seller (and subsequent lessee) or the market value at the date of sale. This reduction in the tax benefit made the deal prohibitively expensive and effectively brought these schemes to an end.


Mazansky

But it remained possible to circumvent the provision by interposing a sub-lessee. The taxpayer would sell the asset to the institution, which would lease it to an intermediary — which in turn would sublet it to the taxpayer. This route too will be blocked.

Assets originally affected were plant and machinery, industrial buildings, ships and aircraft. Intellectual property — such as inventions, patents, designs and trademarks — was not affected, but is now included.


Cronje

Mazansky argues that the new tax concessions for small businesses will have little effect. In the first place, to prevent misuse of the concessions, they are limited to sole proprietors and partnerships of individuals — so a vast number of businesses, currently trading as close corporations, would not qualify.

Only enabling provisions are set out. The various criteria for eligibility will be prescribed by regulation later. If these are drawn too narrowly, only microbusinesses — which would not have registered for tax anyway — will qualify.

There are several provisions for harmonising the tax laws of the former TBVC states with SA's. Most important, anything done under the TBVC rules will be recognised. Thus, the tax value of assets carried forward at the end of the year, will equal the tax value brought forward at the start of the next. This allows for more generous depreciation than under the SA Act. Similarly, any assessed loss incurred under TBVC law would qualify to be brought in and carried forward. ■

SA seeks UK's assistance

Linda Ensor (320) BD 26/6/95

LONDON — SA was seeking assistance from British officials in restructuring the departments of inland revenue and customs and excise, Charles Stride, adviser to the finance minister, said on Friday.

Stride was speaking in London at the culmination of a tour with four other officials which included visits to Australia, Singapore, Indonesia, France and Britain.

Stride said British assistance would be sought in moving the inland revenue and customs and excise departments towards autonomy.

Being freed from the Public Service Commission would make the departments more competitive with the private sector in terms of salaries.

Stride emphasised that these departments were different from other government departments in that their budgets were about 2% income and about 98% expenditure.

British assistance was also vital in training to address the critical manpower shortage, and with the installation of new computer systems. Having been successful in downsizing its own customs and excise department, Britain could also help in ridding the SA customs and excise department of its heavy bureaucracy.

One British practice which Stride wanted to introduce in SA was the incorporation of change management into boardroom deliberations.

The aim was to make SA an attractive location for investment by expediting customs clearance and the payment of excise and other taxes.

Stride, noting that the world was increasingly moving towards a "paperless" customs and excise regime, said SA's systems were "far, far behind".

Transitional levy 'not settled until next year'

Samantha Sharpe (320) BD 28/6/95

TAXPAYERS could still could be paying SA's transitional levy, introduced more than a year ago, deep into 1996, tax consultants said yesterday.

It was expected most of the 5% levy would be paid in the 1994/95 financial year, with the remaining 1,67% to fall due in the first three months of 1995.

However, inland revenue said yesterday that some taxpayers would have until the end of the 1995/96 tax year to come up with the final leg of the levy.

Inland revenue spokesman Ian Meiklejohn said confusion had arisen out of the department's announcement — before the Budget — of a set of tax tables aimed at eliminating gender discrimination. These tables had allowed for the levy to be paid over an extended period.

"This was introduced as a relief measure because most of those subject to the levy had to face higher tax rates," Meiklejohn said.

However, the interim tables were not implemented immediately by all employers, he said, with some choosing to wait until the official 1995/1996 tax tables kicked into effect in June.

Employers chooosing to implement the interim tables were able to spread the levy payment over another year, with the majority of employers falling into this category, he said. Those who waited for the official tables would have paid the levy by June 1.

DP a lone voice in opposing 'burdensome' Income Tax Bill

Tim Cohen (320)

CAPE TOWN — A plethora of tax Bills — including the Tax Amnesty Bill and the Income Tax Bill, came a step closer to becoming law in Parliament yesterday, when they gained the support of all parties except the DP.

Addressing the debate on the Tax Amnesty Bill, Finance Minister Chris Liebenberg acknowledged that while some would be unhappy with the Bill, it was the best method of drawing unregistered taxpayers into the tax net.

Liebenberg was addressing the argument that the amnesty net was being extended too broadly, because it included not only those who had refused to pay taxes in the past for political reasons, but also other tax avoiders.

Liebenberg said the Bill was the product of much soul-searching and research.

He gave the assurance that government would use the full force of the law to crack down on tax avoiders who did not take advantage of the Bill's tax amnesty.

NP MP Armiston Watson said while his party was concerned about certain discriminatory aspects of the Bill, it had no option but to support it because it "levelled the playing field".

BD 28/6/95

Freedom Front MP Willie Botha said every effort had to be made to broaden the country's shrinking tax base.

DP MP Douglas Gibson said his party would not be supporting the Income Tax Bill because government was continuing to ignore the plight of the middle classes. SA had one of the world's steepest marginal tax rates on incomes up to R50 000, and a nominal corporate tax rate of 35% plus a 25% secondary tax which was a "positive disincentive to investment," Gibson said.

"Too much of a burden falls on the 4,4-million taxpayers who have to support a population of 43-million. Lower taxes would make more funds available to the private sector for productive investment," he said.

Liebenberg said that if the low VAT rate and non-taxation of dividends were taken into account, SA people were not highly taxed compared to other countries.

He said it was not the level of taxes alone that should be considered, but whether citizens got value for their money.

He conceded that SA people did not currently get good value for their money because government consumed too much, and said that this was an area that needed to be discussed.

ANC MP Gill Marcus said the effective tax rate paid by corporations warranted attention, with the focus on incentives.

Sapa reports Gibson alleged officials in the Johannesburg office of the Receiver of Revenue were accepting bribes of up to R50 000 to "lose" tax files.

"This shocking state of affairs needs to be investigated," he said.

Liebenberg said the claims would be probed once the DP made available whatever information it had.

Other Bills discussed in the National Assembly yesterday included the Taxation Laws Amendment Bill, the Public Investment Commissioners Amendment Bill, the Public Accountants and Auditors Amendment Bill, the Land Bank Amendment Bill and the Local Authorities Loans Fund Amendment Bill.

Wednesday June 28 1995

Once-off amnesty in far-reaching tax laws

ARG 28/6/95 (320)

CLIVE SAWYER
Political Correspondent

FAR-REACHING tax laws, creating a once-off amnesty while closing avoidance loopholes and tightening up administration, have been passed by the national assembly.

The amnesty is meant to bring those who declined to register for or pay tax during the apartheid era back into the fold. But there is an iron fist in the welcoming glove.

Finance Minister Chris Liebenberg warned that the full force of the law would be used against those who did not take advantage of the amnesty.

Of the eight bills Mr Liebenberg shepherded through the national assembly yesterday, only one was opposed.

The Democratic Party opposed the Income Tax Bill in protest against the huge burden on middle-income earners and government failure to create a climate conducive to saving.

Mr Liebenberg also announced the phasing out over the next five years of gender discrimination in tax concessions for lump sum payments. At present women get this benefit at 50 and men at 55. The new measure will make 55 the age of eligibility for both genders.

Other bills approved were:

- The Taxation Laws Amendment Bill, which includes seven amendments to bring taxation legislation in line with the constitution by eliminating gender discrimination and closes loopholes which allow avoidance of transfer duty.
- The Public Investment Commissioners Act, which provides for more commissioners to be appointed to make the body more representative.
- The Public Accountants and Auditors Bill, which gives wider powers to these officials to make disclosures — a bold step aimed at protecting people from fraud and corruption.
- The Land Bank Amendment Bill, which retrospectively includes former TBVC areas in the bank's area of operation.
- The Local Authorities Loans Fund Amendment Bill, which enables the fund — designed to help councils too small to enter the commercial loans market — to open an account at a commercial bank.
- The Bophuthatswana National Provident Fund, which eases up regulations of the fund, including the provision making membership compulsory.

In the debate on the Tax Amnesty Bill, Mr Liebenberg said the government had proposed the measure after much soul-searching.

Tax officials under scrutiny for fraud

CLIVE SAWYER, Political Correspondent

SEVERAL tax officials are being prosecuted for fraud and corruption, said Minister of Finance Chris Liebenberg.

He was replying to allegations by Doug Gibson (DP) about corruption in the inland revenue department. (239) (320)

Speaking in a parliamentary extended public committee debate yesterday on the Income Tax Bill, Mr Gibson said the Johannesburg receiver of revenue's office was getting a reputation for being "bribeable". ARG 28/6/95

"It costs R50 000 for an official to lose a tax file. For a payment of R5 000 or R10 000, other favours are possible."

Mr Gibson called for an urgent investigation of the matter and said prompt action should be taken. Failure to do so would undermine the tax system, he said.

CT 28/6/95 (320)

'AMNESTY IS THE LAST CHANCE'

Govt warns tax evaders

CORRUPTION and high tax rates will undermine the government's ability to collect outstanding taxes despite the coming amnesty, the DP has warned. **BRUCE CAMERON** reports.

THE government will use the full force of the law against taxpayers who fail to take advantage of the tax amnesty to be introduced within weeks.

Minister of Finance Mr Chris Liebenberg delivered the warning in Parliament yesterday, telling errant taxpayers this was their last chance to put things right.

There would be no rolling amnesties, he told Parliament in a debate on the the legislation.

"It is imperative we succeed with this one."

NO ROLLING AMNESTIES: Minister of Finance Mr Chris Liebenberg has vowed to crack down on tax evaders.

Undermining

But the Democratic Party's deputy finance spokesman Mr Douglas Gibson warned that the government's ability to collect taxes could be undermined by high tax rates and corruption in tax offices.

He said revenue officials could do favours and exercise discretions which had major implications for business and private people.

Corruption had raised its ugly head and the Receiver's office in Johannesburg was developing a reputation for being bribable.

It cost R50 000 for an official to "lose" a tax file; for a payment of R5 000 or R10 000 other favours were possible.

This shocking state of affairs needed urgent investigation and action. Failure to act would undermine the whole basis of our tax system.

Mr Gibson, who was opposing another of the eight pieces of financial legislation that were before Parliament, said the government was ignoring the plight of middle-income earners.

They felt they were being flogged to death. In most parts of the world, taxpayers had to be wealthy before they were expected to pay supertax: In South Africa the highest marginal tax rate kicked in at a ludicrously low level.

Mr Liebenberg said the claims would be probed when the DP made its information available.

Dealing with the Amnesty Bill, Mr Liebenberg said the legislation would discriminate against some people but that it was the lesser of two evils. It was the best method of attracting non-registered people into the tax net.

He said an effective marketing campaign would be launched in an attempt to ensure the success of the amnesty.

Anyone who was not registered as a taxpayer for employees tax, normal tax or value added tax (VAT) before April 26, 1994, or anyone who was registered before that date but whose whereabouts was unknown to the tax collectors, qualifies for the amnesty.

Application

Anyone applying for amnesty must make an application in writing and give an undertaking to pay normal tax for the last year of assessment, ending on March 1 this year.

Any tax already paid by a qualifying person will not be refunded and anyone who was already being investigated by the tax authorities before April 27, 1994 will not qualify.

A person who qualifies for the amnesty will not have to pay:

- Any normal tax for the tax year ending March 1, 1994;
- Any VAT on the supply or importation of goods or supplies before March 1, 1994;
- Any employees tax deductible from remuneration paid or payable before March 1, 1995;
- Any stamp duty for any instrument or the registration of a marketable security before March 1, 1994;
- Any non-resident shareholders tax on any dividend declared before March 1, 1994;
- Any secondary tax on companies in respect of any dividend declared before March 1, 1994;
- Any donations tax payable before March 1, 1994; or
- Anything owing on the now defunct General Sales Tax.

Taxman probes alleged bribery

Samantha Sharpe (320) BD 29/6/95

INLAND revenue had launched an investigation into suspected corruption in the revenue department following allegations of bribery among Johannesburg tax officials, Inland Revenue commissioner Trevor van Heerden said yesterday.

Van Heerden said any tax official found guilty of accepting bribes would incur the full wrath of SA's legal system, with the department ready to take quick action against offenders.

The investigation was started yesterday following allegations by DP MP Douglas Gibson that the Johannesburg revenue department had become a breeding ground for bribery among revenue officials.

Gibson said it cost only R50 000 for a tax official to "lose" a tax file, while bribes of between R5 000 and R10 000 could secure less important "favours". Stories about corruption in the Johannesburg revenue department had filtered through from various impeccable sources within the tax industry, although the scale on which the alleged corruption was taking place was difficult to gauge.

Van Heerden said it was imperative that the reputation of the revenue department remained completely above reproach. "We are dealing with the taxpayers' money, which makes it very important that all our dealings are above board."

It was not impossible that certain officials had fallen foul of the law, with the poor salary scales in the department making it impossible for inland revenue to attract the calibre of staff needed.

"Without the right staff we are unable to

Continued on Page 2

Corruption

(320) BD 29/6/95

Continued from Page 1

implement the internal controls needed to stop this kind of thing from happening," Van Heerden said. The anticipated restructuring of the department would hopefully eliminate the temptation among underpaid staff to accept bribes.

Gibson said it was unfortunate that the many "superb revenue officials that were entirely above suspicion might now have suspicion cast upon them".

The finance ministry announced at the weekend that it was seeking donor funds to help finance the restructuring of the inland revenue department as part of an effort to increase its efficiency. The UK had been approached to help with the restructuring, which was centred on increasing the autonomy of inland revenue and customs and excise, enabling them to offer salaries competitive with the private sector.

Expert slams proposed income tax amendment

CT (BR) 29/6/95 (320)

By Charlotte Mathews

Investment Editor

A proposed amendment to the Income Tax Act means that tax advisers cannot advise foreign investors with any certainty about the tax implications of their funding to local subsidiaries, David Clegg, Ernst & Young tax partner, said this week.

Section 31(3) of the Income Tax Act being considered by parliament, gives the commissioner for inland revenue the discretion to decide whether financial assistance or loans made to a local subsidiary are excessive or not and to disallow the deduction of any "excess interest" and treat it as a dividend.

Clegg said a legislated maximum ratio of five to one for debt to equity for local subsidiaries of a foreign company would be in line with the international norm.

The reason for capping the level of debt allowed was that a profitable local subsidiary could pay little or no tax because its entire profit was remitted in the form of interest on debt to its foreign parent.

Interest payments are generally tax deductible to the subsidiary and tax-free (in South Africa) to the foreign parent.

Clegg said he fully supported control methods such as the Katz commission's recommendation that a debt-equity ratio of five to one be legislated.

However, South Africa could not attract foreign investment successfully on the basis of discretionary rulings which might vary between taxpayers.

There is also fear that the legislation could be retroactive, in other words, a foreign subsidiary with a ratio of debt to equity of eight to one might have to change its capital structure to comply with the new rules.

"It is impossible to give advice to incoming investors about the financial and tax consequences of their proposed investments without firm and binding rules on which to base it," Clegg said.

DP allegations of bribery in tax office to be investigated

(259) (320) CT(PK) 29/6/95

By Bruce Cameron

Political Editor

An immediate investigation is being launched into claims made in parliament that bribery is rife in the office of the Receiver of Revenue in Johannesburg.

The claims of corruption were made by Douglas Gibson, a Democratic Party MP. He said files could be "lost" for R50 000.

Trevor van Heerden, commissioner for inland revenue said he was starting an investigation.

Van Heerden said it was the first he had heard about the claims. "It was a bit of a shock," he said.

The department was very strict on fraud and corruption and a number of people had been sent to prison recently from the Pietersburg, Germiston and Johannesburg offices, van Heerden said.

He said he had a problem keeping control because of the lack of qualified staff.

"When you work with money you have to be strict and we have strict controls.

"The problem is when the people in control leave and they cannot be replaced, inevitably things will go wrong.

"We have lost those key people in control positions," he said.

Gibson said he had no proof of the claims but had been told of the situation by two senior practitioners during the past two days. He did not want to identify them.

He said he had spoken to Chris Liebenberg, the finance minister, who "expressed great concern. He appealed to me and anyone else to disclose any information," he said.

Tax law 'could affect overseas investors'

Samantha Sharpe

(320)

TAX consultants ~~said~~ yesterday that they were concerned about SA's proposed Income Tax Bill, especially in relation to thin capitalisation rules for international investors.

These rules determined the acceptable levels of financial assistance, relative to their equity stake, that international parent companies could offer SA subsidiaries.

Tax sources said the new thin capitalisation rules gave the Inland Revenue Commissioner a discretion to decide whether an offshore company had invested too little share capital in its subsidiary.

This made it impossible to give advice, often urgently requested, to incoming investors on the financial and tax consequences of their proposed investments.

Ernst & Young tax partner David Clegg said the Katz Commission had recommended that legislation set a debt to equity ratio of 5:1.

"If this country is to attract foreign investment it cannot be on the basis of discretionary rulings, which may vary," or be suspected to vary.

"Even if a discretion is seen to be necessary to deal with exceptional situations, as in the case of the existing Reserve Bank guidelines, the legislation must set the norm, from which a departure may be motivated," he said.

But Kessel Feinstein tax partner Ernest Mazansky said that what constituted thin capitalisation for one business was not necessarily so for another. It would be too rigid to prescribe debt to equity ratios in the Income Tax Act. BD 30/6/95

The commissioner's discretion was more practical.

However, Mazansky said a practice note setting out ratios within which companies knew they could operate without question should be issued as quickly as possible. This should be accompanied by an that Inland Revenue would respond speedily to a request to move outside the guidelines, Mazansky said.

THE ANNUAL SAPOA CONVENTION

De Klerk, Sanlam express alarm over affirmative action

CT (BR) 30/6/95

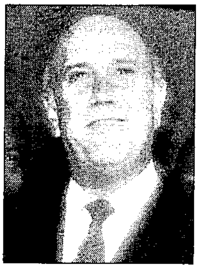
BY MAGGIE ROWLEY
PROPERTY EDITOR

Deep concern over the way in which affirmative action was being implemented, particularly in the public service, was expressed yesterday by FW de Klerk, the deputy president, and Marinus Daling, Sanlam's chairman.

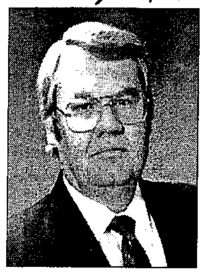
Addressing the annual South African Property Owners' Association convention, attended by about 650 foreign and national delegates at Sun City, De Klerk said the National Party was unhappy with the manner in which the ANC was dealing with affirmative action.

"There is a clear perception throughout the country that white males, and to a lesser extent brown and Indian males, regardless of skill, merit or enthusiasm, have very little prospect for promotion or appointment in the civil service.

"However, one might try to explain this away, this is perceived as reverse discrimination. As a result, many of the best, most competent and most experienced people are leaving the public service. These are people our country can ill afford to lose and will not be easy to replace."



FW de Klerk



Marinus Daling

De Klerk said a judicious and balanced implementation of affirmative action would seek to retain and motivate these people rather than drive them away.

His sentiments were echoed by Daling who said that South Africa was losing skills at an alarming rate through emigration and early retirement.

This could spell economic disaster, they said.

"The sooner we realise that skills are the backbone of our economy, the sooner we shall be on the road to success.

"Affirmative action — which in itself is removing skills from our economy — will suffer directly as a result.

"You cannot develop the unskilled without the assistance of the already skilled. As a matter of urgency, we have to strike a balance between rewarding existing skills and developing new ones."

Daling said that as far as the public sector was concerned, there were indications of problems affecting the quality of administration during this period of adjustment to a new political dispensation.

It was clear from the government's recent white paper on the transformation of the public service that affirmative action policies would be vigorously pursued through the setting of targets and the strict monitoring of progress.

"In certain categories identified for affirmative action, however, there is a critical shortage of suitably qualified and experienced candidates. About 1 200 top officials have gone on early retirement and 500 more are expected to take this option before September

Both speakers also highlighted the necessity of resolving the current dispute over the draft labour legislation.

They warned that this could prove to be a serious impediment to foreign investment, competitiveness and the creation of employment.

Daling pointed out that there was no precedent anywhere in the world for labour legislation which was more favourable to labour than the proposed bill.

"For labour to use mass action as an instrument for acquiring more rights is economic suicide."

Katz to tighten the belt on tax incentives

CT (BR) 30/6/95 (320)

BY MAGGIE ROWLEY
PROPERTY EDITOR

Tax incentives distorted the tax system and all 200 existing incentives were being reviewed, said Michael Katz, chairman of the Katz commission on taxation.

Katz was speaking at the annual conference of the South African Property Owners' Association. He said the commission believed that existing, as well as any future tax incentives, should only be permitted within the tax system if they complied with four criteria.

These were: they should advance an important state economic objective, the tax system should be the best means of achieving this objective, the cost benefit advantages should outweigh the disadvantages and it should not lead to large-scale avoidance

He said the commission had considered the possibility of introducing tax holidays to attract foreign investors.

The commission had found broad consensus among the local and foreign business representatives they had interviewed regarding pre-requisites for choosing a country in which to invest. Political stability, the absence of exchange controls and harmonious labour relations were among the most important considerations, he said.

The commission believed a holistic new tax structure should support the reconstruction and development programme, he said.

A SURVEY IN THE STAR, ARGUS, DAILY NEWS AND PRETORIA NEWS

RETIRING EARLY TO AVOID TAX

From September 1, the Receiver will close the loophole that allows individuals to manipulate their financial affairs and retirement date to minimise taxation on lump sum retirement benefits. **BRUCE CAMERON** of BUSINESS REPORT examines the issue.

ADVERTISING: PATSY ROBINSON

Claim of thousands retiring incorrect

Star 30/6/95 (320)

No one really knows how many people will be forced into early retirement as a result of changes in tax legislation on lump sum retirement benefits.

The SA Chamber of Business has predicted "thousands" of people could be affected and would retire early, with serious consequences for the economy.

Neither the Life Offices Association nor Trevor van Heerden, the Commissioner for Inland Revenue, believe it.

In an interview, Van Heerden said he did not believe a very large number would be affected. There were two reasons: "The current tax structure had already resulted in people planning their retirement around the end of February, at the end of the tax year.

"By retiring at the end of the tax year private sector employees would reduce their income for the following year when they received the lump sum payment – this being the reason for the changes in the taxing structure in the first place."

Van Heerden argued that most people planning to retire early in the current tax year would have done so in February and would not have suddenly been taken by surprise by the changes in the legislation. "The altered structure affected mainly people in the higher income bracket."

He said a lot of people seemed to think that the R120 000 initial rebate on lump sums had dropped away. This was not the case.

Van Heerden believes the few high-profile early retirements, like that of Western Province Rugby Union president Ronnie Masson, as the Sanlam general manger in charge of investments, had given the incorrect image of a large number of retirements.

The Life Offices Association, which supports the legislation, agrees with Van Heerden.

LOA chairman Gerhard van Niekerk wrote a letter to the parliamentary finance committee about the issue after concern was expressed at a committee hearing on the effect of the tax changes.

In his letter, he said the concern appeared to be that many people in skilled and leadership positions would be lost to the business community at a time when the economy needed to maintain the growth which had emerged over the last year, and when individuals with these traits would be sorely needed.

"While we are in agreement that the country can ill afford to lose such people, we do not believe the impact through retirements will be as great as envisaged," he said.

"Firstly, while many are undoubtedly considering their options at present, clearly not all those people will in fact retire.

"From among those who will retire, we believe a considerable number of them will remain involved in business through taking up other positions in an after-retirement capacity or through fulfilling consulting roles to provide support for businesses needing their skills.

"Many such businesses (needing consultants) are likely to be small businesses, so indirectly this could support the initiatives of the RDP in regard to small business development."

Van Niekerk also argued against delaying the change until after a holistic investigation (announced this month by Finance Minister Chris Liebenberg) had taken place, which would include the retirement lump sum taxing differences between the private sector and the public sector.

"A holistic review should not lead to a situation where tax, which should have been levied in respect of benefits arising from past tax exempt contributions, is not recovered."

Van Niekerk said in any case if the issue was deferred for another six months the same problem of people retiring early would occur. This would also lead to another unnecessary and counter-productive round of financial planning sessions by senior executives.

A case for taxing lump sum benefits in the public sector

The row over the tax law changes aimed at stopping people engineering their date of retirement to take advantage of lower tax rates goes back to 1961.

It was in 1961 when the Commissioner for Inland Revenue first introduced the principle of taxing retirement lump sums.

There were goods reasons for the move, says current Commissioner Trevor van Heerden. "Increasingly people were taking a greater and greater portion of their pension payouts as lump sums. It was a form of tax avoidance."

And it was all happening in the private sector.

Van Heerden said because the shift from monthly pension to lump sums was taking place only in the private sector, the tax was not applied to the public sector retirement funds.

He accepted that there is a moral argument now for the taxation of public sector funds, but this was hardly likely to add anything to the public coffers.

"State employees will fight like hell to ensure that anything they lose in tax is made up in higher payments."

Change aimed at curbing two tax dodging schemes

Every year in February, before the start of the new tax year on March 1, the number of people taking retirement would hit high levels. The reason was not to take advantage of the late summer days, but to reduce taxation on lump sums payments.

The tax authorities did not like being diddled out of what it felt was its fair share of money as no tax had been paid on the money in the first place because money contributed to a retirement fund is deducted from taxable income. The tax on this portion is only paid after retirement.

The Commissioner of Inland Revenue has tabled an explanatory memorandum in Parliament to explain why and how this, and another method, of reducing tax liability on lump sum retirement benefits will be outlawed from September 1.

In the memorandum it is stated that various provisions of existing tax legislation acknowledge that a person's taxable income for a year may consist of "regular" recurrent income, such as a salary and business income, and "irregular" non-recurrent income, such as lump sum payments on termination of service, excessive farming profits derived in certain circumstances and special pay derived by mine proto-teams.

These irregular payments are given special taxation treatment in that they do not increase the taxpayer's "marginal" tax rate but are instead taxed at the "average" rate of tax, which is applicable to regular income.

To explain what is meant in the memorandum: Two different rates apply in paying income tax. The marginal tax rate is higher than the average rate because of the progressive form of income tax. This means that the more a person earns, the more they pay, but each step up the grades is blocked off.

Calculation

In simple terms the method of calculation of the marginal rate is: If someone earned R1 000 a month and the first step or grade of tax was 10%, they would pay R100 in tax on the amount. If the salary went up to R2 000 and the rate on second R1 000 earned increased to 20%, the person would pay R300 a month in tax – that is R100 on the first R1 000 and R200 on the second R1 000.

This progressive rate means no one can earn less by advancing into a new grade (The claim is often made that salary increases can be more than absorbed by tax but this is totally untrue.)

To calculate the average tax rate in this hypothetical example, take the total salary and the total tax paid and establish the average (R300 divided by R2 000 multiplied by 100 equals 15%). So if the person retired and received a R100 000 lump sum payment they would only pay 15% or R150 000 and not the higher 20% marginal rate. (These figures do not reflect the actual tax scales or rebates that apply but are used to simplify what can be a series of very complex calculations,

Until the change takes effect in September, it will be possible to reduce the rate of taxation on lump sum payments to the actual minimum average rate of 17% in the tax year of retirement.

The explanatory memorandum continues to say the changes to the taxation on lump sums is aimed at curbing various schemes by which taxpayers "artificially for tax purposes, reduced their regular income in a year in which irregular amounts were received".

Schemes

The first scheme involves making a single-premium contribution to a retirement fund equal to 15% of the taxable amount of a lump sum payment (the total less the first R120 000 which is tax free) received on termination of service. The deduction could easily reduce the taxable portion of regular income to zero, with the result that "wealthy taxpayers were able to contrive a minimum tax rate of 17% on pension or provident fund retirement benefits in excess of R1 million".

The tax changes will affect the calculation of a taxpayer's average rate of tax applicable on regular income by including only the percentage of the retirement annuity fund contributions that would have been permitted if an irregular payment had not been received.

The amendment to the tax legislation does not place any restriction on the amount of the retirement annuity fund contributions which may actually be allowed as a deduction in determining taxable income. It restricts only the use of such contributions to reduce the rate of tax payable.

The second method used to reduce the tax rate on lump sum payments was to arrange to have little or no regular income in the year of retirement by arranging to postpone a pension until the next tax year to reduce the average rate of tax to the minimum.

The amendment in the legislation provides that the average tax rate levied will be the higher of the rates for the current year and the preceding year.

Commissions will probe range of pension taxation issues

The changes in the taxation of private sector lump sum retirement benefits are only one of a number of pension taxation issues. A number of others are under investigation by the Katz commission of inquiry into the tax system and the Smith committee of inquiry into retirement provision.

One of the more controversial interim recommendations of the Katz commission was to cap claims for rebates on retirement contributions at R9 000 a year for employees and R18 000 a year for employers.

The proposal would affect people earning more than R10 000 a month and would net an estimated R200 million a year in additional taxes for government.

The recommendation sent the pension industry into a tizz, with warnings that millions of rand would be withdrawn or no longer invested in the retirement industry, undermining the country's already fragile savings base.

In the wake of the dire warnings of the industry, Finance Minister Chris Liebenberg held back on the issue in his Budget in April. But he warned that though several of the commission's recommendations were not included in the Budget, it did not mean they had been discarded.

However, apart from the taxation changes on private sector lump sum benefits, no other changes would be implemented until further work had been done, he said.

Other issues to be considered by the two commissions include:

- The deductibility of employer and employee contributions.
- The taxation of funds.
- The taxation of payments from funds.
- Tax neutrality between private sector and civil service pension contributions, with the civil service being excluded from taxation on lump sum benefits.
- Neutrality in taxing of defined benefit and defined contribution funds which have different tax regulations.
- The principle of tax penalties to prevent people, on resigning or retrenchment, from withdrawing their accumulated pension benefits to use for non-pension benefits.

Bringing the 'unofficial economy' into the system

CT(MR) 6/7/95 (320)

TAXING QUESTIONS

BY MATSHERU MATSHERU

VAT, especially, is in need of reform if tax is to be effective

Eavesdropping on ordinary day-to-day conversations, it becomes clear that our tax system is in need of urgent and effective reform to make it as strong and firm as possible, let alone rational and efficient.

Prof Barry Spitz, a senior consultant at the International Law and Tax Institute, is an astute observer who has raised a number of concerns about our tax system.

One of them is that the current VAT collection system blankets the entire population, casting the heaviest burden in real terms on the poor, since VAT applies to many vital necessities.

In South Africa, for the last ten years or so, a large percentage of our population has been engaging in what we can term "unofficial economy".

There is nothing immoral about the unofficial economy. The fault lies with a tax system that has failed to keep up with social development.

Public revenue must be protected. And in order not to have an increasing portion of the population making its livelihood on the wrong side of the law, the law must be changed. This is where the emphasis on VAT as a reliable tool of revenue collection becomes relevant.

There is no intention on the part of the VAT system to throttle the poor to death. But we have to move with the times and also be realistic.

Over the years, income tax has been a reliable instrument of raising revenue.

Yet today income tax is handicapped, being unable to fill the state's tax baskets. In fact, if the income tax regime were to be given a "physical", we'd find the lungs burned, the skin scorched, the tissues poisoned and the vital fluids drying up.

In contrast to VAT, income tax can easily be manipulated. The progressive nature of income tax (the more you earn, the more tax bites) detracts from the work ethic and undermines productivity.

Income tax is unpopular. But it is particularly unpopular in South Africa, where it forces people to spend their entire disposable income in order to survive; to acquire the basic essentials of life and educate their children.

As the system stands at present, it is nothing less than pickpocketing those who engage in any legal form of economic activity.

Squeeze

It is therefore surprising that so large a number still insists that the emphasis should be on income tax to squeeze the goose that lays the golden eggs. The advocates of direct tax to finance state expenditure have taken a fiscal road peppered with potholes. They suffer from fiscal [illegible]

When VAT was introduced, there was pressure from certain quarters for basic foodstuffs to be left outside the net. But there has been no visible economic gain for the poor from VAT exemption, other, perhaps, than a perception of political glory.

Yet the plight of the poor can be tackled outside the tax system, provided the government is competent and willing to do so.

Firstly, there must be a speedy curtailment of government fiscal extravagance. Less spending implies less taxing. This will enable people to get more after tax and give consumers more spending muscle. This, in turn, would act as a fillip to the economy.

The majority of small businesses are taxed as individual taxpayers and are being suffocated by the high maximum marginal rate of 45 percent. Lower tax rates will help them grow and take their rightful place as employment creators, thereby helping the poor.

Secondly, there must be earnest implementation of privatisation.

In the process, government will get its money back and have a functioning economy with fewer headaches and problems, along with a much larger tax base from a flourishing mix of businesses.

It is clear that what is "casting the heaviest burden on the poor" (to borrow Spitz's expression) is government's inability to come to terms with reality and adopt a sound economic and tax policy.

Our leaders are learning — from bitter experience — that jobs are not clay pots which can be mass produced.

So far, despite the high-powered and expensive tax commissions, the authorities have barely scratched the surface of tax reform.

Perhaps we should put an advertisement in the media for a government that will be able to deliver prosperity, which is sensitive to the tax system and the laws required to gear up for a strong and resilient economy.

☐ **Matsheru Matsheru is an Independent Tax Consultant.**

Latest Katz report aims to prevent SA becoming tax-free haven

CT(BR) 7/7/95 (320)

By Bruce Cameron
Political Editor

The Katz tax commission has issued an interim report — its second — to prevent South Africa becoming a virtual tax-free haven for foreign investors.

In the report, the commission said that with the removal of exchange control, foreign investors would be able to finance an investment mainly with borrowed money and little equity — a practice known as "thin capitalisation". Under current exchange control regulations, a shareholders' debt to equity ratio of 3:1 is required.

The commission has recommended the same ratio be applied by the tax authorities.

The commission said that with the current strong trend towards the relaxation of exchange controls, the position had become particularly urgent.

"If left unattended, a shift in exchange controls as regards transfer pricing and particularly thin capitalisation could result within a very short time in serious economic distortion." It warned that within months the country could develop a debt burden that would take years to clear, if existing investment was refinanced away from equity towards debt, and new foreign investment was heavily geared to gain tax advantages.

The commission has warned government to move quickly on the issue by amending the Income Tax Act, which would give inland revenue "the legislative armoury to counter price manipulation across borders, including excessive debt funding". A general legislative rather than a detailed codified approach should be taken, with the commissioner issuing a practice note giving guidelines.

Initially the restrictions would apply only to thin capitalisation in international transactions but should be extended to other forms of transfer pricing, which affect both domestic and international transactions. It could be defined as "the pricing of goods or services outside normal parameters to gain some tax advantage".

INCOME TAX (320)

More on transfer pricing

FM 7/7/95

New rules on transfer pricing and thin capitalisation are vague and discretionary, says Ernst & Young tax partner Ray Eskinazi. And, though the Katz Commission recommended the UK rules as the model for SA, the recently amended Section 31 of the Income Tax Act has a wider scope than its UK counterpart.

A transfer price applies to a transaction between two parties which do not negotiate at arm's length, for instance, between a parent and subsidiary companies.

Thin capitalisation is the term used for the financing of a subsidiary, mainly through loans from the parent, with a small or even nominal share capital.

UK rules apply to transactions in one direction only; Revenue is allowed to make an adjustment only if it will lead to an increased taxable profit or reduced taxable loss. In SA, adjustments can be made to all international transactions, between so-called connected parties.

As an adjustment which allows a taxpayer to pay less tax is clearly not in the interests of Revenue, the real purpose of the amendment must be to reinforce exchange controls. By assuming power over transactions intended to avoid exchange controls, through transfer price manipulation, it reduces the scope for both residents and nonresidents to expatriate funds.

But the Reserve Bank has its own set of guidelines on export of capital and the amendment seems to give Revenue the right to set its own (competing) guidelines. This could be a recipe for confusion.

UK legislation refers only to property transactions while the SA Act includes the sale of goods or services. This means more administrative work for SA companies, which will have to keep detailed records covering a far wider range of transactions than in the UK, to ward off any possible attack by Revenue on a transfer price.

The negotiation process with Revenue, about the adjustment of transfer pricing, will be more extensive than in the UK, as it would include some forms of service agreement — such as the performance of work and insurance — which do not fall within the UK rules.

The extension is important in the SA context. For example, local subsidiaries of overseas companies frequently agree to pay them management fees, which then become an important means for expatriating profits. Revenue will now be able to attack the deductibility of the payment by the subsidiary.

The Katz recommendation that SA introduce an "advance pricing agreement" — a right for companies to get a ruling from Revenue on the reasonableness of a proposed transfer pricing agreement. But there is no provision for this in the amending legislation.

So much for transfer pricing.

The SA Act also says the transfer pricing provisions relate to thin capitalisation. This is achieved by including the grant of loans in the definition of financial assistance. The Commissioner has the power to adjust, to an arm's length rate, the interest charged on a loan between connected persons, as well as the amount of the loan.

Eskinazi finds it extraordinary that the Commissioner is given the discretion to determine whether the amount of debt is excessive in relation to equity capital. Katz recommended a ceiling of 5:1 for the debt-equity ratio.

There is no indication whether existing investments, which do not comply with the proposed ratios (whatever they may turn out to be), will be affected. Presumably, in the absence of any exempting proviso, the Commissioner can disallow as tax deductible interest payments and require the imposition of secondary tax.

The SA Act applies the new rules to international transactions between connected persons (as defined in the Act).

This would include transactions between individuals, trusts and trust beneficiaries, as well as those between companies or partnerships.

The UK requires only that one party — either the buyer or the seller — must be either a company or a partnership.

The UK rules include detailed guidance on the administrative procedures to be followed by Inland Revenue when seeking to apply the transfer pricing rules. SA Revenue has an unfettered discretion, limited only by the general procedures, in the Act, governing objection to and appeal against assessments.

This difference of scope suggests again that the new Section 31 is directed as much against clever procedures by SA residents to outwit exchange controls as against transfer pricing or thin capitalisation. ■

South Africa could learn from Chile's tax policy, says report

ETCBR)12/7/95 (320)

BY SUDARSAN RAGHAVAN

SPECIAL WRITER

Chile is in. Asian "Tigers" are out. At least according to Keith Lockwood, a South African Chamber of Business economist.

In the latest issue of Productivity SA, Lockwood argues that South Africa should look to Chile rather than Asia for guidance — particularly in the area of tax policy.

"The way that Chile addressed this problem could be of particular relevance to South Africa — especially since there is perhaps a general view here, as in Chile, that foreign investors should not be unduly favoured over local ones," he writes.

Chile's solution was to give foreign investors a choice: select between a fixed tax scheme or the prevailing one.

The fixed route entails a 10 to 20 year commitment —depending on the amount invested — at a rate not of 35 percent but of 42 percent.

The investor can switch to the prevailing basis at any stage. But if they do so, they may not switch back to the fixed plan if the prevailing one becomes less favourable. This allows foreign investors "absolute certainty" when they sink money into a nation. At the same time it allows them to choose taxation on a more favourable basis, once they have gained some confidence and experience in the market.

Chile, Lockwood points out, has done extremely well for itself with this approach. Billions of US dollars have flowed into the country so far. It has posted good economic growth rates and addressed several tough developmental challenges. Many, however, would argue that this is too simplified. Lockwood disagrees.

"It needs to be a key aspect of any strategy to increase long-term capital flows into the country — particularly when the government is new and still has to establish a track record and gain the trust of the international investment community."

)RUM

Stop the leaks in the tax basket

(320) CT (MR) 13/7/95

TAXING QUESTIONS

BY MATSHERU MATSHERU

Taxpayers, being milked like cows, have thrown tax morality to the jackals

The Katz commission's first interim report on tax reform made a number of recommendations as to how the operation of the tax system could be improved.

One important recommendation was that there was an urgent need to repair the leaking collector's baskets. According to Henri Kluever, the auditor-general, about R8 billion in tax was lying uncollected.

South Africans who had the interests of the country at heart would not condone so appalling a situation. And they should not be blamed when they directed the following questions to Inland Revenue:

☐ Are you inefficient?

☐ Are you reluctant to tread upon toes?

☐ Have you been ordered not to collect tax from certain people?

☐ Do you believe that the International Monetary Fund or World Bank will bail you out every time the country is in the red?

But the mind-boggling issue of tax collection does not only concern Inland Revenue. We are all involved — directly or indirectly.

For a start, the Katz report revealed that only two-thirds of the working population paid tax. Millions of others escaped the finance minister's tax tomahawk. A situation where some pay tax and others not distorts the tax system. Tax must be applied with the unbiased eye of a priest.

Second, the tax rate was high, discouraging honesty. Taxpayers felt they were being taxed as if the nation's leaders were milking cows. Tax morality had accordingly gone to the jackals.

Third, there existed an unacceptable greed on the part of some taxpayers not to contribute to the cost of running the state, no matter whether the tax rates were high or low.

Fourth, Inland Revenue should improve its tax collecting approach.

The following guidelines are recommended:

☐ Taxes must be collected within the confines of the law;

☐ Public confidence in the integrity of the tax system must be maintained. Inland Revenue must be professional, fair, uniform, impartial and efficient; and

☐ Voluntary compliance must be encouraged by deterring tax avoidance and tax evasion through taxpayer education.

Tax education was paramount to create an understanding among all South Africans as to how the economic system operated. Failure to consider tax education may confirm the view that African governments were not entirely happy with an electorate that was literate and independent in its analysis of economic issues.

Also, it has been the tradition of South African finance ministers to roar like lions in parliament as they promised to bring all the people into the net and stop tax evasion.

Their failure to translate their pronouncements into concrete actions had been evident in tax evaders continuing unhindered. The promise by Chris Liebenberg, the minister of finance, to put his foot down against irresponsible taxpayers was welcome.

Another disturbing issue was that we had the temerity to call ourselves a people-orientated society. Yet a snap survey revealed that most South Africans don't know the name of the commissioner for Inland Revenue.

The king-size problem of tax collection dictates that energy, time and money should not be spent in trying to introduce new taxes or raising tax rates. This would not save us from our present fiscal cul de sac. Energy should rather be employed to devise effective strategies with which to fill our tax baskets.

Our leaders should get their priorities right lest their behaviour created a perception that blunders were coming to roost. And they were not elected to blunder.

In his book Public Finance in Developing Countries, AR Prest writes: "No income tax system can work effectively unless there is a situation of mutual respect between taxpayers and tax officials".

Such mutual respect does not exist in South Africa — or does it?

Matsheru Matsheru is an independent tax consultant.

Tax law needs an entirely fresh approach

(320)

LINDSAY MADDEN BD 14/7/95

"Wholes are not mere artificial constructions of thought; they point to something real in the universe, and Holism is a real operative factor, a vera causa." — Holism and Evolution, Gen Rt Hon JC Smuts

A PUBLIC invitation was extended recently by the Katz commission for submissions on the "holistic review" of SA's tax system.

Our country has a new political order and a new legal order. But it still functions under the Income Tax Act of 1962 and the Companies Act of 1973. Small wonder that the business order has not changed.

We talk about wider business ownership and turning the informal sector into the formal sector. But the rules of the game still point in the opposite direction.

Have we the right to be disappointed if once more we entrust this review to technocrats?

If we asked our mechanics to design us new cars, the chances are that we would still be driving around in Model T Fords, albeit heavily modified and well maintained. Why then are we disappointed with our tax system?

The Margo commission took several years and few of its recommendations were adopted. The interim report of the Katz commission took far less time, but met with more direct resistance in some areas. No one would dare call its proposals holistic, at this stage.

Income tax consultants unashamedly look forward to amendments to the Income Tax Act so that new holes can be found in them. Is this what holism means to some? Now the same technocrats are asking for another chance. We owe it to our country to take a fresh look, with fresh people.

Jan Smuts, a man whose interests spanned many disciplines, noted that holism was not an artificial construction but was rooted in reality. Holism is not the terrain of lawyers, but of social engineers — lawyers should be their draftsmen. Have we perhaps appointed draftsmen as our engineers?

British jurist Lord Denning described English Law as suffering from "a wealth of detail but a dearth of principle".

He could have been talking about our Income Tax Act. How else can one describe an Act which is silent on its most fundamental principle, giving no certainty on what is capital and what is revenue?

If we are to design a tax system holistically, then we should start by agreeing on what tax is. In reality, it is a system for redistributing resources in accordance with the wishes of goverment.

It has no inherent moral content nor any principled origins.

Good law should be understandable by the people it regulates, and it should bring some certainty. To achieve this, one must begin by agreeing on some principles of design. Once this is done, lawyers with the necessary technical expertise can draft clear legislation to give effect to the principles.

In the right hands, a holistic review of the Income Tax could produce some fundamental changes. What could we expect?

First, we could expect notice that the Income Tax Act will be repealed in its entirety.

KATZ

Second, the new Act should clearly state its social purpose and the principles on which tax legislation is to be based. If we are aiming for a stable, educated middle class, then it should say so, and its success measured against it.

Third, the Act should be written in plain language and understandable to all. (In Australia, the Plain English Campaign cut one of the most complex pieces of tax legislation to 30% of its previous size, with no loss of meaning. It proved that the bureaucrats administering the law did not understand it.)

Fourth, the Act should separate tax classes into three and specify a tax rate for each class. (Most of us can only keep three items in mind at one time — high, middle and low.)

Fifth, the Katz commission suggests that increasing use be made of tax numbers in dealings with the state. With respect, this misses the point. Rather do away with the multiple income tax, RSC levy and VAT numbers and use ID numbers or company/cc numbers, which are already unique. Bureaucracy thrives on duplication and spurious complexity. People can live and die without applying for a tax number. This is the problem.

Sixth, link the receipt of social benefits to participation in the system. The real difference between the formal and informal sectors lies not in size or profitability, but in participation in the fiscal system. Why try to persuade people to pay rent and taxes when they are enjoying the benefits without paying? A holistic approach should link the two.

Seventh, drastically reduce the number of internal revenue employees, both in quantity and qualification. Technocrats design systems of increasing complexity which require bureaucracies to run them. Simpler systems require fewer and less qualified staff.

Eighth, replace the tax collection system with self-assessment and random five-yearly auditing of everyone. Punish offenders publicly. This may improve our moral fibre.

Ninth, recognise the inefficiency of bureaucracies in collecting tax and redistributing funds. Rather return people their civic pride by giving them some control over directing their payments.

Make matched contributions to high priority causes. We might pay tax more willingly if we could point to a house it had built.

Tenth, those who want special treatment should draft their own legislation on one page and submit it for approval. This should lighten the administrative burden and also ensure that users understand their own law.

Eleventh, where taxpayers receive special deductions, allowances or public funds, then the receipts and their tax returns should be a matter of public record.

We have a right to know who is getting special treatment.

Finally, list the other Acts which should be changed to integrate with this holistic approach (for instance, the share incentive scheme sections of the Companies Act) so they can be thrown open to public debate.

Commissions have no monopoly on ideas.

Our tax system was last reformed in the year after we became a republic. Thirty-three years of faithful maintenance have kept it running, but at the price of increasing complexity. What we need now is simply people of holistic vision. Let them come forward.

□ **Madden is Mallinicks Attorneys GM.**

'We won't pay tax debt'

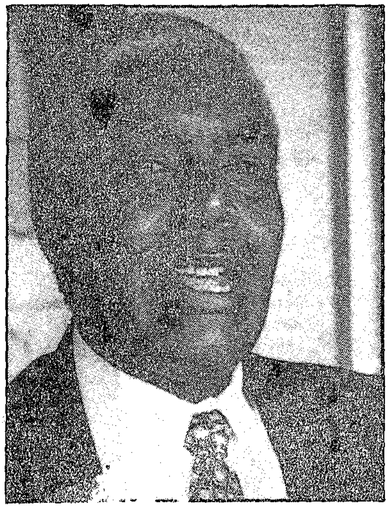
By JEFFERSON LENGANE

FAILURE by black business people to pay taxes during the apartheid era was part of a strategy to support former liberation movements, National African Federated Chamber of Commerce and Industry (Nafcoc) president Joe Hlongwane said this week.

Hlongwane was speaking at a press conference in Johannesburg to brief journalists on the organisation's 31st annual conference, to be held from July 23 to July 26, under the name "United and integrated business strategies: Challenges and opportunities in a democratic South Africa".

He said: "The government knows what we mean when we talk of tax indemnity.

The fact that black business owes lots of money in taxes does not only arise from their exclusion from the tax system by the former regime, but also from the fact that black business could not be expected to polish the fetters of former oppressors through payment of taxes. It was a support strategy for former liberation movements.



WHY [illegible] Nafcoc president Joe Hlongwane thinks back taxes are unfair.

(320) CP 16/7/95

"Now that the strategy has worked, black business is expected to pay back taxes owing to the past regime as a result of this support strategy. This is unacceptable. The question to be asked is: what wrong has the black businessman done to the GNU from a tax perspective?"

He attacked the GNU for distancing itself from black business and showing a "leaning towards" white big business conglomerates.

"In 1948 the Afrikaners empowered their people and we are saying our government must begin to empower black business," he said.

Defending Nafcoc's maintainance of a black character in a non-racial democratic South Africa, Hlongwane said: "Here we are discussing issues of empowering people. We are dealing with people who have endured economic abandonment for the past 350 years."

He dispelled as a myth that calling their business document a "business manifesto" meant Nafcoc was socialist. He said that they could not call it a charter because a charter represents a set of human rights demands. A manifesto deals with issues of government and the corporate world.

Former Tanzanian president Julius Nyerere will address the conference on the subject "Where did Africa go wrong?", and a Malaysian representative will talk on the Malaysian experience of empowerment of the native Malay population.

Other scheduled speakers include Deputy President Thabo Mbeki, Minister of Trade and Industry Trevor Manuel, Minister of Public Works Jeff Radebe, Minister of Public Enterprises Stella Sigcau, North West Premier Popo Molefe and Cosatu president John Gomomo.

Over 1 000 Nafcoc members are expected to attend.

ET (PTR) 19/7/95

Corporate tax lessons from abroad (320) suggest a way forward for South Africa

By Sudarsan Raghavan

Special Writer

A 300-page report on corporate taxation by the South African Chamber of Business argues that South Africa can learn many lessons from other nations — particularly in the realm of tax incentives.

"What Sacob is trying to achieve is to learn from the successes of these countries and to learn from their failures," said Ernest J P Lai King, a group tax consultant with Sentrachem who worked closely on the report.

In all, six countries were scrutinised from various angles — Indonesia, Malaysia, Singapore, Chile, Zimbabwe, and Hungary. All but Hungary were visited by TJ Steenekamp, a professor of economics at Unisa, who was commissioned to write the report.

With the exception of Zimbabwe, South Africa lagged behind the other nations from an economic standpoint.

The report posed a central and critical question: "What is the level of taxes the economy can bear, which is not punitive and uncompetitive so as to constrain investment, but is still able to raise the finance to fund increased social expenditure?"

Like several other independent studies, the Sacob study found that nominal corporate tax rates around the world had fallen since 1980 while South Africa reflected a rise in the corporate rate.

The average nominal global tax rate for companies in 1993 was 40 percent compared to 45,8 percent in 1980. South Africa's was 47,8 in 1993 — higher than all its major trading partners.

Of the nations surveyed, South Africa had the highest nominal corporate tax rate for local shareholders and the second highest, after Hungary, for foreign shareholders. Its maximum marginal personal rate also topped the list.

Incentives

At the same time, South Africa offers no tax-based incentives, which creates a predicament that could throw many a policy maker into an analytical conundrum in coming months: should the nation broaden the tax base and lower corporate nominal rates? Or should high corporate rates be kept and incentives be placed on the table?

"We've ended up with the worst of both worlds," said Ian MacKenzie, chairman of Sacob's tax committee.

Solving what could become an economically emasculating puzzle is one reason to look at the experience of these countries.

Tax incentives are used in most nations to attract investment to certain regions, sectors, and industries as well as to promote exports, create employment, and engender technological transfers and skills development.

"It's very effective as a signaling tool that you're open for business," said Lai King.

While in Zimbabwe, Indonesia, and Chile tax incentives were scrapped and tax rates were brought down, East Asian nations such as Singapore and Malaysia have put in place the other extreme: a wide menu of incentives as well as low tax rates.

Indonesia, for example, got rid of all income tax-based incentives in 1983 and slashed its corporate rate to 30 percent.

The result? Both foreign and domestic investment has soared since 1986, the report noted.

Malaysia has a full imputation scheme and taxes companies at a rate of 30 percent, giving generous tax incentives for investors. Between 1988 and 1994, it posted GDP growth rates between 7,8 percent and 9,7 percent.

Interestingly, after investment surged in the mid-1980s and early 1990s, the Malaysian government made incentives more selective and focused them on promoting research and development, upgrading skills, and pushing exports of manufactured goods, according to the report.

Since the late 1980s, Hungary has experienced tumbling growth rates. In an effort to stem the slide, the government installed a number of incentives to attract foreign investment and cut corporate rates from 40 percent to 36 percent. The nation is slowly but surely catching the eye of many influential investors such as its native son, zillionaire trader George Soros.

In Chile, relatively few tax incentives are offered for direct investment. The report found that investors preferred stability over anything else as long as tax rates were "reasonably competitive and reward investment and savings".

Rival

Closer to home, Zimbabwe could become a serious rival for foreign investment, the report noted. Its tax rate for non-residents of 37,5 percent was lower than South Africa's 48 percent; it had progressed in promoting education, while enjoying a stable work force and a natural resource base.

When it came to putting in place incentives, a "lead can be taken from Singapore", according to the report.

Singapore's income tax-based incentives are never used on their own. Rather, they have been used selectively and are used mainly to promote export-oriented projects. As market reflectors change, so should the focus of the incentives.

Options

With all these diverse choices, which way should South Africa go?

The report argued that any meaningful tax reform should be spurred by "successful government intervention" and said that state spending should be brought under control.

Reforms could take the route of Indonesia or Chile where "tax neutrality, greater tax collection efficiency, tax stability, and competitive low personal and corporate rates boosted investment and savings," the report noted.

Or the reforms could follow Malaysia and Singapore's models, laced with "carefully targeted tax incentives".

In its recommendations to the Katz commission released on Monday, Sacob called for the adoption of a single low corporate tax without exemptions, but suggested a number of selective tax-based incentives for reconstruction and development related projects.

Some tax experts expressed approval of Sacob's tax incentive proposals.

"It seems to me that they're striking the right chords," said Marius van Blerck, a tax consultant for Anglo-American. "There is scope for limited incentives."

Others, however, disagreed.

"Incentives lead to all kinds of loopholes and distortions," argued Tony Davey, a tax lawyer.

In this respect, Singapore provided another important lesson, the report noted. The nation's Big Brother bureaucracy effectively controls and monitors an "uncorrupt" tax system.

Some feel that South Africa has yet to reach that level.

"One of the primary requirements for incentives to work must be an efficient tax collection system," said MacKenzie. "We're not in favour of (unlimited) incentives because of the potential for abuse."

Nominal corporate tax and maximum marginal personal income tax rates for selected countries (in percent)

	For local shareholders	For foreign shareholders*	maximum marginal personal rate
Chile	15	35	45
Hungary	36	48,8	44
Indonesia	30	44	30
Malaysia (normal)	30	30	32
Singapore (normal)	27	27	30
Zimbabwe	37,5	50	40
South Africa			
1994/95	48 +	55,8	43
1995/96	48	48	45

* Rate for foreign shareholders is obtained by including witholding tax on dividends paid to non-residents

\+ (35% plus 25% STC but excluding the transition levy)

Trends in nominal tax rates: South Africa and major trading partners

	1980	Percent 1990	1993
NOMINAL TAX RATE AVERAGES - 40 COUNTRIES			
Companies	45,8	40,4	40,0
Individuals (maximum)	62,7	47,8	45,0
COMPANY TAX RATES: SA & MAJOR TRADING PARTNERS			
South Africa	42,0	50,0	47,8
Belgium	48,0	43,0	40,2
France	50,0	42,2	33,3
Germany	46,9	46,9	41,9
Japan	47,9	45,8	46,6
Netherlands	48,0	35,0	35,0
Switzerland	30,0	30,0	30,0
Taiwan	35,0	25,0	25,0
United Kingdom	52,0	35,0	33,0
United States	51,4	40,6	41,5
INDIVIDUAL TAX RATES: SA & MAJOR TRADING PARTNERS			
South Africa	50,0	45,0	43,0
Belgium	75,8	59,4	61,1
France	60,0	56,8	56,8
Germany	56,0	56,0	53,0
Japan	80,0	65,0	65,0
Netherlands	72,0	72,0	60,0
Switzerland	30,0	30,0	30,0
Taiwan	60,0	40,0	40,0
United Kingdom	60,0	40,0	40,0
United States	73,0	35,2	37,9

Distributed earnings - includes surtaxes, provincial & local taxes

SOURCE: MC Van BLERCK - IMF AND MISCELLANEOUS SOURCES

Company tax is a major issue for investors — Sacob

(320)

By Mzimkulu Malunga

THE South African Chamber of Business says it rejects the notion that investors do not consider a country's company tax rate when they evaluate prospects for investment. Sowetan 20/7/95

While it is true that tax is not the first thing investors consider when making an investment decision, once they invest tax becomes one of the major issues, says Sacob tax committee chairman Ian McKenzie.

He made these comments this week as the organisation released its study on company tax and taxation in general.

On company tax, Sacob advocates possible options: One is a cut in company tax that should be accompanied by the scrapping of all tax incentives given to companies.

The other option, which the organisation says should be a temporary measure, is to leave the tax rate high and come up with incentives that will encourage investment and are RDP friendly.

While Sacob's position has always been that the tax rate is too high and should be reduced, the organisation is aware that it is not going to be easy for the Government to reduce company tax in the next few years, hence the need for incentives.

McKenzie emphasises that when the whole issue of company tax is looked at, it should be scrutinised in the context of the country's broader taxation system.

No form of taxation should be looked at in isolation, says Ian McKenzie.

"No form of tax should be addressed in isolation," he says.

Things like import duties, fuel levy, Value Added Tax and other forms of indirect tax should be taken into consideration when the issue of company tax is addressed, he argues.

He re-emphasises Sacob's long standing opposition to issues such as wealth tax, land tax and tax on dividends.

Sacob would also like to see the excise taxes being scrapped and perhaps replaced with a hike in VAT rate.

The bottom line in the whole issue of tax is containing government expenditure because without putting spending under control there is no way the tax burden can decrease, he says.

COMPANY TAX

(320)
FM 21/7/95

Too great a burden

Our tax system should encourage investment but otherwise be as neutral as possible

SA's corporate tax rates are too high by world standards to be attractive to foreign investment, and recent changes have made things worse rather than better. We need a simple system with a lower, single rate and no exemptions. That, in a nutshell, is Sacob's response to the Katz Commission's request for its input on corporate and related tax matters.

Of course, no international tax comparison is ever quite as simple as that. Countries do not even all have the same definition of pre-tax profit, or of what costs can be offset against it. There can also be wide gaps between nominal and effective tax rates, a phenomenon well known in SA.

Sacob has obtained unpublished Department of Finance figures that the effective corporate tax rate here was 32,2% in 1990 and 35,0% in 1991. These confirm that the gap between the nominal and effective rates is narrowing.

Despite its imperfections, comparison of nominal tax rates remains a valid exercise. Capital — like people — is internationally mobile, and nominal tax rates are one factor that determines where it locates itself.

Sacob therefore commissioned Unisa's Prof Tjaart Steenekamp to do an intercountry study, focusing on six developing countries: three in fast-growing Southeast Asia; Chile and Hungary as ex-socialist economies; and Zimbabwe, partly because it is our closest neighbour and partly as an example of what not to do — it is the only one of the six whose economy has underperformed ours in recent years.

The fact that other developing countries could do better than us, even in an adverse world environment, suggests that we have not been making the best use of our resources. The argument, broadly, is that economic growth depends on capital investment. Developing countries are capital importers, and though tax is less important than the business and political environment in attracting foreign capital, if the other factors are favourable the tax structure is important in determining questions like timing or method of financing.

Nominal corporate tax rates in capital exporting countries seem to average around 39%; in capital importing countries, around 33%. SA's rates would be high even for a capital exporter.

As Sacob director of economic policy Ben van Rensburg pointed out at a media briefing, tax is one of the few direct measures at government's disposal to foster investment; an investment-friendly policy is an effective come-on to foreign investors.

This is where SA has gone wrong. By comparison with our major trading partners, we are the only one whose nominal company tax rate is higher now than it was in 1980. And though the corporate tax burden has fallen as a percentage of GDP, this reflects a fall in the contribution of the mining sector; the nonmining sector (which is what's trying to attract foreign investment) is contributing a virtually unchanged percentage of GDP.

The paradox is that, despite this, direct company tax is not an excessive proportion of total tax revenue. Of Steenekamp's six countries, only in Hungary is corporate tax a significantly lower proportion of total tax revenue; in Southeast Asia, it was much higher. Our big problem is personal tax, at 34,3% of total tax revenue; other than Zimbabwe (hardly a model), the highest personal tax burden in the Steenekamp countries is in Malaysia, a mere 14,4%.

The converse of this excessive reliance on personal tax is that indirect taxes — especially customs (import) and excise — are a subnormal contributor. Low excise duties reflect the historic political strength of the tobacco and wine lobbies; given our high tariff protection, low revenue from import duties is more difficult to understand, and further research into this may be indicated.

Be that as it may, Steenekamp concludes that any easing of the overall tax burden should first be for the account of individuals, while corporate relief must be found in higher economic growth. He suggests higher excise duties as a possible source of relief — Sacob would prefer a higher Vat rate or broader Vat base.

Our whole tax system is unbalanced, so reforms must be not piecemeal, but holistic. While opening up the economy requires improved competitiveness and hence lower business costs — of which tax is one — the new democracy is putting pressure on government to provide more social services.

As Sacob tax committee chairman Ian Mackenzie elegantly put it: "Tax reform re-

FALLING CONTRIBUTION

Company taxes as % of GDP

	1982	1985	1990
Chile	2,1	2,3	2,2
Hungary	8,2	6,3	6,6
Indonesia	13,5	12,8	11,0
Malaysia	7,5	9,1	4,6
SA*	7,0	6,2	5,1
	(4,4)	(3,8)	(4,3)
Zimbabwe	5,7	7,8	5,0

* Figures in brackets exclude mining

SOURCE: IMF GOVERNMENT FINANCE STATISTICS YEARBOOK

SOAKING THE INDIVIDUAL

Who bears the tax burden

	Chile	Hungary	Indonesia	Malaysia	Singapore	SA	Zimbabwe
Tax year	1992	1990	1993	1993	1991	1990	1991
Tax level: Tax revenue as % of GDP							
	19,2	44,9	18,9	18,9	18,7	25,9	39,3
Tax composition: Tax types as % of total tax revenue							
Corporate	18,6	14,6	32,0	32,0	26,1	19,6	17,8
Individuals	3,5	6,5	10,3	10,3	14,4	34,3	29,7
Sales	44,3	16,8	11,9	11,9	-	26,2	29,0
Excise	10,2	11,6	12,0	12,0	6,0	4,5	8,5
Import (customs)	11,6	5,6	15,2	15,2	3,3	3,9	20,3
Direct taxes	30,6	56,0	44,0	44,0	50,9	58,1	49,3
Indirect taxes	69,4	44,0	56,0	56,0	49,1	41,9	50,7

SOURCE: IMF GOVERNMENT FINANCE STATISTICS YEARBOOK, 1993 (ALL FIGURES ARE PERCENTAGES) ally means cutting the overall tax burden" — but it's not clear that that's how government sees it.

Still, even on a more limited objective of making SA more attractive to foreign investment, recent reforms could be counterproductive. Sacob points out that the introduction of Secondary Tax on Companies (STC), and then the decision to scrap non-resident shareholders' tax (NRST), are wrong-headed. STC is a bad tax in principle, and hits foreign shareholders particularly hard, because they generally can't credit it against tax in their domestic jurisdictions. NRST, on the other hand, is often painless for foreign investors, because they can credit it against tax elsewhere.

The planned abolition of NRST, therefore, may not reduce the tax foreign investors pay; they may simply pay less here, and more at home. Steenekamp/Sacob call this "exporting the tax base," and it's an important general principle (which has probably not been sufficiently recognised) that tax concessions by SA are pointless if the corporate beneficiary picks up an offsetting tax bill abroad, so the real beneficiary is the

HOW THEY'RE CHANGING

Trends in nominal rates, SA and its major trading partners (%)

	1980	1990	1993
Nominal tax rate averages - 40 countries			
Companies	45,8	40,4	40,0
Individuals (max)	62,7	47,8	45,0
Company tax rates			
SA	**42,0**	**50,0**	**47,8**
Belgium	48,0	43,0	40,2
France	50,0	42,2	33,3
Germany	46,9	46,9	41,9
Japan	47,9	45,8	46,6
Netherlands	48,0	35,0	35,0
Switzerland	30,0	30,0	30,0
Taiwan	35,0	25,0	25,0
United Kingdom	52,0	35,0	33,0
United States	51,4	40,6	41,5
Individual tax rates			
SA	**50,0**	**45,0**	**43,0**
Belgium	75,8	59,4	61,1
France	60,0	56,8	56,8
Germany	56,0	56,0	53,0
Japan	80,0	65,0	65,0
Netherlands	72,0	72,0	60,0
Switzerland	30,0	30,0	30,0
Taiwan	60,0	40,0	40,0
United Kingdom	60,0	40,0	40,0
United States	73,0	35,2	37,9

SOURCE: MC VAN BLERCK - IMF AND MISCELLANEOUS

WHERE WE RATE

Nominal corporate and maximum marginal personal income tax rates (%)

	For local shareholders	For foreign shareholders*	Maximum marginal personal rate
Chile	15,0	35,0	45,0
Hungary	36,0	48,8	44,0
Indonesia	30,0	44,0	30,0
Malaysia	30,0	30,0	32,0
Singapore	27,0	27,0	30,0
Zimbabwe	37,5	50,0	40,0
SA			
1994-1995	**48,0****	**55,8**	**43,0**
1995-1996	**48,0**	**48,0**	**45,0**

* Including withholding tax on dividends
** 35% + 25% STC but excluding transition levy

SOURCE: SACOB

government of their home country. Tax "holidays" can also be an example of this.

Specifically, though, Sacob believes it would have been better to abolish STC rather than NRST, and if STC were scrapped an NRST could be reintroduced without jeopardising foreign investors. The complaint is heard that the cost to the fiscus of scrapping STC would be too great — Steenekamp calculates it would mean raising the nominal corporate tax rate by 4,6 percentage points. This would mean a nominal rate above the 40% Sacob considers the highest that's acceptable — and that only for a "reasonably short" time.

It would actually like to see government take a "leap of faith": scrap STC and cut the corporate rate to between 30%-35%, in the hope that this could encourage additional economic activity which could well increase the aggregate tax yield.

It may be because it realises this won't happen that Sacob devotes much attention to tax incentives, which are used in most developing countries to try to attract investment to particular regions, sectors and industries. They damage the purity and neutrality of the tax system, and countries like Indonesia and Chile have consciously moved away from them towards a broader tax base, but Singapore and Malaysia use them actively. While they normally go hand-in-hand with high basic rates, Singapore set a trend by simultaneously lowering tax rates.

Where they are used successfully, as in Singapore, they are:
- ❑ Never used on their own;
- ❑ Highly selective;
- ❑ Dynamic and flexible;
- ❑ Export-orientated; and
- ❑ Combined with a sound administration and monitoring.

Sacob would add that for local application they should relate to:
- ❑ Skills training;
- ❑ R&D activities;
- ❑ New technologies;
- ❑ Small and medium enterprises;
- ❑ Efforts to establish SA as a regional financial services centre; and
- ❑ Efforts to attract operational headquarters companies.

Most of these criteria are broadly compatible with the RDP.

If only for administrative reasons, a straightforward company tax as we had pre-STC is preferred to the more complicated imputation systems that apportion tax between the company and its shareholders.

On other matters, Sacob repeats the call for a more efficient tax administration — it says that, if anything, this is actually still deteriorating — and a simple, consistent and certain system. Significant tax reform can only come from a real reduction in government spending. New "small" taxes should be avoided, as should dedicated taxes (which undermine Budgetary and parliamentary control of spending and fiscal policy), and if they are necessary should be accompanied by a reduction in other tax rates so the overall burden is not increased.

Broadly, capital taxes should also be avoided. But user charges are acceptable, though they too should be accompanied by compensatory cuts in the overall tax burden equivalent to government's "saving."

The Sacob proposals are broadly in line with basic free market assumptions that investment is the flywheel of economic growth, and that a tax system should encourage investment but otherwise be as neutral as possible, both between local and foreign investors and between investment in different sectors. To that extent they must clearly be supported.

A higher nominal rate eroded by hosts of special incentives is clearly second best, and should therefore be opposed. But reading between the lines, Sacob clearly fears there'll be much pressure to adopt this option. And if that's the way we go, will it be for economic reasons or to promote authoritarian social engineering objectives?

The latter would be the worst outcome of all.

As Sacob points out, tax decisions are important not just in terms of raising revenue, but as signals of a government's attitude towards business. So changes in the corporate tax system — which could come as soon as next year's Budget — will be closely watched both at home and abroad as a key indicator of whether the supporters of free enterprise are still in the ascendancy in the Government of National Unity. ■

Business rejects dedicated taxes

WM (BM) 21-27/7/95 (320)

Reg Rumney

THE South African Chamber of Business (Sacob) has cautioned against bringing in "dedicated" taxes and levies such the one suggested to fund a new health system.

Opposition to such taxes is set out in the chamber's submission on corporate tax to the Katz Tax Commission, released this week.

"The whole rationale for dedicated taxes — as distinct from user charges — needs to be questioned," says Sacob.

Sacob argues a "health tax", for example, would not necessarily ensure any greater funding for health: other priorities might tempt the government to cut the "non-dedicated" budgetary allocations to that department.

"A plethora of dedicated taxes could therefore simply serve to undermine budgetary and parliamentary control over aspects of state expenditure and overall fiscal policy."

To be sure, Sacob's starting point is business needs rather than social priorities. And it makes a fine distinction between a health tax and a dedicated road fund, financed from a fuel levy. The chamber has long argued for a dedicated road fund.

Sacob's argument is that fuel consumption and road use are synonymous, so a road fund represents a "user charge".

The chamber's rejection of dedicated taxes is founded on a fundamental caution about considering any one tax in isolation.

Hence looking at the corporate tax rate, be it the "nominal" rate published by the authorities or the much lower "effective rate" the business sector pays on average, is only one part of the picture.

The business sector also has to pay, among others, taxes on dividends and Regional Services Council levies.

Sacob's contention that dedicated taxes be avoided is one of several recommendations that arise from the apparently well-researched document, which examines six countries' economic performances and tax regimes in detail, and other international corporate tax trends.

Concluding that the South African corporate tax rate is too high compared to those in successful countries, the Sacob study finds that:

- If Secondary Tax on Companies (STC) were scrapped, the average tax rate levied on corporate income would have to be raised 4,6 percentage points to compensate for revenue lost. The nominal corporate tax rate is now 35 percent, which is raised to 48 percent by STC.
- A single corporate tax rate of above 40 percent would be highly damaging to business and investor confidence. Even a return to 40 percent should be accompanied by a reduction to an internationally competitive level in a short while.
- Tax incentives or tax rates should not result in effective tax rates lower than those in countries whose companies are likely to invest here. Such rates merely export part of the South African tax base to a foreign country.
- Tax incentives come second to a single, low corporate tax rate without exemptions.
- In the absence of a low corporate tax rate, tax incentives can be used — but carefully and selectively.
- Lower tax rates and tax incentives alone will not attract investment. Unfavourable "environmental" factors will still discourage potential investors.

Among other recommendations are that tax administration be beefed up, as was proposed by the interim report of the Katz Commission, and that government spending be reduced, without which tax reform will remain mere tinkering.

How SA's tax rates shape up

Nominal corporate tax and maximum marginal personal income tax rates for selected countries

	For local shareholders	For foreign shareholders*	Maximum marginal personal rate
Chile	15	35	45
Hungary	36	48,8	44
Indonesia	30	44	30
Malaysia†	30	30	32
Singapore†	27	27	30
Zimbabwe	37,5	50	40
South Africa	48+	48	45

* The rate for foreign shareholders includes withholding tax on dividends paid to non-residents

\+ This figure, 35 percent plus 25 percent Secondary Tax on Companies, does not include the transition levy

† "Normal" rates

'Apartheid' tax amnesty until October

(320)

Political Correspondent

A ONCE-OFF tax amnesty, promulgated last week, will last until the end of October, Deputy Finance Minister Alec Erwin announced today. ARG 25/7/95

The amnesty is to encourage those who stayed out of the tax system during the apartheid era to come into the fold.

It covers any liability dating from before March last year for income tax, value-added tax, stamp duty, donations tax, non-resident shareholders tax and secondary tax on companies.

It applies to anyone not registered, or who had not applied to be registered, for those taxes by April 26 last year.

The Tax Amnesty Act contains special provisions for VAT, exempting people from penalties for previous non-payment provided they pay up during the amnesty period or within six months after it ends.

The amnesty will not apply to anyone under investigation by tax authorities before April 27 last year, provided they were aware of the investigation.

People who want amnesty will have to apply in writing during the amnesty period to the Receiver of Revenue or to the Tax Amnesty Office, P O Box 402, Pretoria. Application forms are available from revenue offices, the tax amnesty office and commercial banks.

For more information ring the toll-free inquiry number ☎ 0800 11 3930.

Scrap apartheid tax backlog, says Nafcoc

(320) CT (BR) 26/7/95

By Llewellyn Jones

Staff Writer

The National African Federated Chamber of Commerce and Industry has called on the government to provide indemnity to black-owned businesses for tax arrears accumulated during the apartheid era.

Speaking at Nafcoc's 31st annual conference at Sun City yesterday, Nafcoc president Joe Hlongwane said demands by the receiver of revenue for black business to pay tax debts could demolish black enterprise.

"Many black businesses will be destroyed and entrepreneurs bankrupted if government continues to collect taxes owed from before April 27 1994."

The reasons Nafcoc objected to paying taxes before that date was based on the principle of "no taxation without representation".

Hlongwane said the former regime did not provide equal education for black people, modern infrastructure for townships or opportunities for black business.

"Why are we now expected to pay retroactively into a tax system of a government we did not recognise?

"Those who abused human rights in the past are now being indemnified and I fully support the Truth and Reconciliation Bill.

"Equally, we need to write off tax offenses committed during the years of the struggle for liberation."

If this indemnity was granted, Hlongwane said Nafcoc would work closely with the government to ensure that tax and rental payments would be honoured.

"We look forward to implementing a comprehensive education campaign to instruct business people about the tax system and the need to become responsible citizens of South Africa."

He said the economic transformation to allow black empowerment was one of the most important challenges facing the government, big business, labour and all citizens.

To assist in this, he said Nafcoc not only had to succeed in creating an organisation which could effectively deliver services to its members and professionally represent the interests of black business locally and internationally but, more importantly, it also had to champion the cause of black economic empowerment.

Hlongwane also called on government to give safety and security priority: "Just when we are on the verge of obtaining substantial foreign direct investment, the criminal element in this country has begun to cast a shadow of negativity over South Africa. Reconstruction cannot occur while criminals are intent on destruction."

MARCH 1994

'Amnesty is first part of tax reform'

CT (PM) 26/7/95 (320)

From Reuter

South Africa's finance ministry launched a tax amnesty which, it said, was the beginning of reforms aimed at bringing more people into the tax net.

"In our opinion, this is a reasonable start to the reform of tax. It is a carefully crafted amnesty to get us off to a good start," Alec Erwin, the deputy finance minister, told reporters at the launch of the amnesty promulgated last week.

He said the amnesty, effective for companies and individuals not registered as taxpayers on April 26, last year, or whose whereabouts were unknown to the revenue authorities, was not aimed at immediately increasing revenue.

"Our aim is not suddenly to bring in increased revenue but to get the tax net stable with everyone in it. The future flow of tax is what we are interested in," said Erwin.

Those who wished to make use of the amnesty had until October 31 to apply but would be liable for all taxes due since March 1, last year.

The taxes covered include income tax, value added tax, non-resident shareholders' tax, secondary tax on companies, donations tax and stamp duty.

Trevor van Heerden, the commissioner for inland revenue, said studies of similar amnesties worldwide showed the local one was "one of the most advantageous ever produced — we are actually writing off taxes," he said.

But he would not speculate on the response it would elicit from tax dodgers or what it would add to the department of inland revenue's coffers. "If we knew how much we were not collecting we would go out and get it. I am very hopeful we will have a number of people coming forward."

He said 2 800 outlets would distribute 1,4 million amnesty applications, a toll-free telephone service would be established and advertisements would run in the media to lure delinquent taxpayers into the net.

"The message we would like to get across is: get to us before we get to you," said Van Heerden.

Erwin said it would be "very unwise" not to make use of the amnesty as the department of inland revenue was undergoing a "major reform".

Chris Liebenberg, the finance minister, said a team had visited several countries to investigate how best to revamp the department and was making recommendations. The initial report was "very impressive" and, when finalised, would be presented to cabinet.

It would be further discussed with the parliamentary standing committee on finance and the national economic development and labour council, and passed as legislation by February next year.

Tax net in for some mending

Inland Revenue and Customs and Excise are to be restructured before next year's Budget to make the agencies more effective and efficient in collecting tax.

This was disclosed by the Minister of Finance, Chris Liebenberg, in Pretoria yesterday. Liebenberg said the new structure would sell the concept of paying taxes in areas where no taxes were being paid.

He said an analysis of the agencies was being rewritten following visits to countries that had implemented tax enhancement processes.

Legislation should be passed by February. — Staff Writer

l group

WOODROOF

Tax evaders urged to use amnesty to turn themselves in

PRETORIA. — Finance Minister Chris Liebenberg called on people not paying tax to make use of the government's tax amnesty which came into effect last week and ends on October 31.

"Get to us before we get to you. Severe penalties will be imposed on those who fail to apply for amnesty," he told a Press briefing in Pretoria yesterday.

The reprieve was to encourage people not registered for tax on April 26 last year, or who were registered but untraceable, to come forward without fear of being penalised.

The Tax Amnesty Act which provides for the respite was promulgated on July 19.

Mr Liebenberg said the amnesty had benefits as well as disadvantages. The lesser of the evils was drawing the new and broader taxpayers' base into the tax net.

Deputy Finance Minister Alec Erwin said this was a "politically-charged" issue. One of the valid arguments in favour of an amnesty was that it had been justified not to pay tax under the previous government.

However, it was not possible to ascertain the motive of every individual for not paying tax. The government's aim was to set up a new tax dispensation where more people would pay tax.

"We had to accept that, in the previous dispensation, the facilities and the effort made to get tax from black persons were not as we would have liked in the current circumstances," Mr Erwin said. (320) ARG 26/7/95

"So our approach has been: let us try to start anew. Let us begin to establish a tax regime where everyone pays tax." — Sapa.

Liebenberg warns of tough steps

Campaign to pull dodgers into tax net

BD 26/7/95 (320)

Samantha Sharpe

THE inland revenue department hoped to draw recalcitrant taxpayers into the tax fold by printing 1,4-million amnesty application forms to launch its own version of the Masakhane campaign, commissioner Trevor van Heerden said yesterday.

But gentle persuasion would not last indefinitely and coercion would take over when the period for amnesty ran out at the end of October, he said.

Finance Minister Chris Liebenberg also warned tax dodgers yesterday that it would be extremely unwise to stay outside the tax net after the amnesty's expiry. "With the major reform process translating into a far greater chance of getting caught, it is a case of you getting to us before we get to you," he said.

Van Heerden said the amnesty application forms would be distributed through 2 800 outlets at commercial banks, magistrate's courts and the Receiver's offices.

The distribution would be accompanied by a massive advertising campaign, seminars and workshops to explain the advantages of entering the tax system.

However, industry sources said Van Heerden had printed too many forms. Only a fraction would be lured into the tax net, no matter how attractive the bait.

One source said: "Tax amnesties have an abysmal record and at best inland revenue could expect only between 5% and 15% of those targeted to respond."

Liebenberg told a news conference a final report detailing the finance ministry's recommendations for restructuring inland revenue would be ready within two weeks.

Restructuring the revenue department and customs and excise was the major thrust behind the Katz commission, which maintained an independent inland revenue and customs and excise would bring billions of rands in uncollected taxes into the tax net, he said.

The return of special adviser Charles Stride from an overseas tour of countries boasting reformed tax departments, had led to a rewrite of Stride's initial recommendations on the restructuring process.

This amended report would be ready early in August and would then be submitted to Cabinet, various Cabinet committees and to the standing committee on finance for further input. The report's implications would also be discussed with the National Economic, Development and Labour Council, Liebenberg said.

Negotiation would have to take place inside government before a final draft was presented to Cabinet — possibly within the next six to eight weeks. "Before next year's Budget we should have draft legislation that will help put the show on the road."

The amnesty would apply to individuals and companies not registered with the revenue department for normal tax, employees' tax or VAT on April 26 last year and those who had not applied for registration before that date. It also applied to those already registered, but whose whereabouts were unknown to the commissioner.

The amnestycovered normal income tax, VAT, stamp duty, donations tax, nonresident shareholders' tax and the secondary tax on companies incurred before March 1 last year.

Traders plead for tax pardon

Sowetan 26/7/95

Nafcoc fears black trade could be ruined by tax debts

(320)

THE RECEIVER of Revenue's demands on black business to pay tax debts accumulated in the past 10 years could demolish black enterprise, the National African Federated Chamber of Commerce said yesterday.

Nafcoc president Mr Joe Hlongwane said many black businesses would be destroyed and black entrepreneurs bankrupted if the Government continued to collect taxes owed from before April 27 last year, reports **Sapa.**

Crippling businesses

"The Department of Trade and Industry is focusing on small business development ... but the Receiver of Revenue is intent on crippling businesses which are on the verge of entering the formal sector," Hlongwane told delegates to Nafcoc's annual conference at Sun City.

"The former regime did not provide equal education for our people, modern infrastructure for our townships, or opportunities for our business.

"Why are we now expected to pay retroactively into a tax system of a government we did not recognise?" Hlongwane asked.

Nafcoc has demanded indemnity for black-owned and operated businesses with tax arrears remaining on the books before April 27 1994.

Hlongwane called on the Government to give safety and security priority.

"Just when we are on the verge of obtaining substantial foreign direct investment, the criminal element in this country has begun to cast a shadow of negativity over South Africa."

Isaac Moledi reports that reports that stakeholders in black business have established a committee that would lobby the Government to address problems affecting black business people.

The committee comprises members of Nafcoc, the Federated African Business and Consumer Council, Black Management Forum, Black Lawyers Association, Association of Black Accountants of SA and Thebe Investments.

Govt warning on pensions cut-off date

(320)

Samantha Sharpe

BD 27/7/95

PEOPLE rushing to retire before September to avoid paying tax on lump sum benefits could still find themselves subject to the new tax dispensation, inland revenue warned yesterday.

Inland revenue senior tax officer Vlok Symington said many people were under the impression that if they retired on August 31 they would escape paying the higher average rate of tax applicable from September 1.

However, in terms of most pension fund rules, pension fund benefits accrued the day after retirement. "If an individual retires on August 31 his benefits will normally accrue on September 1, which places him well inside the new tax dispensation."

Symington said inland revenue had issued a note to life offices reminding them that the day after the date of retirement, in terms of pension and provident fund and retirement annuity rules, was the first day in retirement. He warned people planning to retire on August 31 to escape higher average tax rates to check their pension fund rules to establish exactly when lump sum benefits accrued.

Old Mutual legal analyst David Marcusse said the 1995/96 budget review indicated that amendments to the average rate concession would apply to taxpayers terminating service on or after September 1. "Many understood this to mean that the determining factor was the date on which services are terminated. The 1995 Income Tax Act makes it clear that the new tax regime will apply in respect of all benefits which accrue on or after September 1."

Old Mutual employee benefits legal services manager Kobus Hanekom said there were ways of circumventing the lump sum technicality. "Members can retire one month earlier — at the end of July — and receive all their benefits on August 1. The

Continued on Page 2

Pensions

(320)

Continued from Page 1

BD 27/7/95

disruptive effect of this option at this late stage could be reduced by an agreement to remain on until the end of August as a consultant." Another option would be for fund trustees or boards to amend rules so that benefits would accrue on the last day of the month. Inland revenue would support both measures.

However, Southern Life senior legal adviser Rosemary Lightbody said inland revenue's note would have caught many people intending to retire unawares. A Southern Life representative would approach the Life Offices Association today to canvass its help in persuading inland revenue to change its stance.

3 month amnesty on tax

(320)

Sowetan 27/7/95

By Bhekie Matsebula

FINANCE Minister Mr Chris Liebenberg this week announced a three-month tax amnesty for people and companies not registered as taxpayers before the April 27 1994 elections.

Making the announcement in Pretoria, Liebenberg said the amnesty would involve company tax, employees tax and Value Added Tax.

Amnesty

But Liebenberg said the amnesty, which started on July 19 and will run until October 30 1995, will not apply to any tax, duty, interest or penalty paid by any person as a result of any return of information submitted by the person or his representative before April 27 1994.

"It will also not apply to persons who were under investigation by the commissioner of taxes prior to that date, and if such person or his representative was aware thereof," Liebenberg said.

The minister said the amnesty covered, among other taxes, stamp duty, donations tax, non-resident shareholders tax and secondary tax on companies for which liability might have arisen prior to 1 March 1994.

"It will also apply to any employee's tax that became payable prior to March 1, 1995, whether or not such employee's tax was in fact deducted or withheld," he explained.

Liebenberg said the Tax Amnesty Act of 1995 promulgated on July 19, has special provisions relating to sales tax for persons who paid outstanding sales tax during the amnesty period or within six months thereafter.

Submit applications

It also makes provision for persons who are dissatisfied with the calculation of any sales tax they are held responsible to pay. Liebenberg said in such cases the affected persons should submit applications during the amnesty period for a re-examination of the matter and payment of the tax would be re-determined by the commissioner during the amnesty period or within nine months.

Liebenberg said persons who are unable to furnish the commissioner of taxes with accurate information in respect of payment of any sales tax, had the chance to reach an agreement with the commissioner on the amount they should pay for sales tax "and raise an assessment giving effect to such agreement."

"If the sales tax so agreed upon is paid within nine months after the date of such assessment, no penalty shall be payable. If the sales tax is paid partially, the penalty will be reduced proportionately," Liebenberg said.

NP boosts move for tax openness

CT 31/7/95 (320)

BARRY STREEK
POLITICAL STAFF

THE move for greater openness about the incomes of parliamentarians has been boosted by a National Party call for the tax returns of MPs to be scrutinised and reported on.

The NP said in a submission to a Constitutional Assembly theme committee that taxpayers who held public office should "be above suspicion and set an example to other taxpayers".

But the NP rejected the compulsory disclosure of incomes and assets of all parliamentarians proposed by the ANC.

The ANC already has an internal code that all its public representatives must sign, but its secretary-general, Mr Cyril Ramaphosa, and Water Affairs and Forestry Minister Mr Kader Asmal have urged that a similar code be adopted for all MPs.

Mr Asmal has supported disclosure and public debate of the salaries and perks of all who operate in the public domain, including company directors and newspaper editors.

The NP said that as people who held elected public office at all levels of government were the people who laid tax burdens on others their own tax affairs should be transparent.

"It will inspire public confidence if there is certainty that the elected leaders bear an equitable tax burden and honour their commitments."

The NP wanted the constitution to require the Commissioner for Inland Revenue to submit an annual report to Parliament giving the names of elected public representatives who had defaulted.

Exposure

"Information should be disclosed with respect to tax returns in arrears for more than a year as well as amounts of tax outstanding for more than a year.

"This should be sufficient exposure and the NP does not propose any other special steps against such defaulters."

Tax frame for small business in pipeline

Samantha Sharpe

BD 2/8/95 (320)

GOVERNMENT had yet to formulate a workable tax framework for small businesses, despite the high priority it had given to the creation of small and medium enterprises in stimulating growth, sources said yesterday.

Deloitte & Touche tax partner Gerald Lambert told a tax seminar yesterday new legislation would enable the finance minister to determine the definition of a small business, taking into account the nature, turnover, taxable income or profit of the undertaking.

The minister could also change any provision of the Act relating to the determination of the taxable income derived from a small business undertaking and for the relaxation of various administrative requirements.

However, government had called for further consultation with interested parties before the introduction of effective relief for small enterprises.

Lambert said the Katz commission had proposed measures last November aimed at reducing the compliance burdens and cash flow constraints of small businesses.

The commission had identified that small and medium-sized enterprises contributed a significant share of the economy, with "considerable further potential for generating growth and redistributing income".

He said one of the commission's recommendations was that small enterprises could choose to be taxed on a cash flow basis which would allow revenue and expenditure to be recognised only when payment were made.

However, government had insisted that before legislation was introduced it was necessary to establish acceptable criteria to identify a small business undertaking, and the most effective measures that could be granted.

Independent tax consultant Willem Cronje said the worst thing that government could do was to introduce poorly drafted legislation in a hurry. The onus was also on the private sector to come up with workable solutions.

One rand in seven goes in tax, says Old Mutual

Star 2/8/95 (320)

South African taxpayers have every right to feel over burdened, according to Old Mutual's latest economic commentary.

Last year taxpayers had to hand over one rand in every seven of their disposable income to the Receiver of Revenue — in 1983 it was only one rand in 10, and in 1962 one in 20.

Terence Moll, an economist at Old Mutual Unit Trust, says part of the tax spurt last year was a rise in the maximum tax rate to 45 percent while the scope of income tax was also widened to include more wage earners. Bracket creep, whereby taxpayers are pushed into ever higher tax brackets because of inflation, is also a culprit.

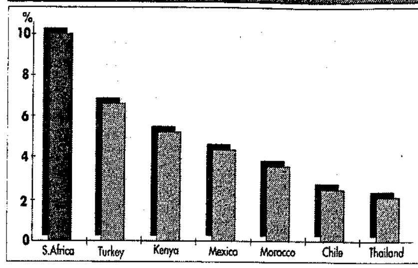
"Earners have been pushed into higher tax brackets even though the purchasing power of their incomes may not have risen," he said.

By world standards, South African tax levels are onerously high. South Africa's tax is nearly 10 percent of GDP — in many other countries it is only 4 percent.

Moll says penal taxes undermine savings and investment and encourage people to spend instead. "High taxes also give people more incentive to evade them. This increases the burden on everyone else and makes the economy run less efficiently."

Moll says people are unhappy about paying tax because of poor perceptions about government spending. He says: "Education is absorbing large resources, but is not delivering, and state spending does not reach the poorest of the population."

Income tax as share of GDP - select countries



'Encourage business through tax breaks'

(320)

JON BEVERLEY

SPECIAL WRITER

CT(PR) 3/8/95

Legislation aimed at encouraging small business through tax concessions was urgently needed, said Miles Divett of Deloitte & Touche at a seminar on tax law in Durban yesterday.

A change to the Tax Act allowed the minister of finance to make regulations, but it was unclear when these would emerge, he said.

The government had indicated that it wanted to consult all the parties on proposals which would define what constituted a small business, and on the most effective form of tax relief.

Divett said it was not known when the regulations would appear, but it was clear that businesses operating through a close corporation, company or trust would be excluded.

He said the logic of this escaped him — trading as a close corporation or as a company was usually done to limit personal liability and not to govern the operation's size.

The proposals, drawn up by the Katz commission, suggested that small business should be taxed on a cash-flow basis.

Divett also said that the administration and collection of taxes appeared to be going from "bad to worse".

He said that while the government had appointed Charles Stride to shake up the system, proposals emanating from his office had been poorly received by tax officials as it reflected on their abilities.

There was a lot of internal politics in this, Divett said.

Informal sector a gold mine for the Receiver (320)

CT (BR) 3/8/95 (1535A)

TAXING QUESTIONS

BY MATSHERU MATSHERU

Small businesses must be welcomed into South Africa's tax system

A plethora of new businesses is mushrooming in South Africa.

This is line with the changes taking place in the country. These enterprises will, in time, become the bedrock of the South African economy.

The Government Gazette recently reported there were more than 800 000 small, medium and micro-enterprises in this country. The growth of small business will create a new base from which tax can be collected.

Inland Revenue is sitting on a gold mine because of the growing informal business sector.

Attempts by the government through the tax amnesty to spread the tax net to include the informal sector are most welcome. Those already on the register cannot further fund the government as they are overburdened.

The inclusion of new leaves blossoming from the fiscal tree may result in a reduction in tax rates, providing taxpayers with some breathing space in the suffocating atmosphere of high tax rates.

The situation is desperate and cries out for attention.

Michael Katz, the head of the Katz Commission, says: "Tax reform is a national endeavour. Its primary objective is to support reconstruction and development. Tax is now a legitimate instrument to achieve national democratic objectives and is no longer a means of funding repression."

The time for using the tax system as a political football is past. It is now time to use the tax system as an arena for stability and economic development.

As someone once said: "The real test of the government is not winning the election (but) in governing the nation."

However, simply bringing new taxpayers into the tax registry will not result in tax obedience. To ensure tax responsibility, the authorities must be ruthless in applying tax regulations.

For example, small businesses should not be granted a business loan, be allowed to open a bank account or be given government tenders without first producing a tax number.

The commission's recommendation that small enterprises be allowed to choose to be taxed on a cash flow basis, which allows revenue and expenditure to be recognised only when cash is received or payment is made, is commendable. Many small businesses do not have a reliable record-keeping system.

However, if the owner of a small business finds that the cash flow approach is good for him he may opt to remain small. This could hamper economic growth and the creation of employment.

South Africa does not need a government with questionable economic values.

Encouraging small businesses to participate in the mainstream economy and to contribute to the cost of running the state may backfire. Small traders, who are mainly sole traders, are taxed at a high maximum rate of 45 percent.

To enhance the credibility of the tax system, the government could consider opening tax collection offices in former black townships.

To the owner of a small business who is entering the tax registry for the first time, welcome to the tax club and may you remain an honourable member of the club until you die.

In South Africa, fiscal policies must be led by tax surgeons who will remove all traces of tax irresponsibility.

☐ Matsheru Matsheru is an independent tax consultant

Provincial independence hinges on power over tax

(320) CT(BR) 4/8/95

BRUCE CAMERON
POLITICAL EDITOR

The most important issue in the political debate about federal powers for the provinces — taxation — is still wide open.

It is the power to levy taxes and to spend taxes raised provincially and allocated from the national Budget that will determine the degree of independence of the provinces. But it will also effect the percentage of taxes individuals and companies could pay in the provinces.

The issue has been made more difficult by the boycott of the Constitutional Assembly and its committees by the Inkatha Freedom Party, which favours maximum provincial autonomy.

A first draft report from theme committee three of the Constitutional Assembly prepared by Denis Davis shows there are more questions than answers.

The parties have not even agreed on whether taxation issues of the provinces should be detailed in the constitution or dealt with under separate legislation.

One of the few areas over which there appears to be some agreement is that income tax and VAT should continue to be levied by central government.

The issues involve the collection of taxes, the division of those taxes between the different levels of government and the power to decide on how the taxes are spent.

There are also questions such as whether wealthier provinces should subsidise poorer provinces.

The ANC believes that the country should have a unified legislative and administrative fiscal and public financial system.

The National Party believes the fiscal relations between the three tiers of government should reflect the spirit of the constitution, recognising the functions of the various levels and grant them, on an equitable basis, access to the country's tax base and financial resources.

The Democratic Party argued that international experience showed that legislative powers without the necessary financial resources to implement programmes led to an erosion of the credibility of the provincial or local government.

Davis, in drawing up a matrix on agreement, differences and unanswered questions, believes a substantially different draft will come out of the committee within the next few weeks after the present series of meetings.

The parties seem to agree that the provinces should be allowed to spend their allocations from the central tax system as they see fit.

There is also agreement that provinces should be entitled to levy non-national taxes such as from gambling and vehicle sales.

The NP said the Financial and Fiscal Commission, which must work out the formula under which provinces will be allocated a share of the central government tax collections, should be able to recommend an extension to the list of provincial taxes.

Davis said the DP was unsure whether the transfer duty on property should be part of the provincial list, but it had submitted that the provinces should be competent to levy taxes, other than income taxes or VAT.

The ANC has not defined what are non-national taxes.

The DP and the NP said the taxing powers granted to the provinces should be included in the constitution. The ANC said taxing powers should be the subject of legislation as the parameters of taxation changed continually.

The ANC said the constitution should only provide the determination of the formula for the division of taxes collected nationally.

The parties agreed that the provinces should have limited borrowing powers for bridging finance and capital expenditure. The NP recommended the establishment of a loans authority to coordinate the issue of loan stock.

On the division of the central government-collected taxes there is no agreement. The ANC wanted this left to the legislature and not included in the constitution, while the NP and DP said it should be.

The ANC recommended the establishment of a budgetary cooperative council to give the provinces a greater role in determining the national budget, with the senate also playing a greater role in the process.

The NP wants the status quo to remain with the provinces receiving a share on a formula basis but with the provinces having to use money to meet minimum criteria. The NP also wants the constitution to include a clause preventing the government from withholding the revenue share of a province, as President Nelson Mandela recently threatened to do to KwaZulu Natal.

There is also no agreement on the appointment of the Financial and Fiscal Commission.

SA income tax 'painfully high'

WM(PM) 4-10/8/95 (320)

How heavily taxed are we? **Reg Rumney** weighs conflicting evidence

ARE South African individuals heavily taxed? Old Mutual economist Terence Moll this week dubbed South African income tax "painfully high".

Moll based his stricture on income tax as a percentage of gross domestic product (GDP), the total value of all goods and services produced in a country. The South African figure is 10 percent of GDP; in many countries the figure is only around four percent, says Moll.

Moreover, he notes that bracket creep — whereby inflation pushes taxpayers into ever higher tax brackets without their actual buying power rising — has meant a steadily rising burden since 1962. In that year, R1 of take-home income went to the government. Last year, Moll says, the figure was R1 of every R7.

A glance at the tables supplied by the South African Chamber of Business (Sacob) in its recent submission to the Katz Tax Commission shows that individual income tax as a percentage of GDP more than doubled, from 3,7 percent in 1980 to nine percent in 1993. Company tax as a percentage of GDP more than halved, from 8,6 percent in 1980 to 3,1 percent in 1993.

The problem, according to the South African Fiscal Association's Marius van Blerck, is not the marginal — or maximum — tax rate of around 45 percent, but that ordinary taxpayers too quickly find themselves in this bracket.

It has also been argued that individuals in South Africa increasingly shoulder a higher income tax burden than companies.

This year it is estimated that individuals will contribute 40 percent of the tax the government collects.

Three years ago, according to Syfrets economist Elmien de Kock, the figure was 33 percent. The average in other developing countries is 10 percent.

Company tax contributes 11 percent, down from 16 percent three years ago, and out of line with comparable economies, which average 16 percent.

Indirect tax has remained constant over a four-year period at 40 percent of revenue. Internationally the figure ranges between 50 percent and 60 percent, according to De Kock.

The economic argument is that distribution of the tax is irrelevant, companies employ people, and those employees profit if companies prosper, while firms pass on higher taxes to consumers in the form of higher prices. The important figure is total tax revenue as a percentage of GDP. That percentage has hovered around 24 percent for the past 10 years.

Even if that argument is accepted, high income tax rates encourage tax avoidance and evasion.

That the company tax rate is 10 percentage points lower than the personal marginal rate of 45 percent, provided no dividends are paid, opens up one obvious avenue for avoidance. Indeed, the effective rate of tax companies pay was estimated at 35 percent in 1991, according to the Sacob study.

Moll notes another pernicious economic effect: high income taxes discourage savings, which South Africa desperately needs for investment.

Finally, high taxes lead to inefficiency. "High and rising income taxes can also lead to waste. If government has large sources of income which it can raise each year it has less incentive to cut costs and function as efficiently as possible."

Tax amnesty triggers problems of definition

CT(BR)8/8/95 (320)

By Françoise Botha

Staff Writer

The Tax Amnesty Act has come under attack from the accounting profession because of severe shortcomings, according to KPMG, an accounting firm.

"The act aims to draw into the tax net those people who have so far evaded it. But it fails to achieve this aim because of poor drafting and a severely limited amnesty," said David Knight, a tax consultant at KPMG.

In terms of the act, a qualified person will be exempted from the payment of certain taxes, interest and penalties for the years ended before March 1 last year. In order to qualify, the person must not have been registered with the Commissioner of Inland Revenue on April 26 last year.

The problem of poor drafting arises with the definition of a qualified person. This, in terms of the act, is a person who was not registered for the payment of, among others, employees' tax and VAT.

"This automatically precludes a taxpayer who is registered for any one of the named taxes, but not for the others. Based on the wording, only if a person is not registered for all the named taxes can he apply for the amnesty.

"The effect of interpreting the act in this manner is that people who are registered only for one tax could decide that they are better off taking their chances of being caught by (the Receiver of) Revenue in the future, as opposed to voluntarily giving themselves over to (the Receiver of) Revenue now, when the amnesty does not actually apply to them anyway," he said.

Another problem is that the taxpayer may only apply for the amnesty if the commissioner is unable to enforce the tax law because he does not know the person's whereabouts.

"How is the taxpayer expected to know whether his whereabouts are known to the commissioner or not, or whether the lack of enforcement is simply because of understaffing?" asked Knight.

According to the office of the minister of finance, the amnesty runs from 19 July this year to the end of October.

THE CAPE TIMES

BUSINESS REPORT
SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

MONDAY AUGUST 14 1995 15

Erwin: State seeking to reduce heavy tax burden

CT (BR) 14/8/95 (320)

BY JOHN SPIRA
GAUTENG BUSINESS EDITOR

Government is seeking to relieve the heavy tax burden on middle-income earners in South Africa.

That's the heartening news from Alec Erwin, deputy minister of finance.

Speaking at the Midas franchisees conference at Sun City on the weekend, Erwin said it would remain government policy to move away from providing endless tax exemptions.

This would enable it to reduce personal, company and VAT tax rates to the benefit of all.

Erwin claimed that government's re-examination of economic policy, along with the appointment by President Nelson Mandela of a committee devoted to engendering growth, did not mean it was panicking about the economy. Rather, it was a necessary re-evaluation process designed to determine whether government was achieving its economic objectives and whether adjustments were required.

Erwin identified the following problems as requiring urgent attention:

☐ The need to find ways of breaking through barriers to high growth rates — the South African economy was not structured to achieve a growth rate of greater than 3,5 percent.

"We must get the manufacturing sector to respond to competitive pressures. This is one reason why we are lowering tariff protection barriers. At the same time we must develop the small business sector."

☐ The need to speed up RDP delivery, which has to some degree been impeded by the institutional capacity of government and the provinces.

☐ Infrastructural development, where expenditure of between R50 billion and R80 billion was required in the next five years.

"This cannot be financed from the Budget. We have to have an innovative partnership between the public and private sectors to satisfy this need. This process could well lead to the sale of state assets."

☐ The problems of violence and corruption which need to be addressed "through a partnership with society".

These were areas which had an unfavourable effect on potential foreign investors.

Also addressing the conference was Brand Pretorius, chairman and chief executive of McCarthy Motor Holdings, who said successful South African companies in the 21st century would be those that focused on inspirational leadership and human resource development, which he termed "people-driven growth".

He believed leadership in a period of transformation would require a unifying vision, shared values, empowerment, an emphasis on teamwork and entering into a moral contract with team members.

Sarel De Vos, chief executive of Midas, said that because of its low failure rate and other benefits, franchising was set to play a major role in the establishment of a successful, rapidly expanding small business sector in the future South Africa.

State aims to lighten tax load, Irwin says

(320)
ARG 14/8/95

SUN CITY. — The government will pursue ways to relieve the heavy tax burden on middle income earners, says Deputy Finance Minister Alec Irwin.

But it was government policy to move away from endless tax exemptions to enable it to reduce personal, company and VAT tax rates, he told a franchisees conference here at the weekend.

Administration and collection would have to be improved.

The government was not panicking about the economy but was re-evaluating its policy to decide whether objectives were being achieved.

Key government departments were united on economic policy, Mr Irwin said.

Sustainable growth was essential but there were no short cuts to South Africa's economic ills and a number of problems required urgent attention.

Ways needed to be found to break through barriers to high growth rates as the economy was not structured to achieve growth above 3,5 percent.

To reach higher growth rates needed to fund social development, the government had lowered tariff protection barriers to get manufacturers to be competitive.

The lack of infrastructure development was a major concern, with R50 billion to R80 billion needing to be spent in the next five years.

"This cannot be financed from the budget. We will have to have an innovative partnership between the public and private sector to meet this need."

Erwin: Govt wants to reduce heavy tax burden

Star 14/8/95 (320)

■ BY JOHN SPIRA

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NEW

DIFFERENTIAL RATES MOOTED

Marais puts case for more local taxes

CT 15/8/95 (320)

LOCAL AUTHORITIES should be able to levy a tax on packaging to pay for cleaning up urban litter, a Constitutional theme committee was told. **PETER DENNEHY** reports.

COMPANIES should be charged "packaging tax" by their local authorities, which had to clean up the litter left by consumers, Western Cape local government Minister Mr Peter Marais suggested yesterday.

He was delivering submissions at a public hearing of one of the Constitutional Assembly's theme committees.

Mr Marais said that provincial and local government should stop depending on central government funding. To end this reliance, he said, the constitution must allow the provincial authorities to levy taxes such as entertainment taxes on sports stadiums, which are built by local authorities.

Some people were able to find the money to go and watch rugby, even when they struggled to pay their local authority services bills, he said.

Local authorities must also be granted greater powers of taxation, he said. They were charged with the task of cleaning up everyone's mess, so they should perhaps be able to charge companies a "packaging tax" if their products were sold in disposable wrappings.

For the poor, who may be worst hit by his proposed new taxes, he had a good news suggestion as well: "We might have to have differential rates within one local authority," he said. "If we are going to have one rate, we are going to punish the poor for living in an area they can't afford."

Mr Iain Davidson, of the Johannesburg Metropolitan Council, said property rates were an inadequate financial base to meet the burgeoning demands on local government. For example, he said, Johannesburg had 160 000 ratepayers, but had to provide services to three million people.

He suggested that local government should also get a percentage of the VAT raised in its own area.

Income tax

Mr Eddie Landsberg, president of the Institute of Municipal Treasurers, suggested instead that the most important additional source of income for local government should be income tax. A portion of the income tax collected in a region should have to go to the local governments in that region.

Inadequate transfers (shifts of money between one level of government and the other) had led to the collapse of a number of local authorities in the past, he said.

The MINISTER OF WATER AFFAIRS AND FORESTRY:

Yes. The Department of Water Affairs and Forestry is continuing to issue afforestation permits, but only after objections by neighbours and surrounding landowners have been considered and, if necessary, a full Environmental Impact Assessment has been carried out. This arrangement is effective from 18 January 1995.

(a) For the periof 24 August 1994 to 24 January 1995 13 permits were issued.

(b) For the period 25 January 1995 to 27 June 1995 two permits where issued.

A total of 83 permits were referred back to the landowners on 19 January 1995 to apply the new procedures and these are starting to come back for attention. Five permits are awaiting review.

Managing afforestation plantations

*34. Mr P W SAAIMAN asked the Minister of Water Affairs and Forestry:†

(1) Whether his Department intends managing the afforestation plantations in the former (a) TBVC countries and (b) self-governing territories itself; if so, what are the relevant details; if not,

(2) whether it is the intention to transfer these plantations to Safcol; if so, what are the relevant details; if not, what is his Department's intention in regard to operating the plantations;

(3) in what respects does the new operating system differ from the present system or from that operated by Safcol?

N970E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(1) No, not in the long run.

(2) The Department of Water Affairs and Forestry is considering various options in appointing an agent or agents to manage the forestry functions. One such an option is the South African Forestry Company Limited (SAFCOL). The appointment, however, of an agent will be with the consent of the Province where the plantations are located. It is expected that the employees concerned will remain civil servants if SAFCOL is accepted as the agent for a particular Province. SAFCOL's responsibility would be to ensure efficient management of these plantations according to Departmental stipulations.

(3) There is no new operating system yet, and the Department is managing these functions as an interim measure.

Customs and Excise: shortage of officials

*35. Mr K M ANDREW asked the Minister of Finance:

(1) Whether there is a shortage of officials at the Department of Customs and Excise; if so, what is the extent of the shortage;

(2) whether this shortage has resulted in goods passing through customs (a) without tariffs and/or (b) with incorrect tariffs being paid; if so,

(3) whether any figures are available on the percentage of goods affected in each case; if so, what are these figures;

(4) whether any steps have been or are to be taken to improve the situation; if not, why not; if so, what steps? N972E

The MINISTER OF FINANCE:

(1) Yes. The shortage is 332 officers, ie 18,7%.

(2) Yes.

(3) Although it is impossible to give accurate percentages of the goods affected it should be pointed out that over a period of 12 months the few available inspectors have schedule R219 million in respect of unpaid customs duty.

(4) Recruitment and training of staff is being effected on a continual basis. However, due to low renumeration there is a drain of trained personnel to the private sector. As accounced by the Minister of Finance an investigation is in process with regards to the possible restructuring of the Tax Administrations (Inland Revenue and Customs and Excise).

Katz Commission: report

*36. Mr K M ANDREW asked the Minister of Finance:

(1) Whether with reference to the finding in the report of the Katz Commission that tax collection in South Africa is neither effective nor efficient, any reasons have been identified why (a) tax collection and (b) the collective of customs duty are ineffective and inefficient; if so, what are these reasons;

C320

(2) whether the Government intends taking any steps to address this issue (a) during the current fiscal year and (b) in the 1996-97 fiscal year; if not, why not; if so, what steps?

Hansard 16/8/95

N973E

The MINISTER OF FINANCE:

(1) Yes. With the help of Mr Charles Stride and a number of people delegated by the Commissioners for Inland Revenue and Customs and Excise out of their own staff, an analysis was made and with the assistance of professor Jenkins of Harvard University a report has been written. The Report identifies the following underlying problems which are the deficiencies of the tax administrations:

(i) The inability to attract and retain suitably qualified and experienced staff.

(ii) The lack of flexibility and delays in changes to human resources, skills and technology makes it impossible to interact with taxpayers on the same level which applies to their business transactions and to adapt to changes in Government policy.

(iii) The lack of resources and funding to enable duties to be performed with integrity, fairness and competence.

(2) Yes. In following up the report mentioned in point (1) above, the task group visited various countries which have already implemented a process of tax reform and they are presently busy re-drafting the proposals as applicable to South African circumstances. The revised report will be finalised during August, after which it will be given to the Cabinet Committees and Cabinet as well as being discussed with the Joint Standing Committee on Finance, the National Economic Development and Labour Council (NEDLAC) and various government departments. As soon as the final report has been accepted by Cabinet, legislation, which paves the way to the reform of South African tax administration, will be drafted and it is expected to be submitted to Parliament during February 1996 ie before the next Budget.

*37. Mr M J ELLIS—Education. [Question standing over.]

Deputy Minister of Intelligence: advisers

*38. Mr J A JORDAAN asked the Minister of Justice:

(1) Whether the Deputy Minister of Intelligence has appointed any advisers to his office; if not, what is the position in this regard; if so,

(2) whether he will furnish their (a) names, (b) ranks and (c) salaries, including fringe benefits and other conditions of service; if not, why not; if so, what are the relevant details?

N976E

The MINISTER OF JUSTICE:

(1) No. The Deputy Minister is in the process of identifying his staff requirements. It is intended that the appointment of staff to the office of the Deputy Minister shall be in keeping with the provisions of the Intelligence Services Act and/or the National Strategic Intelligence Act.

(2) Not applicable.

Appointment of a certain person by National Intelligence Agency

*39. Mr J A JORDAAN asked the Minister of Justice:

(1) Whether a certain person, whose name has been furnished to his Department for the purpose of his reply, has been employed by the National Intelligence Agency; if so, in what capacity;

(2) whether this person's position as head of the Quatro camp in Angola in the 1980s was taken into account in making this appointment; if not, why not; if so, what conclusion was reached?

N977E

vate sector for management, specialist and administrative staff by the end of the year, says Fedsal general secretary Dannhauser van der Merwe.

Masterbond ruling

THE Cape Supreme Court has set aside the private prosecution of the Masterbond curators by legal consultant Lionel Reichenberg, who was acting on behalf of the Masterbond Victims' Association.

Abortion error

YESTERDAY's Comment erroneously stated that it had been recommended by a parliamentary committee that abortions be procurable until the 28th week of pregnancy. It should have referred to the 24th week. The error is regretted.

REPORTS: Business Day Reporters, Sapa.

Double taxation agreements signed

BD 16/8/95 (320)

Tim Cohen

CAPE TOWN — Double taxation agreements with a total of 47 countries had either been finalised or were still being negotiated, Commissioner of Inland Revenue Trevor van Heerden said yesterday.

Van Heerden told the parliamentary finance committee that nine agreements had already been agreed and 15 others were close to being signed. Double taxation agreements aimed to prevent the taxation of a company in both its country of origin and the country in which it operated.

He said SA already had agreements with several southern African countries and with Germany, Britain, Switzerland and the Netherlands.

Parliament would be asked to ratify agreements with nine other countries, including all the Scandinavian countries, several in eastern Europe and both France and Belgium.

The Mauritian government had asked for the renegotiation of its agreement. The Republic of China agreement was in abeyance because of uncertainty about SA's diplomatic relations with China.

Agreements with other trading partners, especially Japan and the US, were either about to be signed or negotiations opened.

Van Heerden said SA had been generally well received in the negotiations, although they were often driven by the business communities in the countries concerned which lobbied their government to achieve the best possible tax dispensation, he said.

SA, Iran sign wide-ranging protocol

BD 16/8/95 (~~30 IA~~)

Adrian Hadland

CAPE TOWN — SA and Iran firmed up economic and diplomatic relations yesterday, despite US calls for a trade embargo against the Islamic republic.

The signing of a wide-ranging joint protocol on co-operation, together with the imminent finalisation of an agreement allowing Iran to store 15-million barrels of crude oil at Saldanha, marked a further defeat for US foreign policy, Iranian Foreign Minister Ali Akbar Velayati said.

"This is not the first time the US has been against our co-operation with other countries," Velayati said.

Foreign Minister Alfred Nzo said the US had not placed any formal pressure on SA to pull out of the agreement with Iran.

Mineral and Energy Affairs Minister Pik Botha said the oil storage agreement could be signed within two weeks, Reuter reports. "There's a trade-profit benefit for SA of at least R50m (a year)," said Botha.

Velayati said SA's refineries were compatible with Iranian oil and the Saldanha storage facilities would be used to route crude supplies to neighbouring African countries.

As SA was Iran's gateway to Africa, so the co-operation agreement would allow SA access to central Asia including Russia, Velayati said.

Strategic Fuel Fund GM Kobus van Zyl said the 15-million barrels of Iranian crude to be stored at Saldanha represented a third of the facility's 45-million barrel storage capacity.

If the oil was stored permanently, it would be possible to decrease SA's strategic oil stock to the value of R1bn, he said.

Velyati, who arrived in SA yesterday for a three day visit, said only Israel had heeded the US call for a trade embargo. "They have to learn not to determine the internal affairs of other countries".

Nzo said SA had recently established a full embassy in Iran.

A body would be created further to entrench and expand bilateral relations between the two countries, he said.

Issues which gave rise to the US embargo, including allegations of human rights abuses, Iran's nuclear programme and its support for international terrorism, had been discussed with the Iranian delegation prior to the signing of the agreement, Nzo said.

Tax changes need to be well studied

ARG 19/8/95 (320)

Business Reporter

INCOME tax amendments outlined at a tax update seminar in Cape Town this week contained good and bad news for taxpayers.

At the seminar, hosted by Butterworth Publishers David Clegg and Rob Stretch of Ernst & Young sketched some of the amendments, including those relating to new rules for taxing "financial instruments", which are any form of interest bearing arrangement.

Other issues raised included rules applying to foreigners and emigrants who invest here, and rules for secondary tax on companies.

On financial instruments, Mr Clegg pointed out that any discount from the sale or maturity of these would now be treated as a taxable amount. Instruments include most deposits of more than one year, debentures, government and Eskom stock.

"Although there may still be some room for argument, investors buying gilts at a discount should be aware that this part of their profit will be taxed on a year-by-year basis even before it is received."

Foreigners and emigrants living in South Africa for long periods frequently invest here. The interest they earned had been tax free for the last few years.

"They now need to make sure they are physically outside the country for at least 183 days in each tax year, even if in several short trips."

Failing that, the previously tax-free interest would be taxable.

The 183-day rule would also affect individuals emigrating from or immigrating to South Africa in the year that took place, he said.

"Ideally they would arrive with less or leave with more than 183 days to go in the year concerned."

Companies which were wholly-owned could distribute a dividend to the holding company without paying secondary tax on companies (STC, at 25 percent on the dividend), he said.

The company could elect "group relief" from STC.

"But there is a trap for a subsidiary that earns dividends from another company in which it holds less than 100 percent of the shares."

Dividends from that bottom company would be subject to STC.

If the dividend was mingled with other profits of the subsidiary company and passed on as an "exempt" dividend to the holding company, then when the holding company eventually declared the dividend onwards, STC would be payable a second time!

"When wholly-owned subsidiary companies have 'minority' holdings below them, dividends from those minority holdings need to be dealt with separately from other profits of the subsidiary company.

"This is a trap which can be fallen into easily where a company traditionally pays only one or maybe two dividends a year. Such companies will now need to declare separately any amounts derived from dividends."

already 87 percent higher at the half year. Some analysts were even forecasting earnings of 43c a share for the full year.

received a further R1,3 billion from its rights issue of which R265 million has been utilised for rights-issue projects.

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Tax amnesty a 'success'

By Bruce Cameron

POLITICAL EDITOR

(320) CT (BR) 24/8/95

The tax amnesty launched a month ago is proving a success, Minister of Finance Chris Liebenberg told parliament yesterday.

In the first month of the amnesty, which will run for another two months, there had been 555 applications.

Liebenberg said there had been a further 8 600 telephonic applications and 270 written inquiries.

Inland Revenue officials had interviewed 740 people about possible amnesties.

There was also widespread interest in the amnesty with 19 organisations requesting seminars on the issue.

"Judging by these figures the amnesty decision was a wise move," Liebenberg said.

The amnesty was announced earlier this year following indications from the Katz commission that billions of rands were eluding the state's coffers because of widespread tax fraud.

When the amnesty was announced, Liebenberg warned that those who did not comply and were caught would face heavy penalties.

(320) (S&G) Star 26/8/95

Tax changes will benefit small businesses

CCs out in cold now, but could gain from new dispensation in the future, says expert

By LEIGH ROBERTS
YOUR MONEY EDITOR

Small businesses will score from the concessionary tax measures proposed in recent income tax changes, but in a surprise move, close corporations (CC) have been excluded from the deal.

In the latest round of amendments to the Income Tax Act, passed by Parliament last month, there appears a new section (S 37G) which will significantly affect the way small businesses are taxed.

Outline

The section enables the Minister of Finance to bring in certain regulations, at a future date, to govern the taxation of those small businesses run by natural persons (that is, only sole proprietors and partnerships).

The legislation is effective in the current tax which ends on February 28 1996. Although the Minister has yet to announce the specific terms of the regulations, the Act provides a broad outline of what will be covered.

- A definition of a small business that takes into account the nature of the business, turnover, profit, number of employees, other income derived by the owner and any other relevant feature determined by the Minister.
- A cash basis of determining taxable income will be allowed (that is, tax will be paid only on the net difference between cash actually received less cash paid out).
- A variation in the method currently used to value trading stock.
- The treatment of capital expenditure. (This could possibly be an accelerated depreciation period).
- Any other provision which the Minister of Finance believes will ease the load on a small business of carrying on trade.
- An exemption or extension of the time limits on submitting income tax documents, payments and other forms.

The new section stems from recommendations made by the Katz Commission of Inquiry into Taxation in its November 1994 report, in which it recognised the importance of the small business sector as a means of job creation, as well as the compliance problems often experienced by small businesses.

The commission recommended a cash basis of determining taxable income in order to decrease the cost to a small business of financing stock and debtors, as well as allowing for simpler accounting records.

The commission's recommendations, however, made no mention of excluding CCs from the definition of small business.

Presumably, when drawing up the income tax amendments, the legislators used a CC as the cut-off point to limit the range of the concessions. While some CCs undoubtedly house large businesses, they are also a popular vehicle for new entrepreneurs as they offer tax benefits as well as a degree of limited liability.

Leading tax consultant Willem Cronje says a possible reason for the exclusion of private companies from the concessions is that big group companies might be tempted to form subsidiaries that would qualify for the small business concessions and hence defeat the restriction to natural persons. This reason, however, cannot be extended to CCs as only natural persons may be members of CCs.

He points out that the exclusion of CCs will create a policy uncertainity as CCs were originally created for the specific purpose of assisting small businesses. But the new section 37G should not be criticised too much, says Cronje, as it indicates government wants to help small businesses and that the new section is merely the first step in a long journey. "With lobbying, the section could be expanded to include CCs."

Method

As to when the Minister will issue the final regulations under S37G, they're likely to come only after the Katz Commission has given its opinion. The commission is working on the definition of a small business and deliberating the best method to tackle a small business that fits the definition at the start of the tax year, but falls out of it by the end of the year.

Good heavens! We have enough trouble competing locally!

Saturday Star
August 26 1995

Star 26/8/95

Deduction made available to the mentally ill

(320)

A recent amendment has removed an anomaly from the Income Tax Act.

Previously, only a physically handicapped person (and not a mentally handicapped person) was entitled to the benefit of a greater medical expenses deduction.

Now, the definition of handicapped has been amended to include a peron who suffers from a mental illness, as defined in Section 1 of the Mental Health Act of 1973.

Handicapped people are allowed to deduct from their taxable incomes so much of their medical expenses as exceeds R500 a year.

This deduction applies even if the taxpayer himself is not handicapped, but his spouse, child or stepchild is handicapped.

The Income Tax Act also defines the criteria for determining a physically handicapped person.

Private tax audits planned

CT(BR) 28/8/95 (320)

By Ross Herbert

Staff Writer

The Inland Revenue department was working on a plan to allow private accounting firms to perform tax audits instead of government auditors to reduce resentment from black-owned business, Alec Erwin, the deputy minister of finance, told the Association for the Advancement of Black Accountants of Southern Africa convention at Sun City on Friday.

The finance department was also evaluating a capital gains tax to bring South Africa into line with most other Western countries.

Erwin said the department was experiencing problems with tax collections, particularly among black businesses. The Inland Revenue department was trying to crack down on tax fraud and bring more businesses into the tax-paying fold.

However, its nearly all-white auditing staff were encountering friction and resentment from black-owned business.

Erwin said what amounted to outsourcing auditing could be a boon to the few black-owned certified accounting firms. It could also improve tax collection among small black businesses and supplement the department's auditing capacity.

The department was increasingly plagued by skills shortages, particularly among auditing and computer staff, caused mainly by the large gap in salaries between government and the private sector.

Broke couple awarded $1

From Ben Macintyre

card company

short-term capital flows into and

Land tax irresponsible, says union

Louise Cook

BD 28/8/95 (320)

GOVERNMENT should improve its existing tax collection system rather than impose an "irresponsible and ill-considered" land tax with a small income potential, the SA Agricultural Union (SAAU) said in preliminary submission to the subcommittee of the Katz Commission on land and agricultural tax.

It claimed that the recoverable amount from a land tax was about R400m.

Land Affairs Minister Derek Hanekom had asked the Katz commission to investigate the introduction of a land tax to generate income for infrastructural development of rural areas.

The SAAU said: "By merely improving the collection ability of the existing tax administration, the objectives of the RDP, including the expansion of access to agricultural land, can be achieved without an increase in the total tax burden".

It told the subcommittee that a land tax may have a disruptive effect on the profitability of farmers, the object of the tax was possibly of a "non-fiscal rather than a fiscal nature" and it had frequently failed in other countries because of poor land evaluation methods.

"Apparently the proven degree of failure, which is a worldwide phenomenon, is conveniently ignored in SA because of politically expedient motives."

SAAU chief economist Koos du Toit said that the total value of commercial agricultural land, including non-separable improvements such as dams and boreholes, was R50bn.

"A land tax, introduced at 4%, could theoretically generate R2bn in tax a year. But at this rate, farmers' financial viability would be threatened. In order to be fair, the tax would have to apply to tribal and communal land as well. The proposed tax would seriously jeopardise new entrants into the land market."

Du Toit said the state would generate a maximum of R200m if the proposed tax was imposed at 1%.

But administrative costs of about R300m would render this a "waste of time".

The union said in its submission that about R9bn in tax, interest and penalties had been owed to the Receiver at the end of September 1994.

A total of 150 000 VAT audits had been in arrears at the time, the union said.

Response to taxman's Masakhane 'terrific'

BD 29/8/95 (320)

Samantha Sharpe

THE response to SA's tax amnesty, dubbed the taxman's Masakhane, had surpassed any previous amnesty, inland revenue commissioner Trevor van Heerden said yesterday.

However, he was unable to disclose the number of applications submitted to inland revenue since the three-month amnesty began.

He said there had been a "terrific number of inquiries", but it was still too early to determine how many of these would translate into actual returns.

The toll free number offering information about the amnesty had been inundated with calls and the service could be extended to cope with demand, Van Heerden said.

However, returns would probably take a little longer to come in.

Most people interested in taking advantage of the amnesty were consulting their attorneys and accountants.

About 8 600 telephonic and more than 200 written inquiries had been received during the first month of the amnesty.

Those qualifying for the amesty had until October 31 to take advantage of the offer, which was intended to increase the size of the tax net by encouraging those outside it to register.

The amnesty covered income tax in respect of any assessment ending before March 1, VAT in respect of supply of goods or services or any imported services or the importation of goods before March, and employees' tax.

It also indemnified people against liability for stamp duty, non-resident shareholders' tax or secondary tax on companies in respect of dividends declared before March 1 last year, sales tax and donations tax on property donated before that date.

It did not apply to estate duty, transfer duty, marketable securities tax, financial services levies, regional services council levies, customs and excise duties and import surcharges.

Levies on private cars suggested

CT 30/8/95

JOHANNESBURG: The government is considering rebates on fuel costs for bus and taxi operators and levies on private cars to make transport more affordable to low income communities.

According to a Green Paper released by the Department of Mineral and Energy Affairs to launch a discussion on future policy options, the R2,4 billion now being spent on transport subsidies were of questionable help to poor commuters. Lower fuel taxes would help the rich as much as the poor, lead to an increase of already over-burdened roads and make it necessary to increase taxes in other areas to generate funds. — Special Correspondent

Capital gains levy would be too difficult to implement, say experts

(320) CT(PR) 4/9/95

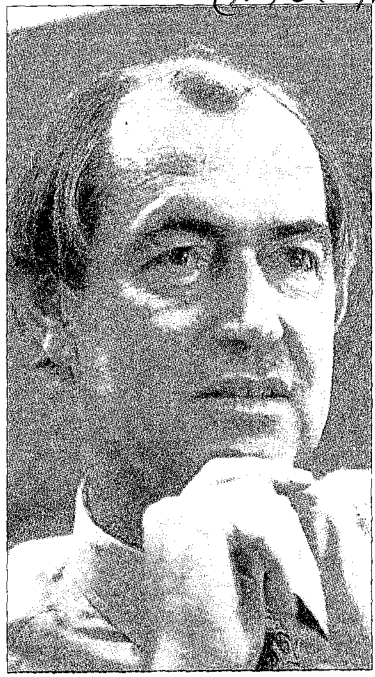
By Derek Tommey

The deputy finance minister, Alec Erwin, indicated last week that the government was evaluating the introduction of a capital gains tax. However, tax experts have doubts about whether the government is in a position to properly administer such a tax in view of the complexities involved.

They say it is not the tax itself that is the problem, but the way it will be imposed, especially in the light of South Africa's high inflation rate which means that in many instances apparent capital gains do not really exist.

Marius van Blerck, tax consultant to the Anglo American Corporation, said that in the interest of fairness, it was essential for a capital gains tax to be applied only to real gains. However, when inflation was rife, it was extremely difficult to determine what were the real capital gains and what were the apparent gains.

ENCOURAGING SAVINGS *Chris Stals*



CAPITAL GAINS TAX *Alec Erwin*

Van Blerck said it would be necessary to introduce some form of indexation to prevent the taxation of inflationary gains. But the existence of a money index for tax purposes could create other problems for the government, especially in the area of income tax.

For the past 20 years the changes made to the income tax rates to adjust them for inflation have been totally inadequate, he said. The result has been that the taxpayer has been caught up by fiscal drag resulting in him paying continually higher taxes on the same real income.

Today's tax rates are almost the same as they were three years ago, yet the value of money has declined by around 25 percent in this period.

Van Blerck blamed the high rates of taxes paid by South Africans on the explosion in the public sector wage bill in the past two decades.

Investors have been criticised for building shopping malls instead of factories, he said. But they were only reacting to market forces. The sharp growth in the number of public servants and in their incomes had made shopping malls an attractive investment.

The problem facing the government was that while it was easy to change a policy direction if it only required spending more money, it was much more difficult to move to a different tack if a cut in spending were required, he said.

Erwin's reference to a possible capital gains tax comes at the same time that the governor of the Reserve Bank, Chris Stals, has said that to encourage savings, the government should tax only the real interest paid on savings (that is after taking into account the inflation rate and not the nominal rate.

Bankers said this would make it much more attractive for people to save as it would help maintain the value of their investment. At the current inflation rate of 10 percent and the top marginal tax rate of 45 percent, an investor, who is getting what might appear a very good rate of interest of 16 percent, receives a net after tax return of only 8,8 percent, and real return after inflation of minus 1,2 percent.It has not gone unnoticed that both Erwin and Stals have referred to tax matters where inflation plays a major role.

This suggests that this matter is attracting the attention of the monetary and fiscal policies. One possible reason is that there is some evidence that the country's high income tax rates could be depressing retail sales and holding back the economy, and that the government is looking at ways to reduce income taxes. .

The recent Katz commission of inquiry into the country's tax structure did not make a decision on a capital gains tax, saying that it intended examining the matter further.

Foreign investors had seen the absence of a capital gains tax as an advantage in investing here, the commission said. But more recently the perception that such as tax will be instituted in the near future has negated this view.

The commission said that the government should take measures to allay fears of foreign investors that a punitive capital gains tax might be imposed in the future on investments made now. It recommended that if a capital gains tax was introduced the government should make it clear that it would apply only to assets acquired after the date of the announcement of the tax.

The commission added that the need for this was especially high in an inflationary environment where a "capital" gain in real terms may be no more than an investment holding its value.

Michael Katz, the chairman of the Katz commission, said the commission was still looking at the possibility of a capital gains tax but had made no decision for or against one.

The commission was also looking at the whole question of dividends, secondary tax on companies and related matters, which included the matter raised by Stals.

Clearing apartheid's tax backlog

(320) CT (PR) 4/9/95

By Bruce Cameron

POLITICAL EDITOR

South Africa is busy ratifying and negotiating a plethora of double-taxation agreements with countries as diverse in economic power and location as the United States, Romania, Korea, Japan and France.

The agreements are nearly all based on a model agreement drawn up by the Organisation for Economic Co-operation and Development (OECD) and are essential in today's global markets.

As result of the years of sanctions and boycotts, South Africa is a signatory to very few double-taxation agreements and is trying to catch up as both trade and investment increase.

Trevor van Heerden, the commissioner for inland revenue charged with negotiating the agreements, said there was urgency in getting the agreements negotiated as it was important for both foreign investors and local business to have certainty when undertaking transactions.

One of the most pressing problems has been a lack of expertise.

Business, he said, was affected in many ways by the double-taxation agreements, particularly when they established foreign bases.

"They need to know to whom and where they pay taxes and what rates of tax are payable."

The taxation agreements also provide certainty and protection in that they override local legislation.

But the double-taxation agreements are not only there for business, they are also important for tax authorities because they enable them to exchange information, including information on people or companies suspected of dodging tax commitments.

The range of agreements is extensive, covering taxation on dividends, earnings from investments and immovable property, interest, pensions, shipping and air transport, royalties paid for intellectual property, capital gains, directors fees, services, earnings of sports people and musicians, people in government service employed abroad, and even students.

Parliament is currently ratifying nine double-taxation agreements with another 16 being negotiated and 21 in the pipeline. Another agreement with Taiwan is awaiting a decision from Cabinet because of the political sensitivities of mainland China.

These agreements and pending agreements are on top of about 15 agreements already in place with neighbouring countries as well as with Britain, Germany and Switzerland. Agreements awaiting parliamentary ratification are: Korea, France, Romania, Poland, Hungary, Sweden, Denmark, Finland and Belgium. An agreement signed recently with Mauritius is being re-negotiated.

Negotiations with America are under way while preliminary talks had started with countries like Japan, Australia New Zealand, Malaysia and Argentina.

Liebenberg wants to eliminate Secondary Tax on Companies

CT(BR) 4/9/95 (320)

By Charlotte Mathews

Investment Editor

Secondary Tax on Companies (STC), a 25 percent tax levied on dividends declared by companies, could be reduced or eliminated altogether if Chris Liebenberg, the minister of finance, has his way.

A spokesman from the minister's office confirmed that he would like to see it lifted or at least reduced, but nothing could happen before the next Budget.

The possibility of easing the STC burden was first raised by Liebenberg in an interview in June when he said STC had to go since it was very investor unfriendly.

However, he doubted whether this could be achieved in one year. STC brought in about R1,5 billion a year which could not be easily dispensed with.

Fisher, Hoffman Sithole and tax partner, Anthony Chait, said if the tax could be made up elsewhere there would be no hesitation in removing it. It largely hinged on budgetary constraints.

Chait agreed it was investor unfriendly. At present only the United Kingdom allowed its residents holding South African shares to offset the STC paid against the normal rate of company tax applicable locally.

Other countries with which South Africa had double taxation treaties had had a problem with STC, he said, partly because the tax had not been in place when the treaties were negotiated.

Brendan Dardis, Ernst & Young's associate director, said even if STC were abolished, companies could remain in a substantially similar tax position since it might be replaced by an alternative tax such as an imputation tax system accompanied by a variation in the basic rate of company tax.

Although an imputation system could result in a tax on dividends being implemented, that could be offset in some way against the liability for company tax.

The Receiver taketh — a lament

DICK GROVES looks at income tax anomalies facing those about to retire. (320) ARG 4/9/95

THOSE who have been following the rising price of paint will applaud my decision to redecorate the house. I don't really need to, but might not be able to afford to when I do . . .

I am not as inspired applying paint to walls as those who apply it to canvas, so was relieved when my wife reminded me we were going to a party. This was being thrown by a friend to celebrate the sale of what we lowly-paid hacks would call his luxury house.

I mingled drink in hand with those around the host, who was speaking about his early retirement, which he took last month before punitive income tax measures came into force this month. A lot of executives living in luxury houses have done the same, I understand.

He mentioned how much he was spending on a retirement annuity to reduce his average tax rate, and, having an affinity with figures preceded by a rand sign, I quickly calculated that if this was only the statutory 15 percent of his actuarial reserve he would not need to worry in his old age about the price of painting the next luxury house he moves into.

He is a clever man, worked hard at school and university, ever since for that matter, has earned a bundle and in the new South Africa is "privileged". I on the other hand have wallowed in idleness, might be able to retire at 80 in an unpainted house, and by popular mental contortion am "underprivileged".

Thus I am never likely to have a problem reducing my average tax rate, but I do have a problem with the slice the Receiver of Inland Revenue is going to cut from the little I am able to save for what for want of a better word I'll call my retirement.

Readers who share this problem might care to drop a line about the

pointed to investigate the taxation of pension, provident and retirement funds.

For example, my contributions to the company pension fund are tax deductible. The pension paid when I retire is taxed. This is strange. My pension will be paid with the dividends from the investment of my actuarial reserve, and the shortfall in the pension due to me with some capital redemption. Yet if I was an ordinary investor, the dividends from the capital in-

would be tax free!

And what if I die prematurely? Not a problem (for my wife). My life is insured for a multiple of my annual salary. Enough to soften the blow of losing me (I suggest hopefully and ambiguously).

But will it be enough after the Receiver has dipped into it? You think I'm joking. Hardly will the ink be dry on the claim form before He will be calculating His share. He generously allows my beneficiaries around R120 000 tax

had been paid to me the day before I died!

His rationale for this is that the premiums were paid by my employer and were thus tax free to me. I'm grateful there's no chance of my employer paying my car insurance premiums; the insurance company's valuation is not likely to be enough to replace the car as it is . . .

Those sighing with relief because they belong to a provident fund rather than a pension fund can think again; they will be worse off. Their contributions are not tax deductible, and the capital drawn at retirement, minus R120 000 or so tax free, is taxed at their average tax rate in the year in which they retire. Try living for the rest of your life on what is left!

If on the other hand one was to take out an individual endowment policy (another name for a provident fund), for which premiums (another word for contributions) are also paid from after-tax income, the capital paid at maturity is entirely tax free!

Life insurance from a provident fund suffers the same fate as it does from a pension fund, and any disability insurance is treated even more harshly. The poor devil who staggers out of his hospital bed minus a few limbs must first come to terms with the fact that his employer's fund administrators meet his claim with what they erroneously describe as a disability "benefit", then that only R1 800 is tax free and that the rest is taxed at the victim's average rate.

Maybe what's left will make the down payment on a wheelchair . . .

Of course, as your friendly tax lawyer will tell you, several things can be done to reduce your tax liability. He doesn't like to call it "evasion". Why, I don't know; I'm quite happy to call tax "theft" . . .

Employers can create a fund for life insurance separate from the

What was and will be

THE actuarial reserve is the capital value of the pension to be paid over (hopefully) many years, of which up to a third can be drawn in cash, or "commuted". Some R120 000 or so of this third is tax free and the balance is taxable at the retiree's average tax rate.

But it is possible until the end of this month to invest up to 15 percent of this actuarial reserve in a retirement annuity (another pension), and to set this off against income earned in the current tax year. It is thus possible to reduce the average tax rate substantially, sometimes to the minimum 17 percent, or even less.

This will no longer be allowed from the end of this month. While R120 000 or so of the third commuted will still be tax free, the balance will be taxable at the highest of the retiree's average tax rate in the year of retirement or in the preceding year, regardless of any investment in a retirement annuity.

ceiver. Thus it would be a so-called "unapproved" fund and payments from it tax free, but employers would not be able to write off the premiums against tax. So they're not likely to go for that . . . (This made my friendly tax lawyer smile; he thinks the Receiver would still get some of it.)

But employers could with one hand increase salaries and wages by the amount of the premium, and claim that from tax, and take it back with the other hand to pay

they call a "disability" rider to that life insurance and two birds have been killed with one stone.

Much the same concept would work with retirement funding: Increase salaries and wages by the premium for an individual endowment policy paying a tax-free sum at the employee's retirement. And that wouldn't make any tax difference to the employer, but it would to the employee, who would pay tax on the amount of the premium deducted back from their salary.

Of course, this sort of skulduggery wouldn't be necessary if the state had the intelligence to generate wealth rather than steal it from citizens careless enough to retire, be disabled or die.

Nor would thousands of people be employed totally non-productively finding loopholes in the tax Act for their clients to crawl through.

So on your postcard to the tax commission you should insist that:

- All contributions (or premiums) to retirement funding be tax deductible;
- All proceeds from retirement funding be tax free; and that,
- All proceeds from life and disability insurance provided by employers for employees be tax free.

Surprisingly, government would not lose out. Personal savings would be encouraged as never before, and those savings would drive prosperity. For they would have to be invested, inevitably spurring economic growth, job creation and all the things government holds dear.

And, of course, all the proceeds from retirement funding and insurance would also be invested . . . The Utopian circle would never end.

I'm surprised Mr Liebenberg hasn't thought of it already. Maybe he has, but since all payments from government and quasi-government retirement funds to gov-

Katz 'unlikely to punt a gains tax'

BD 5/9/95 (320)

Nicole Mordant

THE Katz commission was unlikely to recommend the introduction of a capital gains tax when it submitted its third report to government in November, Price Waterhouse tax partner Kevin McManus said yesterday.

"We see a capital gains tax coming in the medium to long term rather than the short term," he said at a Price Waterhouse tax seminar dealing with the 1995 Income Tax Act.

Tax partner Tenk Loubser said reasons for postponement of a capital gains tax included the high level of taxation in SA and the complexity of administering the implementation of the tax.

This concern was the latest criticism of the revenue department's skills shortage, which was raised by the Katz commission in its first report and most recently by auditor-general Henri Kleuver.

McManus said 75% of posts in the Johannesburg inland revenue office's special investigation division were vacant.

Capital gains tax would, however, remain on SA's tax agenda, "if only because most of SA's major trading partners have this type of tax", Loubser said.

Capital transfer taxes, which existed in the form of a land transfer tax and a donations tax, and which were due for consideration by the Katz commission in its November report, should retain their current status, but it was likely the level of tax on transfers would be raised.

"This system of taxes operates efficiently, calculations are simple and the dwindling level of expertise in the finance department negates the need to change the current laws."

Loubser expected the Katz commission to recommend the introduction of further anti-avoidance legislation.

Secondary tax on companies (STC) could not be scrapped overnight as the revenue department could not afford this, McManus said.

This left three possible routes open to the commission for its November recommendations. It could reform STC into another form of tax (something Katz had hinted at in an earlier report), scrap STC and replace it with a higher ordinary tax rate, or combine the first two options.

Finance Minister Chris Liebenberg and tax commission chairman Michael Katz have both expressed concern about international criticism of STC, which is regarded as a disincentive to foreign investment.

Merger to beef up tax collection

(320) BD 6/9/95

CAPE TOWN — Inland revenue and customs and excise would be merged into one tax collection unit headed by an independent board and a chief operating officer, parliamentary sources said yesterday.

The latest technology would be used to keep track of errant and existing taxpayers, including exporters and importers.

Finance Minister Chris Liebenberg said he was finalising a fundamental restructuring of the ailing tax collection system which might require legislative changes. He would not disclose details until it had been finalised and presented to the Cabinet in three to four weeks.

"We are busy consulting unions, the Public Service Commission and others."

Poor tax collection has triggered heated debate in parliamentary committees in recent weeks and a row between the Public Service Commission and auditor-general Henri Kluever over low salaries paid to tax collectors.

Liebenberg said the issue of the salaries paid to tax collectors was "one of the minor issues.... There are other much more fundamental issues." The sources said government argued that tax officials were much more demotivated by poor working conditions, limited technology and a lack of any definite career paths than by low salaries. — Reuter.

Interim report shows tax amnesty has poor response

CT(BR) 7/9/95 (320)

TAXING QUESTIONS

BY MATSHERU MATSHERU

The interim report about the performance of the tax amnesty has been released recently.

Chris Liebenberg, the minister of finance, told Parliament that there had been 555 applicants in the first month of amnesty, 8 600 telephone applications and 270 written inquiries. Although this is not a final report, we do not have to be very wise to realise that this is already a sad state of affairs.

We are a nation of over 40 million politically free people. But only about 1,8 million are registered for income tax and only 2,7 million people fall under the Standard Income on Tax Employee system.

It was expected that by this time thousands of people would have registered for tax amnesty.

It was expected that thousands of people would have registered

The department is handicapped by a shortage of skilled personnel. This makes it impossible for it to perform efficiently as far as tax amnesty is concerned.

Many people are still not aware of the tax amnesty, while some of those who are aware have not responded to the call.

Tax amnesty is not a normal function of the tax gatherers. It is a once-off special piece of legislation.

The government's challenge is to participate in marketing the tax amnesty.

That politicians spend their energy, time and money campaigning for votes and not employing the same efforts to tell their supporters to contribute to the cost of running the state defies simple logic.

We are now heading for another election on the November 1 1995. Those who are elected into office will be remunerated with the nation's purse. The electorate will expect their aspirations to be fulfilled. This must be met by the taxpayers. Where will the money come from if the government is failing to take things seriously?

What continues to make one's stomach turn is the way the government congratulates itself.

You cannot set yourself a three-foot jump, jump it and still call yourself great. Yet this is what the government is doing.

To a certain extent we are still married to Nkwame Nkrumah's discredited philosophy of "seek ye first the political kingdom".

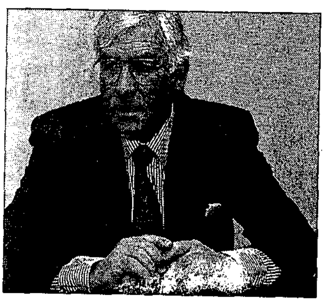
South Africans should know that the government is a non-profit organisation and it cannot finance national costs without being supported financially by those who have put it in power.

The inclusion of everyone into the tax registry has widened the tax base and may result in a reduction of the tax rate so people can be more comfortable paying tax than evading it. As a Venda proverb says: "Nyamutumbani wo kona wa da, mufumbu wo wana vhushelo." This means now there is someone who listens to your aspirations, he complains as well as meeting them.

There is no excuse not to register for tax and become a responsible citizen because political representation is there.

Political franchise is good but it cannot provide school subsidies, housing subsidies or the payment of civil servants. Only the payment of taxes can do this. Tax amnesty is becoming a catalogue of wishes and vague intentions.

As Lyndon Johnson wisely said: "Yesterday is not ours to recover but tomorrow is ours to win or lose".



SPECIAL LEGISLATION *Chris Liebenberg*

☐ *Matsheru Matsheru is an independent tax consultant.*

FORUM

Nurses' demands underscore middle-class tax burden

(320) (75) CT(BR) 11/9/95

SPOTLIGHT

BY HOWARD PREECE

South Africa has to find a balance between economic growth and social racial redress

The nurses' strike offers a dramatic indication of how severe the effect of personal tax is in South Africa on earners in the lower-middle to upper-middle income ranges.

Leaders of the so-called crisis committee at Baragwanath Hospital, and their counterparts at some other hospitals, insist angrily that nurses there are paid a pittance — barely enough for even a subsistence existence, never mind any proper recognition for the training, hardship and responsibilities involved in their work.

They may well be right, in principle at least. But at the same time, another critical, and utterly absurd, demand of the committee is that these same nurses should be given some special dispensation for their liabilities for income tax.

This seems to point to a glaring contradiction. How can people who are apparently so wretchedly paid at the same time have what is obviously a major grievance about their obligation to pay income tax?

Incidentally, the demand for a special personal tax deal has been made by other workers also claiming to be exceptionally badly paid — such as those militant truck drivers, who sought to blackmail the government last year by blockading various toll-road plazas.

What more compelling evidence could there be of just how crippling a burden income tax is in South Africa for all those anywhere in the broad band of middle incomes, a group that embraces at the bottom end most of those who are still obliged to pay income tax?

Unhappily for them, the majority of the hundreds of thousands of people who make up that middle income spectrum face many other grimly bleak prospects.

Redistribution

In that context, the immediate threat comes not from even harsher levels of formal taxation but through user charges and through some other redistributive mechanisms.

There is also an excellent case to be made for these actions, provided the result is not only greater social justice in South Africa in the short term, but also greater and sustainable economic growth over the longer term.

I have not referred to the tax position of the truly rich, those with mega-incomes and/or with huge capital wealth. That is because I do not think the tax system is as proportionately onerous for them as it is for the middle-income group.

The top marginal income tax rate of 45 percent, for instance, is not generous but is not at all high by overall international standards.

The crisis factor, which leads to income-tax revolts by people who regard themselves as low earners, is that this 45 percent rate comes into play on marginal income above only R80 000 a year.

Douglas Gibson, of the Democratic Party, has rightly charged that in the R40 000-R80 000 income range South Africa has perhaps the most onerous, progressive tax system in the world.

It is certainly tough for high earners too, and this country can ill afford to see talented technical, managerial and professional skills heading off for seemingly greener foreign grass. But with no capital gains tax and with light estate duties, South Africa still has much to offer the business high-flier.

What has to be tackled is the tax burden of the middle-income group. But their plight could get worse rather than easier.

Nor are the genuine low earners hit by income tax. On R15 000 a year the annual tax payable is only R75.

But to go back to user charges, all these really mean is that people who can afford to pay for all or some of the cost of various social and economic services should do so.

The critical socio-economic feature of apartheid South Africa was that it stood all the fundamental concepts of a decent society on their head.

The World Bank trenchantly expressed the consequences of the whole rotten era in its 1993 report, An Economic Perspective on South Africa.

The report said: "Whites have personal incomes per capita about 9,5 times of Africans, 4,5 those of coloureds and 3,5 those of Asians.

"While social indicators for whites, such as infant mortality and life expectancy, are in the range for developed countries those for the African majority are broadly comparable with poorer surrounding countries."

The report said: "In most areas of government expenditure, apartheid also discriminated heavily in favour of whites and further increased the differences in welfare across racial groups.

"This has resulted in wide disparities in access to a whole range of public services, including water, sanitation, electricity, education and health."

The bank's 1994 report on Reducing Poverty in South Africa summed up the appalling general situation by saying: "South Africa exhibits that most bitter of social outcomes — destitution amid plenty."

It endorsed the 1993 finding that there should be "restructuring of government expenditure in infrastructure and public services, targeting the poor and the underprivileged".

At the same time, however, the bank, and its sister organisation the International Monetary Fund, is adamant that with South Africa already raising about 25 percent of its GDP in taxation there is little, if any, scope for further rises in the total level of taxation without putting at great risk the prospects for strong and sustained economic growth.

The key recommendations are: a much greater share of public expenditure on health, education, sanitation and other vital services must be redirected towards the least privileged; and total government spending can be raised only if national income is also raised.

Services

The conclusion from that appears to be that there must be a decline in the traditional First-World quality of services in education, health and others, which were traditionally available to whites, but that are now, more relevantly, available to a middle/upper-class grouping, which includes thousands of people of all races.

Look what is ahead for them.

Education: The ending of Model-C schools will cause many middle-income parents to seek to pay full private-school fees rather than take the risk that over the coming years the learning culture of the comprehensive state system will be appreciably lower than that offered in Model C.

Property: Sweeping increases in rates can be expected to hit those living in affluent or relatively affluent, once traditional white, suburbs who have to help to meet the costs of highly desirable improvements in service standards in black townships.

Health: The Broomberg/Shisana plan will surely add heavily to the medical costs of anyone seeking services outside of a who-knows-how-it-will-work national health service.

This basic redress of the disgracefully skewed pattern of government spending in the past is absolutely justified. So is the aim of providing adequate basic services for all.

But, and both the bank and the IMF have warned against these all too real dangers, change has to accommodate some vital factors.

Among these are: the minimal scope for further rises in the total tax bill; the need for great care to be taken to ensure that the essential goal of better education for all does not lead to a loss of the most critical skills that South Africa needs as an indispensable element of much stronger economic growth; and the middle-income group as a whole cannot meet all kinds of user charges without some roughly equivalent reduction in its income tax requirements.

All this means that the government is right back on familiar territory.

Much more government spending in some areas has to be financed by massive cuts in other expenditure.

Changes to retirement tax policy 'encourages avoidance'

CT(BR) 13/9/95 (320)

By Françoise Botha

In a strongly worded attack on the department of inland revenue, Costa Divaris, a tax consultant, said the recent changes to tax policy affecting retirements had encouraged the worst form of tax avoidance.

Speaking at a tax seminar in Cape Town yesterday, Divaris said: "Many people who should not have touched their retirement provisions under the revisions of September 1, did."

He blamed the department for not providing sufficient information about the changes in tax policy with regard to pensions. Many civil servants had retired to avoid paying the higher tax, despite it not applying to them, Divaris said.

Commenting on the practice note issued by Inland Revenue, Divaris said that in effect, the department was encouraging tax avoidance.

"Many people have retired in terms of the funds, but have been re-employed by their companies."

He asked why the department had been "so inept" at addressing the true problem, which he cited as being that the retirement industry had created fund benefits that had not been envisaged when the tax laws had been created.

He said that there had been a failure in the systems of South Africa and that the only system the government could rely on now was the tax system.

"The only form of discipline that we have in this country is financial. It certainly is not helped by justice or the police," he said.

Tax collection costs 'could rise by R1bn'

(320) BD 14/9/95

Samantha Sharpe

THE finance ministry's plan to merge inland revenue and customs and excise into a single independent body — part of a strategy to beef up tax collection — could increase tax collection costs more than R1bn in 1995/96 against 1994/95.

Tax sources said the new body, the SA revenue services, might be expected to raise its funds through a 1,5% fee on revenue collected, estimated to be R123bn in 1995/96. This compared with the 0,8% or R800m in 1994/95.

US tax expert Glenn Jenkins, called in to help government with its restructuring, proposed that SA revenue services pay for private sector salaries and information technology needed to revamp tax administration through a 1,5% fee on revenue collected.

Katz commission member Pierre du Toit said a collection cost of 1,5% of revenues collected would still put SA at the bottom end of the tax collection cost scale when compared with other countries. Measured against international norms a 1,5% fee on tax revenues was "by no means extravagant". The Katz commission had recommended that tax collection costs rise to 1,2% of collected revenue in its interim report.

However, independent tax consultant Willem Cronje said the long-term trend towards increased tax collection expenditure in SA was "worrying".

Tax collection costs in 1985 stood at 0,3% of revenue collected, at 0,8% 10 years later and a proposed 1,5% a year after this, despite a fall in the effectiveness of tax administration.

RAY ESKINAZI

IN MY OPINION

Wanted: a simple tax system and low rates

Ray Eskinazi is Ernst & Young national director of international tax, in Johannesburg.

(320)

FM 15/9/95

The decision to invest in an emerging market is usually an economic one, not unduly influenced by tax considerations.

The recent recommendations of Sacob favour the adoption of a single, low corporate tax rate in preference to a higher rate, unevenly reduced by various tax-based incentives. Though these have been systematically phased out, no effective steps have been taken to reduce the effective corporate tax rate.

An October 1994 Ernst & Young survey of the Global 1 000 companies revealed that reasons for investment are either market-related (internal market opportunities available, the need to pre-empt competition) or strategic (location of manufacturing based on cost advantage or profit maximisation).

However, tax may influence the structure of the investment and the economic outcome. Most of the companies surveyed took tax into account at feasibility study stage. This is not surprising. Though tax incentives are not rated highly as an attraction by investors, an inappropriate tax system can render a project unviable.

Tax systems give relief for taxes incurred overseas in two ways: by exemption or credit.

If the investor is based in an exemption regime, as in most of western Europe, there is no further tax to pay on income taxed abroad. Companies based in such countries have an incentive to minimise tax in the emerging market because it is an absolute cost to them. Therefore, they may well be interested in "tax holidays" exemptions for a specified period.

Investors based in countries with credit systems, such as the US, UK and Japan, face more problems. The tax paid in the emerging market is, in theory, offset against the tax payable in the home country. Effectively, the investor pays tax at whichever rate is the higher.

If income is taxable, the corollary is that financing costs should be deductible. But US companies typically have difficulty obtaining full relief for financing costs because US rules demand that interest expense is apportioned against foreign source income. Multinationals based in most other jurisdictions do not face this problem.

Multinationals based in countries operating foreign tax credit systems may also have problems benefiting from "tax holidays," granted by the emerging market, since all this does is transfer the charge from the emerging market to the investor country. But some investor countries allow "tax sparing," giving the company a notional tax credit representing the tax which would have been payable in the emerging market if no holiday had existed.

Investors in emerging markets also need to consider their home country's general tax regime and whether it will help or hinder the structure to be adopted. There could be tax consequences if technology is transferred to the emerging market country (UK, Netherlands, Australia and others); there could be difficulties in obtaining tax relief in a joint venture (US); there may be few or incomplete rules for dealing with foreign exchange differences (a complex regime, as in the US, Japan and now the UK, may produce problems of its own). There may even be specific incentives to invest in emerging markets (France and Japan).

A major general issue for investor companies from sophisticated tax regimes is the existence of "controlled foreign corporation/company" rules. These rules are designed to stop companies retaining funds offshore in tax havens. This regime will normally deem certain categories of offshore income (usually passive or investment income) to be taxable in the home country, regardless of whether it has actually been remitted there.

Certainty of treatment

The next major issue when investing in an emerging market is certainty of treatment. The major comfort is the home country's tax treaty network. Tax treaties cover all those areas where two countries may claim taxing rights over the same person, transaction or income, and assign precedence to one country in each case.

Tax treaties clarify what entails a taxable activity or transaction, limit the amount of tax which can be withheld on payments made, protect investments from tax in the early stages, and give some security to expatriates' tax positions.

The investor will then have to deal with the flows of payments for intangibles, financing costs and profit distribution. These are often subject to withholding taxes in the emerging market which may also be applied to payments to suppliers. This increases the importance of double tax agreements in planning the flow of funds.

One crucial issue is whether any tax holiday is preserved. Some countries allow tax sparing in their domestic law but others allow it only in double tax agreements. Asian countries' treaties tend to have tax sparing, perhaps reflecting their relative long standing as emerging markets, while newer entrants such as the formerly communist countries of eastern Europe do not.

Where there is no double tax agreement, and the investor is based in a credit regime, unilateral credit under domestic law is the only possibility for relief. Where the treaty network is inadequate, the investor might also consider investing through a third country, known as "treaty shopping."

There are well-known "gateway" locations such as Austria and Cyprus for eastern Europe and the Commonwealth of Independent States, and Mauritius for India, where investors can set up structures which take advantage of generous tax treaties with emerging markets.

"Treaty shopping" has long been attacked by tax authorities in developed regimes, who have tried to limit the benefit to genuine residents of the treaty partners. But, for investment in emerging markets, the technique has a role to play.

To create a successful investment in an emerging market, it is important to make the local economics work. Negatives to be addressed include cost-increasing indirect taxes, turnover and export taxes, high effective rates of employee taxes and social security, and inappropriate levels of profits taxes. Positives are tax holidays and other incentives, as well as the possibility of negotiating an appropriate tax regime.

Retention of sales proceeds in the currency in which they are made may not be possible. A number of emerging market countries have stringent foreign currency controls.

While a foreign entity may be able to retain, in foreign currency, the proceeds of sales made outside the country, this may not apply in other circumstances.

On the more positive side, foreign investment laws may "grandfather" or preserve the regime under which an investment is made, or protect against future tax changes for a specified period. With such arrangements, the risk lies in enforceability.

The advantage of the best intentioned "incentive package" may be neutralised by the tax regime in the investor's home country. As a result, several emerging market countries do not or no longer offer any direct incentives, citing instead simple systems and generally low tax rates.

Though the action required in SA is simple, the debate continues to the detriment of the country's ability to market itself as an attractive investment destination.

Low death duty tax a likely revenue target

(320) ARG 16/9/95

Own Correspondent

Chris Liddle

JOHANNESBURG. — South Africa has one of the lowest rates of death duty in the world, which provides the government with a perfect opportunity to target the tax as a new revenue producer.

About 850 000 households are affected by estate duty which is payable at 15 percent on the portion of dutiable assets exceeding R1 million. But things are almost certain to change and change could come as soon as next year.

The Katz Commission is scheduled to make recommendations for estate duty and donations tax (the two capital transfer taxes) in their November 1995 report. The government then has three months to consider the proposals before announcing the new tax laws in the March 1996 budget.

At a Southern Life media presentation this week, Chris Liddle, executive director of the life division, gave his predictions for a new and more threatening estate duty: a lowering of the threshold from R1million to R700 000, co-inciding with an increase in rate from 15 percent to 25 percent or even 35 percent.

A lowering of the threshold to R700 000 will make estate duty payable by an extra 320 000 households, says Mr Liddle.

The following example shows the effect of an increase — an estate with a net value of R1,1 million will be liable for R15 000 estate duty under present legislation. At a threshold of R700 000 and at a rate of 25 percent, the liability increases to R100 000.

The family who is likely to face a huge estate duty bill has a number of options — to liquidate assets or to borrow when the tax is paid, to save before the event, or to take out life assurance.

The problem with traditional life assurance policies, says Mr Liddle, is that they are not designed specifically to meet the needs of estate planning in that they do not provide for flexible payouts.

"Estate duty legislation permits the tax to be paid at the time of the death of the second spouse (because assets left to a survividing spouse escape estate duty). As one obviously doesn't know whether the husband or wife will die first, one has, until now, had to take out a separate policy for each spouse."

This inflexibility of payouts caused Southern Life to come up with a new life assurance policy, exclusive estate preserver, which offers lower premiums and allows packages to be tailormade to provide liquidity when it's required, be it on the death of the first or second spouse, or for partial payment on the death of each of the spouses.

The estate preserver policy falls under Southern's exclusive life range, which requires policyholders to test for HIV every five years in an effort to protect the policyholder against drastic future premuim increases resulting from the Aids epidemic.

End in sight for 'turmoil' in revenue systems

(320) ARG 16/9/95

Own Correspondent

JOHANNESBURG. — A bureacratic deadlock was broken this week, paving the way for an end to the state of turmoil reigning in the nation's two revenue-collecting departments of Inland Revenue and Customs and Excise.

Over R21 billion is estimated to escape the tax net each year through the inability of the two departments to collect all taxes due.

Yet, the infighting between the ministries of finance (wwhich controls the two departments) and public service and administration has prevented any action being taken to improve the departments' performance.

This week, however, the public service commission broke the deadlock and met to consider a report put forward by the ministry of finance that holds proposals for improving the efficacy of the two departments.

The deadlock between the two ministries was made public earlier this month when the auditor-general, Henri Kluever, blamed the public service commission for the departments' inability to collect all their revenue.

Mr Kluever attributed the problems to the commission's refusal to allow the departments to offer better salary packages to attract qualified staff, and to an over-hasty affirmative action programme.

The public service commission retaliated defensively with a media release stating it was totally unacceptable to blame the commission for the departments' weaknesses and failures.

The finance report being considered by the public service commission has been drawn up by accountant Charles Stride, special adviser to the minister of finance. The report, which has not yet been made public, recommends fundamental structural changes.

It calls for the amalgamation of Inland Revenue and Customs and Excise into one unit, to be known as the South African Revenue Services, the unit to be independent of the public sector. The new revenue service will be led by a chief operating officer who will report directly to an independent board.

The autonomy of the revenue service will open the door to higher salary scales being offered to attract the qualified and skilled staff that are desperately needed.

The business principles to be followed by the revenue service are in line with the recommendations of the Katz commission into taxation in its November 1994 report. The Katz commission recommended the autonomy of the two departments, as well as suggesting that a financial incentive system for tax collection be considered.

It is understood that a crisis management programme for the two departments has recently been prepared which will address the immediate problems. Presently, six out of seven receivers of revenue of the major offices are in an acting capacity only, as no appointments have been made for 18 months and more. The departments' face other problems like an archaic computer system and a general lack of resources.

Also in the pipeline is a proposal for assistance from abroad. Germany, Sweden and the United Kingdom have offered their services in the planning of the new administration system, in the training of staff and in developing a new computer programme.

Uncertain future for clothes sector

CT(BR) 18/9/95

By Jon Beverley

Special Writer

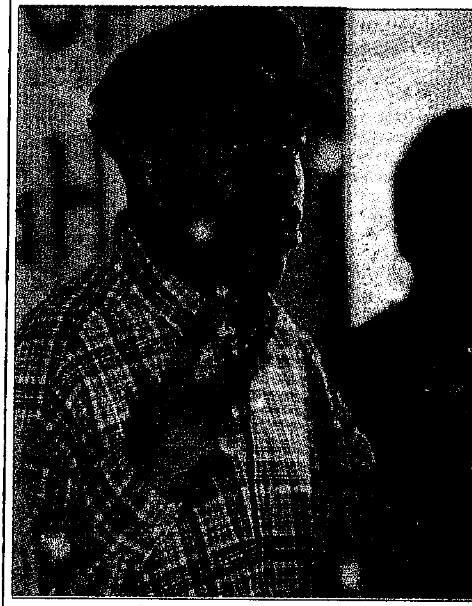
The clothing industry remains in poor shape for the future, says F N Haslett, the chairman of Sterling Clothing. This is in spite of the improvement in income which saw a R373 000 turnaround from a loss last June to a surplus of R218 000 by the end of this June.

The greatest uncertainty is over the relaxation of duty on imports from Zimbabwe, which came into effect at the weekend, together with the continuing drought and the "ever present uncertainty in the labour market".

The results show a 40 percent improvement in turnover to R24 million and a 108 percent rise in operating income to R1 017 million — a trend that has been ongoing since last year's poor first-half results.

Earnings a share are a modest 1,1c — against 1,5c for the whole of last year and a loss of 0,8c for the first half of last year. No forecast is made for the rest of this year.

Labour act 'a victory for unions'



NO SELL OUT *Cosatu's secretary general, Sam Shilowa, denies claims that the union has 'sold out' on key provisions of the Act*

PICTURE: JOHN WOODROOF

By Ross Herbert

Staff Writer

CT(BR) 18/9/95

The Labour Relations Act was a victory for unions, Sam Shilowa, Cosatu's secretary general, said on Friday at a press conference called to counter complaints that Cosatu had "sold out" on key provisions.

Cosatu faced criticism from the Farm and Rural Labour Rights Advocacy Group that the act ignores provisions demanded by agricultural workers. Shilowa said the final bill was far closer to the union's positions than to those proposed by Business South Africa.

He said the ANC had inserted several union-favourable clauses before the bill was passed in the National Assembly on Wednesday. He said fighting to gain more could have delayed the bill until the next parliamentary session.

He said he regretted failing to win an outright ban on the use of scab labour. Under the final bill, employers can use replacement workers in the absence of a lock out.

He said Cosatu would work next year for passage of a mandatory minimum of four weeks severance pay for dismissed workers.

'VAT must rise if economy is to grow'

CT(BR) 18/9/95 (320)

By Audrey D' Angelo

Cape Business Editor

Foreign investors are enthusiastic about South Africa, there is no reason for the economy to slow down and growth of 4 percent or 5 percent is possible, said Brian Kantor, a professor of economics at the University of Cape Town.

In an upbeat address to the annual congress of the Cape Assurance Industry Liaison Committee on Friday, Kantor said consumer spending and exports were rising, capital inflows were good and foreign loans cheaper because the perceived risk factor was lower.

He expected continued stability for the rand.

But it would be essential for VAT to rise and for personal income tax to come down in the next Budget.

Kantor said there was reason for great satisfaction about the healthy state of the economy.

"About 60 percent to 65 percent of the economy is actually consumption spending, and that is growing nicely."

The formal part of the economy, which was the only part that could be measured, was growing at a rate of 3 percent. But the informal sector was important and it was also growing.

This was shown in the taking up of formerly excess capacity in industry and the willingness of manufacturers to invest.

The earnings of the industrial sector of the JSE were 30 percent ahead of last year, after tax.

Kantor said the excellent news was that international capital markets were giving South Africa virtually everything it asked for.

"It comes in a variety of ways, but the most important is in trade credit lines. This is thought of as short-term capital, but in fact it is continually rolled over in trade. It is the best finance you can have — apart from direct investment."

Companies such as IBM and Ford had returned and others such as McDonald's were coming for the first time. Foreign companies already here were making capital investments to remain competitive.

New revenue collection plan 'on very fast track'

(320) CT(BR) 13/9/95

FROM REUTER

The ministry of finance was gearing up to consult the public service commission and unions about plans to restructure revenue collection, parliamentary sources said.

The sources said Alec Erwin, the deputy finance minister, yesterday briefed members of the finance and public service and administration committees privately about the plan, saying they were "on a very fast track".

Chris Liebenberg, the finance minister, briefed the finance committee on the proposed plans last week and afterwards said "fundamental" changes were being considered. He would not elaborate until the cabinet was consulted.

The plans involve the merging of the departments of Inland Revenue and Customs and Excise into the South African Revenue Services under an independent board and a chief operating officer.

As suggested by Glenn Jenkins, an American tax expert of Harvard University earlier this year, the new body would pay for the higher salaries and information technology needed to revamp tax collection through a 1,5 percent fee on revenue collected, the sources said.

According to a document released by the department earlier this year, Jenkins also suggested that the new body should be able to charge a fee for additional services it might be asked to provide.

"A strict performance-based budgeting system should also be implemented," the report said, adding that greater autonomy should be coupled with improved financial reporting to ensure public accountability.

VAT must rise if economy is to grow, warns economist

Star 18/9/95 (320)

■ BY AUDREY D'ANGELO

Foreign investors are enthusiastic about South Africa, there is no reason for the economy to slow down and growth of 4 percent or 5 percent is possible, said Brian Kantor, a professor of economics at the University of Cape Town.

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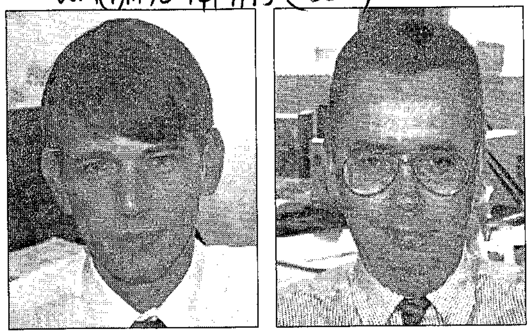
Fewer loopholes for local tax dodgers

wm(pm)8-14/9/95 (320)

Amendments to the Income Tax Act cut back on the loopholes to which firms have become accustomed. **Karen Harverson** reports



Tax loopholes cut: Kevin McManus (left) and Fabian Goody
PHOTOGRAPHS: KAREN HARVERSON

A TAX loophole, which effectively meant Inland Revenue made a loan to the taxpaying public, has been stopped.

This was one of the 1995 amendments to the Income Tax Act, passed in July and reviewed at a Price Waterhouse tax seminar this week.

A set of rules has been introduced to regulate the timing of interest paid on financial instruments such as bonds, and promissory notes .

"Previously there has been a mismatch between the timing of when the issuer of the instrument deducted the interest incurred on the income instrument and the time when the holder of that instrument was taxed on the income from it," says Price Waterhouse partner Kevin McManus.

The issuer would deduct the interest immediately but the holder of that instrument would often only be taxed on the interest received at a later date.

"So, in effect the revenue was losing out on the time value of the money payable," says McManus.

Another loophole, now closed, enabled a company to use the tax write-off on the cost of buying an aircraft to reduce its overall tax.

Forty percent of the cost could be written off in the first year and the remainder over three years. A similar allowance was available for building or buying a ship.

"Various schemes were devised by certain companies to take advantage of this tax incentive, even though they had no use for an aeroplane in their mainstream businesses," says Price Waterhouse partner Fabian Goody.

Tax-paying companies exploited the provision by forming a partnership with a non-tax paying organisation which required a plane for its operations, such as a charity providing medical services.

Both organisations benefit from the scheme. The tax-paying company deducts the expenditure on the plane from its overall income which will result in it paying less tax overall.

The non-tax paying organisation, through the partnership, pays much less for the plane through the use of the tax-paying company's tax capacity.

The Act has since been amended to make the incentive less attractive. Now only 20 percent can be written off in the first year and the remainder over the next four years.

"There's still money to be made but it has effectively been reduced by half," says Goody.

Automakers won't reveal share offer

By Roy Cokayne

PRETORIA BUSINESS EDITOR

CT(BR) 21/9/95

It appears unlikely the National Union of Metalworkers (Numsa) will take a shareholding in Automakers, the holding company of Nissan South Africa which is set to be listed on the JSE on October 24.

Discussions took place between representatives of Automakers and Numsa on Friday following comments by John Newbury, Automakers' chief executive, that it was keen for the unions to take a "strong" shareholding in the company in the future.

Newbury said Numsa was pleased Automakers had made a share offer to the union but believed it would not take up the offer as it did not have a share portfolio.

Numsa officials were unavailable for comment.

Newbury would not disclose how many shares had been allocated to its staff and the unions, adding that this would be revealed when the prospectus for the preferential and public offerings was released at the end of this month.

A total of 180 million shares are to be listed at an issue price of 500c a share. Of the R244 million raised, R125-million will go into Automakers and the remainder will be used to run down Sankorp's shareholding in Automakers from 100 to 55 percent.

Two Japanese companies, Nissan Diesel and Mitsui & Co., are to invest a total of R112,5 million in Automakers, giving them 12,9 percent shareholding in the company.

The 45 percent balance will be held after the listing by a mix of institutions.

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the company.

Solchem is 79 percent owned by CTP, a subsidiary of newspaper and magazine publishers Caxton.

Edwin Jankelowitz, the chairman of Solchem who is also the chairman of CTP and a director of Caxton, said yesterday there were no plans to delist Solchem.

The reason for retaining the list-

it had an arm's length relationship with us, as it does with other printers," he said.

Solchem shares have not been a spectacular investment. They listed at 50c in 1987 and in the first eight months of this year have ranged between a high of 65c and a low of 50c, although they reached a high of 125c last year.

Secondary tax saved companies billions

By Derek Tommey

320 CT(BR) 21/9/95

The introduction by Derek Keys in March 1993 of the secondary tax on companies has probably saved listed companies from paying out about R6 billion in cash dividends in the intervening period, figures compiled by the JSE indicate.

The secondary tax is paid by a company on any cash dividends it declares. But scrip dividends which take the form of shares are exempt from the tax.

As a result many industrial and financial companies have switched to paying scrip dividends and to paying cash dividends only at the request of shareholders.

The cash companies have saved by paying scrip dividends has been available for reinvestment in their operations.

This additional interest-free capital helped boost the growth rate of many companies. It is likely that had manufacturing companies not had this cash saving, investment would have been weaker.

JSE figures show that scrip dividends paid by listed companies in 1993 were worth R697 million. This figure spurted to R2,27 billion last year and in the first eight months of this year amounted to R3,02 billion.

However, many mining companies are still paying cash dividends only and in the 12 months ended August their dividends totalled about R17 billion. This, and the fair amount of double counting which takes place as dividends pass from one company to another, helps to explain why scrip dividends were still only a small proportion of the R22,3 billion in total dividends paid in the 12 months ended August.

Share incentive and option schemes have also contributed extra capital to listed companies. In the first eight months of this year R341,4 million worth of shares were taken up by members of option and share incentive schemes.

This is based on the price at which the shares were issued to members of these schemes and does not show the price at which they were sold.

This year has been a poor year for the exercise of share incentives and option schemes.

Shares worth R1,09 billion were taken up last year and in 1993 R590,4 million.

The heavy exercise of options last year followed the doubling of share prices in the previous two years and was probably triggered by the view that shares prices were unlikely to rise as fast in the next few years. This view has been sustained by the behaviour of the JSE this year. At the end of August the all share index was down 5,5 percent on its December level.

Documents mark the start of a new era in SA's fiscal history

TIM COHEN in Cape Town (320)

BD 22/9/95

TWO recent events mark the formal start of a new era in SA's fiscal history; the publication of the financial and fiscal commission's formula for allocations to provinces, and the publication of the Borrowing Powers of Provincial Governments Bill.

Both documents place the financing of government and its constituent elements on a new footing. Their consequences will determine to what extent provincial governments have the power to be masters of their own financial fate in the years to come.

The report of the Financial and Fiscal Commission sets the criteria and, more importantly, the limits of what provincial governments can expect from national government, and their borrowing powers, determining the extent to which they can stretch those limits.

So now that the dust has settled slightly, how fair are the commission's criteria to the provinces and how much autonomy will they have to set their own fiscal goals?

To an extent, both questions can only be answered in the context of SA's past fiscal setup. Even before work was started on both projects, experts in provincial funding were of the opinion that there were several objective limitations on the extent of provincial fiscal autonomy.

The past collection of taxes on a national basis placed a functional limitation on the ability of new provincial administrations to collect their own taxes because new infrastructure, a new system and new resources would have to be put in place. Even if this was considered a desirable goal, the comparatively small size of the SA economy might render such an option uneconomic. The fact that SA has a VAT system would also make it difficult for provinces to set their own rates of indirect tax.

But overwhelming even these arguments was the stark reality of the vastly different potential tax bases of SA's provinces. In short, provincial governments could expect to be almost totally dependent on national government for the largest part of their funding, even in the medium to long term. With this as a starting point, the commission's formula for the allocation of resources from national government becomes crucial.

As between provinces, the commission's formula rests on three basic elements: a "basic grant", which is determined simply with reference to a province's population, a "national standards grant" which provides a boost for provinces that need to provide more education and more health care and a "tax capacity equalisation grant".

Although the "basic grant" refers to the population of a province, rural residents are given an extra 25% weighting to assist provinces which need more resources to overcome poverty. The commission also considered using the Human Development Index and other socioeconomic indicators, but felt "ruralness" was the most appropriate and least contentious of the indicators.

The "national service standards" grant provides a boost for provinces that have disproportionate populations between five and 17 years of age, and those with greater health care demands.

Thirdly, the commission plans to give more to those provinces which raise their own taxes, but which could not reach an objectively set level. The aim is to encourage accountability by encouraging provinces to raise their own taxes.

It would be achieved by providing a "fill up" to those provinces that raised their own revenue but were unable to reach the specified level because of a limited tax base.

This measure would encourage provinces to raise their own revenues because if they did not do so they would forfeit both the revenue raised and the national government "fill up". But despite the importance the commission attached to this element of the formula, it has not yet been introduced into the formula because it must be done in conjunction with the granting of powers to provinces to levy their own taxes.

Using the first two elements, the commission calculated each province's slice of the pie at a future date. After being careful to ensure no province's income decreased more than 4% a year, it stretched the date its criteria would come into operation to 2000.

In this financial year the losers would be the Western, Northern and Eastern Cape. Free State would remain about the same while the other provinces would get more. But even at the full extent of the application of the commission formula, the changes are not large with even the biggest loser, the Western Cape, dropping from getting about 11% to 8% of the total provincial pie.

Commission deputy chairman Antony Melck said drawing up the formula was easy because, when all calculations were done, the differences between the provinces were not that large. The vast differences in wealth in SA are largely disguised when provinces are taken as a whole. A far more tricky problem awaits provincial governments in deciding on spending between local governments where the differences are much more marked.

Conceivably, the more contentious decision is the total provincial-to-national split — arguably the commission's biggest and least objective policy decision. Here it compromised: the national government's portion of the total national budget will not be decreased in favour of the provinces, but all new resources derived from increased economic growth would be allocated to the provinces. But even with this compromise after five years the national budget will still be larger than all the provincial budgets put together.

The same bias towards national control is evident in the Borrowing Powers of Provincial Governments Bill, which will be put to Parliament next year. Although ostensibly intended to grant provinces the constitutional rights to raise loans, the legislation is restrictive in nature.

The legislation prohibits provinces' access to derivative financial products and foreign capital markets and restricts national government from guaranteeing provinces' domestic loans. The legislation allows the finance minister to place a cap on total loans by specifying an upper limit on interest payments.

Clearly, the main fear of the drafters of the legislation is that borrowing by provinces could allow them to disturb the finance department's carefully laid plans for the reduction of SA's deficit. At the back of their minds is SA's recent painful past of government spending out of control in the former TBVC states.

At the heart of the legislation lies the establishment a loan co-ordinating committee which, according to the memorandum, will ensure equity and "orderliness" in loan-raising programmes.

The committee is made up of the finance minister and the premier (or his representative) of each province. It must reach consensus on the total amount of loans to be raised by each provincial government in each financial year. If it is unable to do so, the minister decides.

Whether the commission and finance department have determined a fair national/provincial split requires expert opinion. There may be good reasons for maintaining national control, but the challenge for national government is to demonstrate two things: Firstly, if provincial governments are going to be essentially the spending agencies of national government, it must show how they are to be accountable for their spending.

Secondly, national government must demonstrate that provincial governments serve some function other than to be national government writ small. After all, if they are all doing exactly the same things as each other, why have provincial governments? Or as a recent Economist article pointed out in the context of education, why will the attempt to achieve equality not merely result in standardisation?

□ **Cohen's Parly View column will resume when Parliament reopens.**

New legislation will help the government to deliver the goods

This is the second of a two-part interview with Alec Erwin, the deputy minister of finance, by Bruce Cameron. It examines why the government has struggled to deliver in the short term, and changes in tax structures, including wealth tax

(320)
CT (BR) 28/7/95

The local government elections and enabling legislation will place the government in a position to increase the rate of delivery on the reconstruction and development programme, although the performance until now has been disappointing, Alec Erwin, the deputy minister of finance, said.

"We would all agree we would have hoped that delivery would have started earlier and there is some concern that it has not. We probably underestimated how important some of the enabling legislation was to get things moving. We thought we could just pump a significant increase in expenditure through the existing system and, with goodwill, things would happen.

"I think local government elections are much more important than we realised because decisive decision-making is needed at the bottom end of the decision-making scale if you want to get things delivered.

"Departments are taking some steps to kick start things, but these are special measures and they cannot be used in every case. We have got to finally rely on local government delivery mechanisms."

Delivery

The slow delivery was having another effect in that funds allocated were not being spent, meaning sizeable amounts were being kept out of the economy, affecting potential growth.

The recently appointed cabinet committee on the economy had been created to speed up delivery, despite being initially misinterpreted as one which would change policy.

Although there was no reason why policy should be rigid, the main reason for the appointment of the committee was to create "a mechanism for focusing and deploying resources in particular areas to get them moving".

Erwin said the government was busy with enabling legislation that should speed up economic growth as well as meet the objectives of the reconstruction and development programme.

Changes

Major changes included the Labour Relations Bill, which apart from its effect on the private sector, was important in helping to restructure the public service. Other legislation, such as the Development Facilitation Act, the education bills, changes in trade and industry policy, and the reform of tax and of customs and excise were important for meeting social and economic targets.

"By the end of next year a lot of the enabling legislation will have been completed. Then we will be dealing with more specifically targeted areas."

Despite his disappointment at the slow delivery, Erwin is pleased with the economic revival which "is much better than we ever anticipated".

It was also important to see phases in economic policy, with the current early phase heavily predicated on discipline and monetary stability.

"I think we will find, as facilitating legislation starts to bite, that the growth rate may well pick up. That does not mean we chuck discipline out of the window. It does mean however that there will be more space to do more things.

"As growth picks up it is easier to work your projections off a conservative base and enjoy the benefits of growth, rather than working off a more optimistic base and then having to start restricting yourself."

Erwin is confident the country will be able to sustain higher growth rates but to do that further structural changes are needed in the economy.

"Everyone agrees, the present structures as they are now, and even with improvements in productivity in the existing industries, growth rates of 3 to 3,5 percent start to impose limits on us."

As part of the solution the government was focusing on developing new sectors of the economy, including small and medium-sized business and tourism.

Reform

Other development issues such as the co-ordinated infrastructure drive and its financing through a partnership of public and private sectors would also spur growth.

Erwin rejected recent criticisms that the government was tackling reform on too wide a front.

"To me what we are doing is not too wide a range. It is the necessary consequence of the new government trying to achieve new direction. I can't easily see what it is we should be stopping.

"We must introduce new investor friendly investment and trade policies. To do that we must have new labour legislation and we must have a new structure for the public service.

"You may have to deploy your resources in a particular area at a particular time, but I believe it is naive to think you stop in other areas."

One of the reasons for the wide range of reform was "we keep underestimating the problems we inherited, thereby overestimating the structure's ability to deliver".

Taxation was another example of where reforms had to be made across the board, not only to improve the efficiency of tax collection, but also in the interests of equity and fairness.

A key issue is the integrity of the tax system that is applied to both inland revenue and to customs and excise.

"We can't have a common tax rate and people get it applied differently." This applied particularly in customs and excise.

South Africa also has an economy of wealth differentials that need restructuring, and the Katz Commission is looking at the issue of fairness in tax.

"Income can be taxed directly or indirectly. It can be done more or less progressively but at some point you do have to ask yourself the question whether you should also tax wealth as an income generator.

"Unless all forms of income are addressed, the tax system tends to lack integrity. If it is possible to make your income wealth, is it that fair that those who do not have the opportunity should carry the full weight of the tax burden?

"This is the kind of philosophic dimension of the tax system on which we want Katz to give us some input."

Erwin said the taxation of wealth was not being considered as some punitive form of revenue raising measure, but to establish integrity of treatment within the whole tax system.

However, tax alone would not meet the financial demands of economic reform. Borrowing to pay for capital expenditure had to be used while the reorganisation of state assets would also play an important part.

Erwin is being tipped in the corridors of parliament as one of the people likely to be promoted to cabinet level in a post local government elections cabinet shuffle.

Erwin, who is the 48-year-old son of a concert violinist, spent most of his adult life conducting the affairs of trade unions, before joining the government of national unity as a member of the African National Congress.

A one-time academic with a Bachelor of Economics Honours from the University of Natal, he was closely associated with the growth of the trade union movement throughout the turbulent seventies and eighties, serving in a number of capacities and playing a significant role in educating workers in the ways of organised labour.

On the political side he represented Cosatu in a number of capacities, including attempts to deal with the violence in KwaZulu Natal. He also played a significant role in harnessing union support for economic and financial sanctions as an effective weapon to get rid of apartheid in the eighties.

From 1986 he co-ordinated the major Cosatu study into the South African economy, and after the unbanning of the ANC in 1990 was involved in the ANC's economic research group and was a labour representative at the National Economic Forum — the forerunner of Nedlac.

BUSINESS

‘Taxpayers should have ombudsman’

(320) ARG 30/9/95

Business Editor

TAXPAYERS should have access to an independent ombudsman appointed by the Chief Justice, says the SA Institute of Chartered Accountants (Saica).

In a submission sent to the Katz Commission on tax, the institute said taxpayers' rights should be incorporated into the Income Tax Act.

An Ombudsman could ensure that tax laws were not applied unfairly or oppressively to taxpayers.

Institute spokesman Len Norval said a code of taxpayers' rights was particularly urgent while the Department of Inland Revenue was understaffed.

Taxpayers were being prejudiced by lengthy delays in dealing with objections and some had been waiting since the beginning of the year for tax refunds.

Taxpayers had a right to up-to-date information on the operation of the tax system and the way tax was assessed, as well as a right to appeal against most decisions made by the tax authorities.

Appeals should be heard within 18 months, failing which the burden of proof should shift from the taxpayer to the Commissioner for Inland Revenue.

Taxpayers were also entitled to help from the authorities with claims for benefits and deductions.

They had a right to a written ruling on matters where the commissioner had discretion. Discretionay decisions should not be delayed for more than two months.

Taxman expects good response to amnesty

(320) CT(BR) 3/10/95

By Roy Cokayne

Pretoria Business Editor

More than 3 000 non-registered taxpayers have already taken advantage of the one-off tax amnesty, which expires at the end of this month.

Sydney Pope, the chief public-relations officer for the office of the commissioner of inland revenue, said 3 078 tax amnesty applications had been received by last Thursday.

Pope said it was reasonable to assume the submission of tax-amnesty applications would follow a similar trend to the submission of IRP6 and VAT forms, many of which only came in on the last day.

Details of the tax amnesty were announced in July this year. It covers income tax, VAT, stamp duty, donations tax, non-residents shareholders tax and secondary tax on companies for which liability might have arisen before March 1 last year. It applies to any employees tax that was payable before March 1 this year, whether the tax was deducted or withheld.

Pope warned that the inland revenue department would deal firmly with taxpayers who had escaped the net and not applied for amnesty after the October 31 expiry date.

"The penalty that can be imposed is quite horrific. A maximum penalty of 200 percent can be imposed, which means a taxpayer can end up paying 300 percent tax," he said.

☐ To make use of the amnesty apply in writing to your local Receiver of Revenue or to the Tax Amnesty Office at PO Box 402 Pretoria.

Applications should be accompanied by an undertaking that you will comply with the provisions of the amnesty.

Combined tax will penalise middle class

(320) BD 4/10/95

Louis Kernick

MANY statements have been made about how estate duty laws should be amended, but there have been very few comments that have questioned the whole idea of a combined estate duty and donations tax.

It must be pointed out that, when the two taxes were at their zenith, in the 1988 tax year, they together produced R149m or 0,38% of total state revenue. In the 1992 tax year, the latest year for which figures are available, it was R85,5m or 0,11%.

Is it worth all the fuss? A whole industry, encompassing the legal and accounting professions as well as the insurance and trust company sectors, has grown up to reduce total state revenue by what must be a minuscule amount to the benefit of a minuscule portion of the community. And the seriously wealthy individuals would have formed their inter vivos trusts long ago and that is where all the capital growth takes place.

A combined tax would penalise, by and large, the families of ordinary people who with ability, industry and sometimes frugality, have accumulated wealth for their retirement — and who, in all probability, have been paying income tax at the highest rate during their productive years.

Of course, some will argue that it is not the wealthy themselves who are being taxed, but the beneficiaries in their estates — who are generally their children. But if that is your argument, then it means that in calculating estate duty, you should take into account the financial circumstances of each beneficiary in each estate.

Why should a wealthy son inherit, duty-free, anything at all from his poor parents, when a poor son has to pay duty on the inheritance from a wealthy parent? Estate duty is vindictive, visiting the taxes of the father on the children.

Why tax only money? Estate duty discriminates against those who happen to have inherited wealth as opposed to those who have inherited superior genes.

As was pointed out by, I think, Milton Friedman, there is nothing "unfair" about inheriting money from your parents. Others may have inherited intelligence, a work ethic, sporting ability or other characteristics which enable them to earn a substantial income (on which they will pay income tax) but these inherited traits are not taxed.

An essential element of most tax planning is the use of a trust, whether inter vivos or testamentary. Using trusts to save tax is actually a misuse of them.

They should be used to protect their beneficiaries from creditors and predators and from foolishness. It is a perversion for an individual to have to distort his financial life and sacrifice legal control over his own assets, just to avoid tax.

Supertax

Proponents of a combined estate duty and donations tax say that we "need a meaningful capital tax". The only reason for any tax is to give a government the funds it needs; this will vary over time and from country to country.

I suspect that what is really behind that statement is that we must tax the capitalists — it does not matter how little tax is collected; if it delays the administration of deceased estates and wastes the time of the Master of the Supreme Court (and consequently taxpayers' money), and if large amounts of money are wasted in trying to avoid or minimise the tax.

If the government really needs the additional funds it could easily, with minimal expense, obtain them by a small rise in income tax across the board or by introducing a supertax.

Or the government could reintroduce the old succession duty, which used to be levied on all estates, the rate being very low and determined by the relationship of the beneficiary to the deceased.

To have both a high tax on income and a high tax on capital makes at least one of them a totally unfair tax. Estate duty is calculated on a person's capital which, for the ordinary man, represents his savings. The Receiver is in effect saying, "While you were working we took a certain percentage; now that you are dead we are going to take another percentage of that which we let you keep and which you were silly enough to save and not spend."

Those whose estates will be seriously affected by estate duty are wealthy enough to afford large sums of money in trying to avoid it or reduce it: that is totally unproductive money and succeeds only in enriching attorneys, accountants, trust companies, banks, insurance companies and agents.

Let the wealthy rather spend their money on riotous living; at least the money will start circulating in the proper quarters. Edward Gibbon, in the Decline and Fall of the Roman Empire, said: "But in the present imperfect condition of society, luxury ... seems to be the only means that can correct the unequal distribution of property."

And if they don't want to live riotously, let them make donations as they wish. If someone has worked hard all his life, let him and his family and the charities of their choice enjoy the money, both while he is alive and on his death.

The Katz commision recognises what Abraham Lincoln said: "You cannot make the poor rich by making the rich poor."

It must also recognise that another tax, perceived by the taxpayer as punitive, will merely add to the brain drain: we shall become a country of skilled geriatrics and unskilled youth. It is to be hoped that wise counsel, and not politics, will prevail in their deliberations.

□ **Kernick is a partner at Webber Wentzel Bowens.**

Tax administration 'needs much attention'

By Françoise Botha

(320) CT (BR) 9/10/95

Staff Writer

The administrative inefficiencies of revenue are affecting the constitutional rights of the tax-paying public and the system is no longer uniform nor consistent in terms of the directives issued, says Pierre du Toit, a senior tax partner of Arthur Andersen.

Speaking at a function in Cape Town last week, du Toit, who is also a member of the Katz Commission, said that changes to administration would be required before the tax system could be altered.

He said this was a major focus of the commission and necessary to create a solid foundation for policy changes. Outlining the changes, du Toit said that major alteration of the tax system was unlikely in the next few years, but that efficiency of collection and payment would be enhanced.

"Tax reforms in our country cannot be drastic because of the administrative hold-up."

He said administrative changes would be likely to take place in three distinct stages.

The first would be a move to an independent revenue administration with the aim of preventing leakages of income resulting from tax evasion.

Secondly, administrative injustices and a lack of consumer orientation from revenue administration would have to be addressed so that a consistent method of operation and proper guidelines were put in place.

He said that this would virtually amount to being a "taxpayers Bill of Rights".

And thirdly tax reforms in respect of STC and taxation of dividends would be called for.

Deterrent

On the question of personal tax, Du Toit said that the maximum tax rate of 45 percent being levied at an income level of R80 000 was a major deterrent to entrepreneurial expansion and would need to be addressed.

Two other areas that would receive attention included VAT, which he felt was too low, and the fiscal privileges that were being applied to the retirement industry.

"The South African tax system should balance the political needs of a large needy population with the economic requirements of a free-market economy. We have an economy at a solid dependable growth rate of 3 percent a year and I believe we have not yet seen the real benefit of the economic upturn.

"We are definitely not about to see tax wars erupting in South Africa."

Inland revenue rejects tax plan

(320)

Beatrix Payne

BD 11/10/95

THE inland revenue service yesterday poured cold water on a Johannesburg Chamber of Commerce and Industry suggestion that metropolitan taxes be piggybacked on personal income tax.

The office was already under pressure from a lack of staff and resources and it did not have the capacity to collect an additional tax, inland revenue commissioner chief public relations officer, Sid Pope, said yesterday.

The chamber has called for replacement of transitional metropolitan council service and establishment levies with an increase in personal income tax.

Pope warned that income derived from the council tax could drop if the base of the calculation was changed to enable it to be collected as an income tax.

Income tax was calculated according to bottom-line profits, but the council taxes were based on payrolls and turnover.

Non-profit organisations such as the SPCA or body corporates could, as a result, escape the tax collection net, he said.

Cape Town Chamber of Commerce executive director Alan Lighton said the chamber supported the abolition of the council taxes, saying that they could be collected more effectively by piggy-backing them with VAT at a national level.

Any changes to the tax system would, however, have to be accompanied by a restructuring of inland revenue.

Durban Chamber of Commerce and Industry tax portfolio manager Fred Barry said the current administration of tax was "horrendous" and that any additional pressure on the present system could do more harm than good.

Collection of a metropolitan tax at national level could be problematic as regions and metropoles would be dependent on transfers from central government.

"That is always fraught (with risks). It would be better to keep the collection local," Cape Town council financial services deputy director Hennie Smit said.

Shifting the tax burden from business to individuals could be unpopular, as individuals were already heavily taxed.

Most businesses also already passed the cost of the levies on to the consumer.

THURSDAY
OCTOBER 12, 1995 ★

'Poor control of govt funds'

(320)

POLITICAL STAFF

CT 12/10/95

URGENT and extraordinary measures should be taken to ensure sound financial administration of tax collectors and customs offices, Parliament's joint committee on public accounts said yesterday.

It strongly criticised the lack of urgency in the Department of Inland Revenue, particularly because of "the gravity of the situation and substantial loss of revenue".

It also said Customs and Excise had "unreliable records of goods imported and exported".

The committee's report, which was tabled in Parliament, said it was concerned at the considerable time lapse since it had raised queries about the secret service accounts administered by the previous government.

It added that the law should be changed to give the Department of State Expenditure the access it needed for proper control over the budget and spending of the National Intelligence Agency and the SA Secret Services.

Provinces must be trusted with their taxes

CT(PAR) 12/10/95 (320)

TAXING QUESTIONS

Even a cow can see that our country can only be fed on a diet of fiscal federalism

BY MATSHERU MATSHERU

In his recent visit to South Africa, German Chancellor, Helmut Kohl expressed the view that a federal structure is the recipe for tribal conflict in this country.

However, the Pan African Congress of Azania is of the opinion that a unitary constitution implies national unity of the people and is therefore the answer for South Africa.

The opponents of federalism further state that federalism is expensive, duplicative and has no success story in Africa, Nigeria being a case in point.

However, despite the political merits and demerits of both federal and central constitutions, the real battle and the most important one clearly lies in fiscal powers or the lack thereof.

Our provinces do not have fiscal teeth except those which are limited to levies and taxes imposed on casinos.

The ANC believes the country should have a unified legislative and administrative fiscus and public financial system.

The National Party believes the fiscal relations between the three tiers of government should reflect the spirit of the constitution, recognising the functions of the various levels and grant them, on an equitable basis, access to the country's tax base and financial resources.

The Democratic Party argues that international experience has shown that legislative powers, without the necessary financial resources to implement programmes, lead to an erosion of the credibility of the provinces and local government.

It is clear that the government is reluctant to give provinces fiscal powers — the power to collect and use tax monies as they see fit.

Perhaps this is because the corruption and dubious administration of the homelands is still very fresh in their minds.

The auditor-general's report shows that the country's administration is being threatened by the ongoing problem of the former independent homelands and the creation of new provinces.

The government is busy investigating and will possibly punish those who — politically speaking — oppose them, while accommodating those who support them in spite of a corrupt history — a case of selective morality by a government which prides itself on using admirable words such as good governance and transparency.

In my opinion, the government has two choices. Either it gives provinces fiscal powers or does away with the concept of provincial government altogether and replaces it with the concept of a governor.

If it elects to take the governor route, this will save taxpayers millions in paying the salaries and allowances of various ministers scattered all over the provinces.

If it continues with the provincial route, it seems to have no other option but to adopt fiscal federalism.

There are advantages in giving provinces fiscal rights. For example, the provincial government will also be obliged to collect taxes in its own province. This can strengthen the ailing revenue hand.

Before the election, Alec Erwin, — now the deputy minister of finance, was quoted as saying: "People in large parts of the economy, such as the taxi industry, are not paying tax, as are a lot of businessmen in the homelands, and no one is even attempting to collect it".

So, as soon as provinces are given fiscal teeth, this may signal an effective tax collection drive.

How long should provinces remain fiscal infants and how long must the central government continue to be a fiscal nanny?

TRIBAL WARNING *German Chancellor Helmut Kohl*

Provincial governments without fiscal powers will remain homelands dressed in different names. It also shows that the government does not trust them. The government must cut the fiscal umbilical cord that ties it to the provinces so that they can be responsible and stand on their own feet.

Government's fear that once provinces are given fiscal powers they will start the corruption feast is ironic because our leaders have not been exemplary, even at central level.

The government cannot continue to point a finger at fiscal federalism as the breeding ground for corruption.

The problem is not federalism, but management.

Similarly, the financial mismanagement by the homelands did not take place because they were called homelands.

Problems existed because there was no good management and control over the use of money.

The following are guidelines for the management of fiscal federalism:

☐ Provinces should be given full training on fiscal management before they start to collect taxes;

☐ There should be clear moral guidelines and punishment provisions for any province found guilty of misusing taxpayers' funds. In the name of transparency, the public should also be made aware of such moral guidelines so that they can be the watchdogs of their own leaders;

☐ Provincial books should be audited on a quarterly basis and the public should be notified on the financial progress or lack of it. If such mechanisms to ensure popular participation by the citizens in national affairs are not accommodated, any budget will fall short of fulfiling the national expectations of the people and could spark off resentment.

The granting of fiscal powers to provinces is a matter of urgency. If this cannot be sped up it may create a perception that the country is working on the principle that for one to be healthy one must first get sick.

Perhaps the government must be reminded of Thomas Carlyle's wise words: "Our main business is not to see what lies dimly at a distance, but to do what lies clearly at hand".

☐ *Matsheru Matsheru is an independent tax consultant*

Govt considers a levy on all new cars

BD 12/10/95 (320)

Michael Urquhart

GOVERNMENT is considering slapping a levy on new car prices in a bid to recoup revenue lost when excise duties were removed.

Customs and excise officials said yesterday they were discussing the levy with the Board on Tariffs and Trade. No decision had been made.

Sources close to the National Association of Automobile Manufacturers of SA (Naamsa) suggested some form of ad valorem duty on locally produced and imported cars.

Unconfirmed figures put the levy on a sliding scale from 0,5% to 6,1%.

The previous 2,5% duty, introduced in 1991 when general sales tax was replaced with VAT, fell away in September when phase VI of the local content programme was replaced with the motor industry development programme.

Econometrix economist Tony Twine said the loss of revenue for the department when the old duty had fallen away was substantial. He estimated that the wholesale sales value of motor vehicles in SA last year had been R17bn, and could reach R24,5bn this year. The department had been earning 2,5% of this, about R425m.

Figures released by Naamsa last week showed car sales for September hit 21 926 — a leap of 92% on the same month last year. Total car sales this year are expected to reach 240 000 — one of the highest in a decade. A key factor behind the growth has been lower inflation and falling interest rates.

Twine said the momentum in the market would probably limit the damage to sales caused by the levy.

But the problem with this duty was that it was originally instituted to make up the difference between general sales tax at 13% and VAT at 10%. Since it was introduced VAT had increased to 14% and the original reason for the duty had fallen away.

Tax situation 'must improve'

(320) BD 18/10/95

PORT ELIZABETH — Government must provide a framework for an improved investment environment if SA was to benefit from foreign direct investment, Anglo American deputy chairman Leslie Boyd said yesterday.

Boyd said at the SA Chamber of Business annual convention in Port Elizabeth that foreign direct investment would come to SA only "when suitably rewarding investment opportunities exist".

"The government has still not provided a framework for an improved investment environment which might attract capital away from other competing nations to SA."

Several studies had concluded SA's tax environment was uncompetitive in terms of investment funds.

Boyd called on government to abolish the secondary tax on companies and to lower income tax rates.

He said while tax rates were not the top of investors' lists of priorities, SA did not have a good record in higher priority areas such as political and social stability, crime and violence and a solid record of economic performance. — Sapa.

Sacob: regional council taxes must go

(320) BD 18/10/95

PORT ELIZABETH — THE SA Chamber of Business (Sacob) yesterday called for the abolition of regional services council taxes.

But although delegates at the chamber's annual convention in Port Elizabeth agreed to pass the motion calling for the abolition, they were unable to agree on a suitable replacement.

Some delegates proposed Sacob hold off on a decision until the national and provincial tax regimes were revamped.

The Johannesburg Chamber of Commerce and Industry said the existing system — which taxes companies' turnover and payroll — was inherently flawed, opaque and expensive to administer, while the regulations governing it were too complicated. A tax surcharge and higher VAT were mooted.

Last week the inland revenue department dismissed the chamber's proposal to piggyback the levies on income tax, saying the department was already understaffed and did not have the capacity to collect an additional tax.

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Housing delay dents building activity

BD 18/10/95 (32)(123)

Edward West

CAPE TOWN — The housing programme delay had prompted a decline in building and construction activity in the third quarter, Stellenbosch University's Bureau of Economic Research said yesterday.

The decline had bruised confidence in both the residential and non-residential sectors of the market, and expectations for the fourth quarter were generally negative.

But bureau said the setback's link to the housing programme meant prospects could only improve, and most respondents were positive about 1996.

The bureau also expected economic growth — especially fixed investment — to spill over into the building industry in due course.

The survey found that both contractors and subcontractors experienced the setback in activity, and tendering activities had risen sharply. The lull had forced a levelling off in previous steep increases in building costs.

Finance facilities were becoming more accessible, but the cost of finance and insufficient demand for building were rated the most serious dampeners on industry activity.

Architects reported lower employment, fewer projects at sketch plan stage and fewer contracts. Business confidence had dropped and architects who responded to the survey were cautious about fourth-quarter prospects.

Quantity surveyors also reported lower employment, fewer projects at sketch plan stage and fewer projects at bills of quantity stage. Fewer contracts were awarded and the profession was pessimistic, the survey showed.

RUM

Cabinet decision on tax and customs an important sign of fiscal sanity

(320) CT(BR)26/10/95

TAXING QUESTIONS

While efforts to rehabilitate the system are to be lauded, there is still much to be done

BY MATSHERU MATSHERU

Fiscal sanity prevailed last week when the Cabinet decided to free both the Inland Revenue and the Customs and Excise departments from public service management constraints.

I think they did so after realising that there is no tax light at the end of the government-controlled tax collection tunnel.

If this important decision was taken and implemented before the tax amnesty was announced, I think the amnesty would have been a success story under the independent tax collection machinery.

Nevertheless, the cabinet decision deserves our praise and they are mostly to be congratulated — after all, to offer congratulations costs nothing.

The amalgamation of the Inland Revenue and Customs and Excise into one tax collection unit will be headed by a chief operating officer and an Independent Board.

The Inland Revenue has been our sick child for too long. Yet prescription of the right medicine has not been forthcoming.

Is privatisation the right medicine? In principle I think so.

It is widely expected that the Independent South African Revenue Services will bring about:

- Skilled staff.
- Efficient management.
- Better working conditions.
- Better remuneration.

However, privatisation may still fail to lead us to the tax world of milk and honey if it is wrongly implemented. For example, people should not be given certain positions on the grounds of their pigmentation. They should be employed on merit.

Colour and political appointments often militate against productivity and undermine the economy.

This is because skilled personnel who are discriminated against are likely to resign or not perform according to expectations because of disillusionment. All people must be well trained and obliged to deliver.

I must also congratulate both the Commissioner for Inland Revenue and for Customs and Excise for their fiscal foresight.

Proverbially, we would say in Venda: "Tshe wa lilela musanda wo tshiwana, nungo ya denga i mukuloni". This can be translated as: "You got what you were looking for and now the chain is around your neck".

I hope that you will not use the chain to hang yourself and the country. You should use it as a symbol of fiscal triumph.

Tax is defined as a compulsory contribution by the citizens to the state. But in South Africa, tax has become voluntary as people pay as and when they like.

The following are some of the causes of this sad state of tax affairs:

Firstly, there is the perception which cuts across all sectors of our society that the tax collector does not have teeth. And even if he may happen to have some, he still lacks the ability to bite.

Secondly, there is a strong perception that the tax rates are high and this discourages honesty.

Honest taxpayers feel that they are being pushed over the cliff by an unsympathetic tax system.

There is a feeling that if the fiscal taps can be opened so that everyone can start to pay, tax rates may go down.

Both these views need urgent attention to ensure successful policing and greater efficiency.

The tax gatherer must be aggressive, firm, ruthless and tough on tax delinquency. A major tax clean-up is needed because responsibility must be enforced.

Failure to put its foot down means that our tax collectors will not be able to reap the expected fiscal dividends.

The country will not have enough security, its children will not be educated and health will not be secured.

Another important task is for the tax collector to advise the government that its behaviour can have an effect on the success or failure of the tax system.

For example, if taxpayers read stories of government officials using state assets for private use, corruption and nepotism, they will be demotivated from contributing to the cost of running the country.

'You got what you were looking for and now the chain is around your neck'

It is also in the interest of the taxpayers to know whether our leaders are also paying taxes and duties and proof of this must be visible to all.

The following are guidelines for the South African Revenue Services administrators:

- A tax education campaign should be your priority. The tax system will have credibility if people know their rights as well as their obligations.
- Investigate people who are driving expensive cars and living in expensive houses. Find out where they got the money from and whether they pay tax or not.
- In conjunction with the trade and industry ministry, a free but compulsory business registration certificate should be issued to all South African business people.

This will enable you to put all businesses into the tax registry and make it possible to blow the whistle on tax dodgers.

- The Minister of Finance should introduce a law that people who are not contributing to the state through income tax should not qualify for the old-age social pension.
- It should also investigate whether all the non-government organisations qualify for income tax exemption and also investigate whether their employees are paying PAYE or not. There is a perception that some of these organisations are just financial wolves dressed in sheep's clothing. Beware.
- A tax number should be one of the qualifications needed to open a business banking account. If the issue of a tax number does not succeed, a person's identity number should be regarded as a tax number.
- The name of the South African Revenue Services should be changed to South African Tax Services. Many people would understand the word tax more easily than the word revenue.

I hope there will be intellectual exchange between the chief operation officer, Independent Board and the Minister of Finance.

This is imperative to ensure tax stability so that we can meet the expectations of nations.

We are waiting for action.

Matsheru Matsheru is an independent tax consultant

Steps unveiled to increase tax take

(320)

Greta Steyn BD 27/10/95

FINANCE Minister Chris Liebenberg unveiled a long-awaited plan to beef up SA's faltering tax collection services yesterday — a move which he said would enable government to cut taxes.

He also extended the deadline for the tax amnesty from the end of this month to the end of January, saying the focus on the local government election had detracted from the campaign to get tax avoiders to register.

In terms of the plan to improve tax collection, customs and excise and inland revenue will be merged into an "autonomous" revenue-services entity, the SA revenue services, to be run along business lines. But contrary to expectations, the new body would remain within the public service.

A key element of the reform plan is to spend more on tax collection by paying better salaries and using proper technology. But expectations that the new revenue services would be funded through a 1,5% fee on revenue collected — an increase of about R1bn from the present level — failed to materialise.

Liebenberg said the formula for funding the services still had to be determined. A "carrot approach" would be used in arriving at the figure, and incentives might be built in.

He dismissed suggestions that the reforms did not go far enough to make a meaningful difference to the present tax take.: "I would be very disappointed if in the next year's collection there is not yet an improvement."

He had already identified areas where tax cuts would be possible — secondary tax on companies and the personal income tax rates of middle income earners. "Our top tax rate kicks in at too low a level," he said. A cut in taxes would be the logical outcome of the tax reforms, as government had given a commitment not to raise the tax burden as a percentage of GDP.

Finance director-general Estian Calitz said it could take two to three years before the transformation process was completed.

The plan envisages the appointment of a board of directors by the finance minister. Tax experts from outside government would be appointed, as would people with the necessary business and administrative skills.

Asked whether competitive salaries could be offered if the services re-

Continued on Page 2

Tax net

(320) BD 27/10/95

Continued from Page 1

mained under the control of the public service commission, Erwin said government had put a new grading structure on the table for the public service as a whole. "This goes a long way towards addressing the problem."

The grading structure would be in place after two to three years. Discussions with the public service minister and the public service commission were also taking place on how to achieve personnel objectives.

The reforms were announced about a year after the Katz commission on taxation said billions of rands could be netted if inland revenue and customs and excise were reformed. Liebenberg said research and consultation had taken a long time, and SA was basing its plans on international experience.

Erwin said countries that had not merged customs and excise and inland revenue wished they had done so. SA had the support of international experts from countries including Britain, the US and Australia which would help SA achieve a complete overhaul.

The finance department also said action to tighten controls at customs posts had led to the arrest of eight customs officers at Beitbridge for alleged forgery of export documentation. The estimated loss of customs duties amounted to R99m. Investigations into the companies involved were continuing and steps were being taken to recover the duties.

Shake-up in tax collection is on track

CT(BR) 27/10/95 (320)

By Llewellyn Jones

Johannesburg — The restructuring of the South African revenue collection should begin early next year and would show results in the fiscal year ending in March 1997, Finance Minister Chris Liebenberg said yesterday.

He said the Cabinet approved the reform process to restructure the departments of customs and excise, and inland revenue to establish an autonomous revenue service entity to be known as the South African Revenue Services.

Coinciding with the announcement of the reform process, Liebenberg also announced that the tax amnesty would be extended until the end of January next year.

He said there had been a pleasing increase in the number of people registering as taxpayers.

Liebenberg said the new service should increase revenue collections within a year of implementation. "We are confident it will work. The proposals will allow us the flexibility to be able to match the client with our personnel and technical skills."

The government's revenue functions have come under fire recently for their inefficiency — largely due to budgetary constraints, outdated technology and insufficient manpower and skills.

The board of directors of the new service would pursue a personnel policy which would include appropriate affirmative action, educational support programmes, recruitment targets, development programmes and flexible skills deployment to match the rapid changes in the private sector and economy.

Discussions with the public service minister and the public service commission were continuing to establish how this could be accommodated within the public service.

"At the crux of the proposals is the split between philosophy and policy on the one hand, over which the minister and the department of finance will continue to preside, and implementation on the other hand, which will be operated on a much more business-like basis under the auspices of the board and the chief executive," Liebenberg said.

He said the main benefit sought from the reform process was to achieve effective revenue collections. "An improvement in the collection of taxes from a wider base would enable the government to consider a reduction in tax rates down the line."

Meanwhile, Sapa reported that the finance department believed that the reason why many people had not registered was because they did not understand the process. The extension would allow for a more client-friendly registration method.

Extra petrol tax is possible

(320) BD 27/10/95

Mungo Soggot

GOVERNMENT was considering slapping extra tax on the petrol price to raise cash and curb demand, trade and industry special adviser Paul Jourdan said yesterday.

Industry sources said there was talk of an extra R1, which would bump up the current price of petrol to about R3. However, Jourdan dismissed this figure as "gossip".

"There are discussions at the moment, but there are no figures yet. It is early days."

Under the scheme the diesel price would be left alone and government would push for greater use of diesel in taxis and industry in general.

Jourdan said SA's petrol tax was one of the lowest in the world — only about half the level of the average petrol tax in Europe.

The key was to encourage a move to diesel engines, particularly in the taxi industry. A stumbling block was that diesel engines were more expensive.

The idea would be to have diesel as the business fuel and petrol for luxury.

Jourdan said another possibility was to have special pumps with cheaper petrol for the taxi industry.

This would allow for a substantial hike in the petrol price without angering the powerful taxi lobby.

Industry talk is that Jourdan is tipped to take over as director-general of the minerals and energy affairs department after Piet Hugo steps down next month. He declined to comment.

The possibility of playing with the differential between the two fuels features in government's Green Paper on the industry, which is due to go white early next year.

Atlantis Diesel Engines (ADE) has long pushed for greater use of diesel engines, and has now been joined by car manufacturer Samcor.

The SA Petroleum Industry Association said it favoured the idea of a macroeconomic investigation into the proper use of diesel.

One analyst said the move would help soak up SA's considerable surplus of diesel. This was currently exported to neighbouring countries at cut-price rates, the analyst said.

The scheme would help curb demand for petrol.

In the nine months to September, petrol sales rose 5,1% and diesel 7,1% over the same period last year. SA was rapidly approaching a situation where it would run out of refining capacity, analysts said.

Transnet economist Mike Schüssler said he thought the petrol tax would be increased 5c to 10c in the near future — nothing near R1. "That would cause a middle class tax revolt. It is an easy source of revenue, though."

He said the move would boost government revenue about R10bn, but would add three to four percentage points to the inflation rate.

New era dawns with your friend the taxman!

(320) ARG 28/10/95

LEIGH ROBERTS
Staff Reporter

IT is the dawn of a new era: taxpayers will now be known as clients, the taxman's office will be almost paperless and the taxman's staff will be better armed in their fight against fraud.

And, oh yes, don't forget the government's promise (yet another) of individual tax rates coming down in the future.

At a Press briefing in Johannesburg this week Minister of Finance Chris Liebenberg announced the long-awaited amalgamation of the departments of Inland Revenue and Customs and Excise into the new South African Revenue Services (SARS).

The SARS is a complete overhaul of the existing structure. For a start, it's largely autonomous. While the Public Service retains control and discipline of the new entity, the SARS has control over its key resources, allowing it to offer market-related salaries to attract — and keep — skilled staff, as well as to invest in hi-tech computer equipment.

The Department of Finance will continue to dictate tax policy, but the management of the SARS will be along business lines with a chief executive officer reporting to an independent board of directors.

■ The taxman intends to be more user-friendly to his "clients" — the new name for taxpayers.

Appointments to the board have yet to be made, and the complete overhaul of the new structure is expected to take a few years.

The overhaul is expected, however, to yield short-term results, with Mr Liebenberg saying he'd be disappointed if the government's tax "take" had not improved within the next year.

The new regime holds a number of implications for taxpayers.

The SARS should offer a more efficient, professional, faster and friendlier service to its clients. At the press briefing, deputy minister Alec Erwin called the new philosophy "a partnership with taxpayers".

One spin-off of the new SARS, said Mr Erwin, is likely to be a system of self-assessment for certain taxpayers. Also on the cards, is a bill of rights for taxpayers.

While taxpayers who've been paying their tax religiously for many years will welcome the changes, errant and fraudulent taxpayers should watch out. Mr Erwin says taxpayers who violate the partnership agreement will be punished "very severely".

The amalgamation of the two departments will allow for a new range of cross-checks and audit paths. For instance, a specific shipment of goods will be able to be traced to the final income tax producing sale.

The taxman's staff will enjoy a structured training programme, and are to be equipped with computers to enable them to deal with their clients. In future, a taxpayer under audit could find himself face to face with a team of highly skilled investigators who have all the facts and figures at their fingertips, thanks to their laptop computers.

An effective SARS which collects all the taxes due could pave the way for lower tax rates. Mr Liebenberg says the two great pressures in tax now are the Secondary Tax on Companies (a tax on company dividends) and more so, the tax rates on middle-income groups and perhaps, lower-income taxpayers.

At the top end of the market, he said, the maximum marginal tax rate kicks in at too low a level. (The maximum rate is 45 percent above a taxable income of R80 000.)

The Commissioner for Inland Revenue, Trevor van Heerden, said that in the past, high tax rates had caused distortions and as (the department's) funding had dried up, they had targeted soft targets like salary earners.

"What the government wants us to do is to collect on a much wider basis at the lower rate. That has major advantages for people who have to pay at the higher rate," said Mr Van Heerden.

■ An amnesty offered to people who had not registered for income tax had been extended until January 31 next year, Finance Minister Chris Liebenberg said in a statement on Thursday.

Although there had been a pleasing increase in the number of people registering as taxpayers, the local government elections took some of the focus away from the tax amnesty campaign, he said.

The department also felt many people had not registered because they did not understand the process. The extension of the amnesty period would allow for a more client-friendly registration method to be devised.

Government must avoid being populist in fiscal matters

(320) CT 2/11/95

TAXING QUESTIONS

BY MATSHERU MATSHERU

Strategically timed policy changes do little to convince the electorate

Last week taxpayers' faces were brightened by Finance Minister Chris Liebenberg's pronouncements that he has identified areas where tax cuts would be possible, namely the secondary tax on companies and personal income tax on middle-income earners.

This has come at a time when there is a strong suggestion that our country should be renamed the Republic of Taxmania.

Indeed, taxation has reached such a level that people tend to feel a sense of injustice at having to part with so much of their hard-earned money.

The minister's keenness to offload fiscal burden from taxpayers shoulders deserves our admiration and qualifies him for a pat on the back.

Personal income tax reduction will not only help employees but will also benefit small business as the majority of them are taxed as individual taxpayers.

Tax stimuli are needed to encourage small business to participate in the national affairs of the country by helping to create much-needed employment. This is imperative because our economy is growing but is not creating employment.

Liebenberg's sweet tax words also come at a time when many of the small businesses are dying slowly.

Further, reduction of the punitive secondary tax on companies is most welcome. This tax is perceived as one of the obstacles to foreign investment. In fact, it is time that it must be wiped out completely from our tax laws.

Americans will not find our country an investors' paradise simply because we speak English. The Japanese will not just lay assembly lines because of our love for their cars. Neither will Germany come here because we have a vast pool of natural resources. These things may be persuasive but they do not, in themselves, convert a would-be investor.

In addition to creating employment, foreign investors often bring with them state-of-the-art technologies. They also contribute to the fiscus through direct and indirect taxes. They are the geese that lay the golden eggs.

However, Liebenberg failed to tell us, in the name of transparency, to what percentage he would like to lower the tax rates and when can we expect this to happen.

This culture of secrecy will hamper taxpayers' ability to plan ahead and we will forever operate in a confusing state of uncertainty.

What secret could government be hiding from the people it governs, the same people who elected it into office? Or was it elected to pursue a secret agenda? We really wonder.

Before the 1994 general election, the nation's hopes were raised with the promise that the tax rates would not be increased. Our hopes were dashed when the government increased the maximum marginal rate on individual taxpayers from 43 to 45 percent. This not only shows a lack of political commitment to translate good intentions into concrete actions, it also seems to underestimate the nation's intelligence.

Without undermining Chris Liebenberg's credibility, his timing of the announcement — that is, a few days before the local elections — is also cause for political concern.

This has created a perception that it is a government pre-election gimmick and it will not be honoured.

The nation is waiting anxiously for our leaders to honour their tax promise. If the authorities again fail to fulfil their commitments, taxpayers should not hesitate to create a precedent by unreservedly rejecting the next national budget and demanding that the finance minister and his fellow parliamentarians return to the budget drawing board.

Liebenberg also announced that the tax amnesty's October 31 deadline is being postponed to January 31 1996. He cited the nation's focus on the election as the reason for failure of the amnesty.

I think the authorities should have used the election to encourage the people to register for the tax amnesty on the basis that the electorate's expectation cannot be met if people are not paying tax. I think they missed the opportunity.

I don't enjoy prophesying doom, but this column has warned before that the tax amnesty is bound to fail. And unfortunately, it will fail because the government is succumbing to the deadly virus of being populist in its approach to fiscal matters.

Africa was great before. It can also be great again only if leaders can legislate laws with the next development in mind rather than the next election.

Food for thought.

☐ *Matsheru Matsheru is an independent tax consultant.*

TAX COLLECTION

New dawn

(320)

FM 3/11/95

The grand plan to reform revenue collection has been announced and, if it works well enough, could bring relief for burdened middle-income taxpayers.

Secondary tax on companies could also be cut, says Finance Minister Chris Liebenberg.

The plan is to introduce legislation early next year enabling Inland Revenue to merge with Customs & Excise to form SA Revenue Services. But only when work on the new administrative structure is advanced will it be possible to determine whether it meets expectations.

Liebenberg will appoint a board of directors and a CEO to manage the service. The board will appoint subsequent CEOs.

The new body will still be managed within the discipline and guidelines of government including the Public Service Commission, which will still set salary and service guidelines.

But Deputy Finance Minister Alec Erwin says new guidelines for the public service should be flexible enough to attract competent staff.

Liebenberg says analysis of the administrative problems in the two departments showed many problems could not be blamed on the commission. So removal from its control was not the answer.

The board will control key resources needed to run the service. This implies office space and funds to pay staff and establish modern electronic systems.

It is tempting to believe the continued role of the commission was a necessary face-saving device. And Customs and Revenue commissioners will still administer tax laws under the changeover. This suggests they will have to surrender administrative responsibilities to the new director — still to be appointed.

The commissioners might be relieved to relinquish some responsibilities and restrict themselves to the many vital legal issues

related to tax collection. Funding will be based on a formula (a percentage of gross revenue) determined by the Finance Minister, in conjunction with the board and subject to approval by the Treasury Committee and Cabinet.

SA Revenue Services will be accountable to parliament, through the Minister, and its operations will be transparent. The body will be subject to audit by the Auditor-General and will be required to account for the collection of revenue according to procedures approved by the Treasury. ■

Africa must prepare for Gatt or face doom

(320) CT(BR) 9/11/95

FROM SAPA

Windhoek — Sub-Saharan Africa's short-term economic growth prospects are the best they have been in years, but longer term development may be doomed without suitable preparation for Gatt.

Addressing central bank governors at the Association of African Central Banks in Windhoek yesterday, Rana Tacouri, the managing director of the Bank of Mauritius, said Africa's economic activity had increased 2,7 percent last year compared with 0,7 percent in 1993.

World GDP had grown by 3,7 percent last year and the latest World Economic Outlook had predicted this would increase by 3,8 percent this year and 4,2 percent next year.

"Against the background of a significant improvement in the external environment, the short-term outlook for sub-Saharan Africa is better than it has been for a number of years," Tacouri said.

Real GDP growth was expected to average 5 percent a year during 1995/96, allowing gains in real per capita income of 2 percent a year.

Average inflation was projected to slow to 10 percent by next year with the external current account deficit being narrowed.

"The improved growth prospects largely reflect the expected pursuit of appropriate reform efforts by most of the sub-Saharan African countries," said Tacouri.

But he warned that the pending implementation of the Gatt Uruguay round agreement could have far-reaching effects on the economies of African countries.

"In the short-term at least, countries are likely to experience an increase in import costs which would also have an adverse affect on their balance of payments.

"To face the new economic challenge created in the wake of Gatt, countries of eastern and southern Africa must adopt carefully designed policies to speed up adjustment in their respective economies and ease the transition to the new world trading system."

Policies would have to include attracting more private capital flows and increasing saving and investment by the government and private sector.

Most capital was being directed to the emerging markets of Latin America and Asia with only an insignificant amount reaching African shores, he said. "And most of it goes to South Africa."

There can be no complacency about the fiscal deficit

(320)

GRETA STEYN

BD 10/11/95

LIKE Reserve Bank governor Chris Stals, Finance Minister Chris Liebenberg repeats the same message at every opportunity. He harps on endlessly to foreign and local investors about SA's commitment to fiscal discipline — and they believe him.

But is the complacency over fiscal policy justified?

Scepticism last year over the ability to maintain fiscal discipline caused major difficulties for government's borrowing activities in the capital market. This year has been an entirely different story, as market participants gaily ignored any concerns over policy to launch into a bull run.

In theory, the capital market looks ahead and discounts future developments in the economy into today's prices and yields. The market seems to be looking through rose-tinted glasses, and not seeing some ominous signs on fiscal policy. Although these are not worrying enough to stop the bulls in their tracks, they should at least pause to think on the future implications for inflation of a high deficit and robust government spending.

Spending and revenue developments suggest government will not succeed in cutting the deficit this year, and that fiscal policy might even be more expansionary than in the previous fiscal year.

Of major importance in any analysis of fiscal policy is the rolling over of spending from one fiscal year to the next. Spending rollovers did not matter as long as roughly the same amount was carried over every year — but this is no longer the case. More and more spending is being postponed to the next fiscal year, playing havoc with efforts to judge the fiscal policy stance. Trouble is, *the rollovers are going to catch up* with us. Once the spending gets off the ground, there will be a massive liquidity injection into the economy.

The growth in the rollovers means that fiscal policy has been less expansionary than it appeared to be over the past couple of years. The deficit was a couple of percentage points lower than the official figures suggested. But carry-overs cannot continue indefinitely, especially if government wants to deliver. Fiscal policy will become more *expansionary as a result*.

For the 1994/95 fiscal year, a much larger amount than assumed in the Budget in March this year was actually carried over to the present fiscal year. About R6bn remained unspent, almost double the amount assumed in the Budget. The massive rollover means the actual deficit for 1994/95 was 5,7% of GDP — substantially below the 6,4% disclosed in March. The budgeted deficit for the present fiscal year of 5,8% therefore does not represent any progress at all in cutting the fiscal deficit. In fact, if less is rolled over to the 1996/97 fiscal year than was brought onto the books this year, the actual outturn for this year's deficit will be higher. That will happen even if there are no other mishaps.

Fortunately for government, the rollover figures will be finalised only after next year's Budget, which *means it can* make unrealistic assumptions on unspent funds if it wants to disguise this year's true policy stance. Can Liebenberg realistically assume that another R6bn will be rolled over to next year? Not if the reconstruction and development programme's measures to speed up delivery pays off.

It goes without saying that no fanfare accompanied the finalisation of last year's deficit figure. It

LIEBENBERG

reflects badly on SA's fiscal management that there is such a major discrepancy between projected and actual spending.

If Liebenberg manages to pull off the smoke-and-mirrors trick of cutting the deficit this fiscal year, it will be a tribute to his powers as a magician. Maybe he will avoid the sleight of hand, and just admit that the deficit has stayed more or less the same, or has risen. He will have to acknowledge that government takes a long time to work out just how much it has spent in a given fiscal year, and that the Budget provides little information on the actual fiscal policy stance. As economic consultant Edward Osborn put it: "Liebenberg's claim to be cutting the deficit this fiscal year was a piece of fiscal hyperbole."

Also on the spending side, there are big question marks over the provinces. The most important puzzle to be solved relates to the hangover from the former homelands, particularly the Ciskei and Transkei. Government officials have acknowledged that irregularities uncovered in the former homelands could mean additional spending this fiscal year.

The Eastern Cape, where the situation has been aggravated by fraud and failure to implement financial controls, has been described as a financial and administrative "crisis area". State expenditure director-general Hannes Smit says a report-back is due this month, and only then will he be able to say whether irregularities will cause substantial spending overruns.

Irregularities are not the only reason for concerns over the provinces. In terms of the constitution, they are not allowed to run deficits, but at least two have indicated they are heading for shortfalls. Smit is emphatic these will not be financed from central government's coffers, and that borrowing by provinces is also not an option. Officials say the provinces' complaints about a shortage of money is only posturing as negotiations over next year's Budget has started in earnest. But it is nevertheless worrying that after more than six months of the fiscal year, Gauteng and the Western Cape still do not know how they will meet their spending targets.

Another spending factor is the interest bill. Osborn argues excessive borrowing in the first half will push interest payments over the budgeted targets for the year. He points out borrowing in the first half of the year was R9,6bn more than needed to cover the deficit — "despite protestations that there will be a new borrowing policy of limiting loans to actual requirements to minimise public debt servicing costs".

On the revenue side, the outcome for the year so far has been disappointing. At the time of the Budget, many economists argued SA would enjoy another revenue bonanza this year. They believed government had deliberately underestimated revenue to ensure a cut in the deficit even if spending overruns occurred.

But the figures for the first half of the year suggest revenue is in danger of falling short of the Budget totals. After adjustments for distortions, only 46% of total inland revenue has been collected. Although economists expect an acceleration in the second half of the year, they agree the situation is nowhere near as rosy as earlier predicted. The popular view that Liebenberg would "under-promise" and "over-deliver" is just not true.

Liebenberg has said it often enough for people to believe SA is gradually reducing its fiscal deficit.

The record shows a reduction in the three fiscal years up to 1994/95 from 7,9% to 5,7% of GDP. But that reduction was brought about by a combination of economic growth and difficulties in getting spending off the ground.

No real dent has been made in the deficit; there has been no noticeable brake on the growth in interest payments. The room for manoeuvre is still pitifully small and the complacency by no means justified.

Taxman lowers transfer duties imposed on trusts

CT(BR)17/11/95 (320)

STAFF REPORTER

Johannesburg — Trusts have been given a reprieve from the inland revenue department's attempts to force them to pay the higher company rate of 10 percent duty on property transfers.

Until the Transfer Duty Act had been amended in parliament this year, trusts were treated in the same manner as natural persons provided that the beneficiaries in the trust were natural persons.

Natural persons are liable for transfer duty at 1 percent for amounts up to R60 000; 5 percent for amounts of R60 000 to R250 000 and 8 percent for amounts greater than R250 000.

Companies pay transfer duty at a flat rate of 10 percent.

Transfer duty is payable on the transfer of any land or the real right to land, which is not subject to VAT.

The higher rate on trusts was imposed from July 19 last year.

After appeals from lawyers and others, the inland revenue department accepted that trusts should be treated as natural persons if natural persons are the beneficiaries.

Refund

Clive Sharwood, a tax partner at accountants Deloitte & Touche, said that any trust which had paid the higher rate could apply for a refund. Any future transfers would be levied at the lower rate.

But, he said, the issue was not closed and the department was likely to come up with fresh legislation next year to impose transfer duties on trusts at the higher rate.

Rise in VAT draws near as deficit target fades

ST(BT) 19/11/95 (320)

By SVEN LUNSCHE

THE government seems likely to raise VAT to 15% from 14% to restore respectability to its finances and achieve ambitious deficit targets for the 1996/97 fiscal year.

Department of Finance officials this week presented a draft 1996/97 Budget which aims at reducing the deficit to 5% of GDP, with total expenditure of R172-billion and revenue of R143-billion.

Economists say the 1996/97 targets can be achieved only if sharp spending cuts are accompanied by higher revenues from taxes and tariffs.

"Since (Finance Minister) Chris Liebenberg cannot justify any further increases in corporate or personal tax rates and tariffs will have to be reduced in line with our commitment under Gatt, the only option is a rise in indirect taxes, such as VAT," says Rudolf Gouws, chief economist at Rand Merchant Bank.

The Katz commission on taxation reform, which will deliver its third report to Mr Liebenberg later this month, is also said to favour a shift from direct to indirect taxes as a source of revenue.

In a statement elaborating on the draft 1996/97 Budget, the director-general of Finance Estiaan Calitz gave further indication that higher indirect taxes were being favoured by government.

Dr Calitz said that without any change in current tax levels, total revenue for 1996/97 was estimated at R140,5-billion, leaving a shortfall of R2,7-billion if a 5% deficit target is to be met.

He said any decision on how to make up the shortfall would await the Katz commission's report but should take into account that a one percentage point rise in VAT to 15% would raise an extra R2,6-billion. A 1c a litre increase in the fuel levy would raise a further R150-million.

A rise in VAT is fiscally the most feasible option and is easy to implement but is politically unpopular.

Also, the government might receive more revenue than estimated since the draft 1996/97 Budget assumes 3% economic growth and 10% inflation. Both figures appear pessimistic.

Yet the draft details relatively sharp increases in spending of 12% and revenue of 15,3% for 1996/97, both of which require additional intervention even in a high-growth, low-inflation scenario.

Details of the draft became public on Wednesday after a confidential briefing to MPs was inadvertently broadcast from Parliament and picked up by Reuters, the news agency.

The briefing took place soon after it was reported that this year's budgeted deficit of 5,8% of GDP would not be met.

Mr Liebenberg, who is committed to reducing the deficit to 4,5% within five years, said this week that despite revenue overruns of about R1-billion the 1995/96 deficit is likely to be around 6% of GDP.

The main reason is said to be unexpected demands from provincial governments, particularly those which inherited bureaucracies from the former homelands.

While the government is battling to meet budgeted targets its commitment to fiscal discipline seems intact.

"There is a determination in the government to rein in excessive spending," says Mr Gouws, who represents Business SA on the Budget committee.

The Cabinet on Wednesday agreed to set up a special unit in the Department of Finance to find ways to cut spending.

Hannes Smit, director-general of State Expenditure, told MPs only the RDP and the Department of Water Affairs would receive real spending increases. Other departments would get nominal increases in allocations, while departments that would see their allocation of new funds cut included housing (a decline of 35,7%), labour (20%), defence (10,3%) and trade and industry (8%).

New era for tax collection

ST 19/11/95 (BT) (320)

By SVEN LUNSCHE

THE reform of Inland Revenue and the Department of Customs and Excise is the first step in the government's attempt to boost revenue collection and, in the long run, lower tax rates.

Finance Minister Chris Liebenberg announced earlier this month that Customs and Excise and Inland Revenue would be amalgamated into an autonomous service known as the South African Revenue Service.

Some of the main benefits sought from the reform process are to improve revenue collection, and to reduce fraud, corruption and tax avoidance. This would enable the government to consider reducing tax rates in the future, Mr Liebenberg said at the time of the announcement.

The establishment of an independent tax arm was one of the main recommendations of the Katz commission into the country's taxation system.

The commission estimated last year that the government was losing up to R15-billion a year because of low staffing levels and dismal collection systems.

At any time during the current fiscal year the Receiver was owed about R9-billion.

The administrative reorganisation of the unit over two to three years could yield at least R5-billion a year in additional revenue, the commission estimated.

The SARS will be run along business lines to ensure greater efficiency and professional service, but will remain "within the discipline and control of the public service", Mr Liebenberg said.

A board of directors will be appointed by the Finance Minister to develop and monitor the administrative policy of the service, and a chief executive will control its management.

The administration of tax laws will remain the responsibility of the commissioners and the SARS will be subject to audit by the Auditor General.

In response to the announcement, the SA Chamber of Business gave the department its full support and welcomed the introduction of business principles into the new body.

However, Sacob expressed concern about SARS continuing to operate within the control of the Public Service Commission, as this would undermine the SARS's operational efficiency and flexibility with respect to management control.

Sacob said it would be preferable if the SARS were operated along the lines of a statutory body such as the CSIR.

Accident insurance deficit more than R4bn

Transport dept proposes new levy on petrol

BD 20/11/95 (320)

Mungo Soggot

TRANSPORT Minister Mac Maharaj is proposing slapping an extra 3c/l onto the petrol price to help prop up the beleaguered Multilateral Motor Vehicle Accidents fund for accident victims.

The proposal, contained in a departmental document, is to be submitted to the Cabinet on Wednesday.

A source close to the department said the document indicated the department was keen to push the increase through as soon as possible.

It also proposed a 2c/l increase on the levy on the diesel price.

The document had said the cumulated deficit on the fund was more than R4bn on April 1, and that the deficit for the year was heading for R600m, the source said.

Fuel industry sources said the move was likely to coincide with a drop in the petrol price due to international oil price movements, which would cushion the blow to motorists.

The basic fuel price, which includes the fund's levy and other taxes, is adjusted on the first Wednesday of every month to reflect international price trends. The latest Central Energy Fund figures show that if exchange rates and international oil prices remain at their current levels, the December adjustment, without the additional levy, would amount to 3,5c/l.

The petrol levy for the fund stands at 9c/l and the diesel levy is at 5,8c/l.

Multilateral Motor Vehicle Accidents fund CE Willem Swanepoel told the parliamentary joint standing committee on public accounts earlier this month the fund was a "sitting duck for insolvency" and called for increased funding and a capping of claims.

He told the committee the fund had had a negative cash flow in September and expressed hope that Maharaj would raise the levy as an interim measure to save the fund.

The fund has been criticised widely for mismanagement, and was dubbed a "bureaucracy gone mad" by senior counsel Stephan du Toit in court earlier this year. He said the commission of inquiry into the fund by Judge David Melamet in 1992 had found it to be in a "disastrous state" and had recommended it cut back its operations.

Swanepoel told the parliamentary committee he was reviewing the way the fund worked in a White Paper which would explore the possibility of capping claims.

SA Chamber of Business economic policy director Ben van Rensburg at the weekend questioned any intention to push through the increase now and not in the Budget as it was a taxation issue.

Continued on Page 2

Fuel

(320) BD 20/11/95

Continued from Page 1

The proposed increase to the basic fuel price — which will raise the petrol levy to 12c/l and the diesel levy to 7,8c/l — follows the increase in the retail price margin in September, which was also timed to coincide with a drop in the fuel price caused by lower international prices.

One industry source dubbed government's decision to adjust the basic fuel price when the monthly change to the fuel price was downwards as a "pretty devious" move.

The fund has also come under fire for basing cries of insolvency on what it calls its "deficit".

Drive Alive, a national accident victim action group, told a conference on the fund organised by the parliamentary portfolio committee on transport that, as the fund was a "pay as you go" operation, the size of what it called its "deficit" did not affect its ability to pay out claims.

The action group also expressed concern that the fund was handling about 50% of all claims, instead of leaving it to insurance companies as suggested by the Melamet commission.

Malcolm Lyons of Malcolm Lyons & Munro, an attorneys' firm specialising in accident claims, welcomed the proposed increase which was in line with inflation. There had been no increase since April 1993.

Tax on pension contributions mooted

(320)

Greta Steyn

BD 24/11/95

THE Katz commission is expected to recommend the taxation of contributions to pension funds when its second report is handed to Finance Minister Chris Liebenberg next week.

The commission is also expected to recommend against implementing a capital gains tax as it generates uncertainty and yields little revenue.

Anti-avoidance measures are expected to be tightened up and the taxation of groups of companies beefed up in terms of the commission's proposals. There will also be a chapter on taxpayers' rights which will address issues such as the receiver of revenue's failure to assess taxpayers quickly enough.

A source said the proposal on pensions taxation, which followed months of refinement after it was mooted last year, would probably cause a fuss "because no one likes fundamental reform". A Reuter report yesterday put a figure of R3bn on potential revenue

Continued on Page 2

Taxes

Continued from Page 1

(320) BD 24/11/95

from this source.

The commission's proposal last year to place a limit on the tax-free portion of pension fund contributions was greeted with outrage. The proposal was rejected by the parliamentary committee on finance, which asked for more research to be done.

Finance director-general Estian Calitz mentioned pensions taxation as one area that government was looking at during last week's closed presentation of Budget issues to the parliamentary finance committee.

Another source said the Katz recommendations drew heavily on the work of the Smith committee on retirement provision. In June this year government appointed retired accountant Guy Smith to head a committee of experts whose brief on retirement policy included taxation. "Fears were raised last year that the proposal had not been properly researched. It would be difficult to repeat the accusation this year, although people will be unhappy," the source said.

He said finance raised through pensions taxation should be used to reduce personal income taxes in the middle income range of R38 000-R80 000.

Reuter reported sources said some of the expected R3bn resulting from the tax — to be levied at a flat rate — would be used to reduce high personal income tax rates. The commission would recommend that state pension funds and some older funds be excluded from the tax.

The suggestion to tax the build-up of earnings in pension funds would be accompanied by a call for all retirement vehicles, including pension and provident funds, to be taxed similarly.

The commission would also recommend a reduction in the rate of the secondary tax on companies from 25% to 15%. Other issues to be addressed include capital transfer tax, land tax, dedicated taxes and gambling, wagering and betting taxes.

Taxpayers may find Katz commission recommendations

ET (BR) 24/11/95 (320)

LIFE WITH CAMERON

In appointing tax and retirement commissions, the cart may have been put before the horse

BY BRUCE CAMERON

Members of the Katz commission better take out some insurance.

If early leaks of what they have recommended on the taxation of retirement funds and their members prove to be correct, they are in for quite a reaction from taxpayers, public servants and the R400 billion retirement industry.

The reaction they received for the proposed capping of retirement contributions in their first report last year was tame compared with what may be coming their way.

What will worry the industry is that people will reduce savings either by choice or because of caps put on tax deductible contributions.

Taxpayers, already among the most highly taxed in the world and suffering under the burden of high real-interest rates, are not likely to be happy.

The strange thing is that Katz will be presenting a report at much the same time as the Smith committee, which is looking at the broader issue of retirement funding.

Katz has been sticking to the tax issues in retirement, separate from the greater investigation into the restructuring of the tax system.

The question already being asked in the industry is what happens if Smith and Katz have different ideas.

Katz and Smith have two common members, but whether this will resolve difficulties is unlikely, particularly if Katz's recommendations are implemented in the next Budget.

While almost immediate effect is likely to be given to the Katz recommendations, the Smith recommendations will go out for an endless series of comment and reaction.

It begs the question of whether, in this case, the cart has indeed not been put before the horse.

Smith has been charged to answer a number of important questions, including such things as a national pension scheme and the problems caused by different retirement regimes; namely defined benefit and defined contribution schemes. If the government accepts a recommendation from Katz to allow tax deductibility of provident fund contributions by members, there will be a flood towards provident funds.

Of growing concern to the industry and to some employers is the consequence of members taking all their benefits as a lump sum.

There have been increasing warnings that bad investments could easily result in employees coming back to haunt employers when they find their colleagues, who had stuck to defined benefits, living happily.

Smith is considering whether a portion of all retirement funds should be paid out as a monthly pension.

Then there is the question of transferring risk from employer to employee as a defined benefit fund is changed to a defined contribution fund.

In its recommendations to the Katz commission, the Life Offices Association, which represents all the major life assurance companies, recommended that the system of allowing tax deductible contributions and tax-free growth of the funds should be allowed to continue, but that taxation of benefits should be toughened up.

This is in line with the practice used in many countries.

Katz appears likely to urge more comprehensive taxation of benefits, with the introduction of a marginal tax rate on lump sums, rather than an average rate of taxation.

What will bother the retirement industry is if the commission goes ahead with a recommendation that the income of retirement funds also be taxed.

Katz wants to do this, arguing that the state loses out because it only receives the tax after a number of years, effectively losing the interest that could be earned on receiving the tax earlier.

The question — and again one which should be directed to Smith — is whether the government should use inducements to encourage people to save, particularly for their old age. These are only a few of the issues involved.

The debate is likely to rage for months, if not years.

□□□

Are the interests of Norwich Life policyholders being properly protected in the listing of Norwich Holdings next month?

Because of the listing, and the restructuring of the company, policyholders — through their majority stake in the Policyholders Trust — will lose control of the company.

In reply to a number of questions on the issue, Charles Davies, the chief executive officer, was convinced that the interests of policyholders had been protected.

The advantages, he said, definitely outweighed the loss of control.

The key reason for the move was that the Policyholders Trust was not able to contribute capital needed to grow the company.

It was also important to list so that the shares of existing shareholders would be marketable.

The interests of policyholders

highly onerous

are protected by the Policyholders Trust — a board of trustees.

Although the trustees are all respected people, the remaining problem, however, is that they were appointed by Norwich Union at the time Norwich demutualised.

They were not elected by the policyholders and nor do they consult them.

This, although legally in order, would seem to be a bit out of line with current trends.

Davies said that although policyholders could call a general meeting and replace the trustees, because of the lack of knowledge of each other, this would, realistically, be almost impossible.

But, said Davies, it would not necessary to consult the opinion of policyholders on any issue, including the listing, if, in the opinion of the trustees, the actions were "to the benefit of policyholders".

Davies said policyholders had benefited from the growth of the company since it had been demutualised and would continue to do so from its restructuring and listing.

What was important, he said, was that shareholders could not benefit at the expense of the policyholder or the other way around.

Enshrined in the articles of the company was a provision to ensure that a partnership was maintained between the shareholder and the policyholder.

The provision stated that before R1 could be paid to a shareholder, at least R9 had to be made available to with-profit policyholders.

"Quite frankly this means that neither party may benefit at the expense of the other. It also means that the 'free reserves' within Norwich Life may not be paid to any shareholder before 90 percent has been allocated to with-profit policyholders."

The independent actuary, appointed by the Financial Services Board to consider the whole process, recommended approval of the moves. The listing also received the approval of a required 90 percent of Norwich Life shares.

(320)

cT 24/11/95

Katz wants higher tax on pension funds

By Bruce Cameron

Cape Town — The Katz commission's final report will call for new and higher retirement taxes — resulting in reduced retirement benefits for middle- and upper-income groups, Business Report has learned.

Wealth tax is expected to be put on hold while the focus changes to retirement provisions, according to sources close to the commission.

Reuters, meanwhile, reported that the Katz commission recommendations would earn an extra R3 billion a year for the fiscus, which would be used to reduce high personal tax rates.

The sources told Business report that the panel, led by tax attorney Michael Katz, and appointed by the government to review the tax system, will recommend to government that the Marketable Securities Tax and the Secondary Tax on Companies, be phased out.

The panel is likely to recommend that the secondary tax be replaced by another complex tax. These steps are designed to encourage foreign investors.

Indications are that no final recommendations have been made on wealth taxes because the commission is concerned about the negative effect on taxpayers.

In the retirement-tax overhaul, even tougher taxes are being proposed for lump-sum benefits than those introduced in September.

And if the commission gets its way, taxation of income earned by retirement funds will be payable and lump-sum benefits will be taxed, not at the average rate of taxation as applies now, but at the marginal rate paid in the year of retirement.

The commission wants to cap tax-deductible contributions to retirement funds at 22,5 percent of remuneration with the employer contribution limited to 15 percent of gross income. This will eliminate many of the "top-hat" schemes offered on a salary-sacrifice basis to top executives, who are not subject to any effective limit on employer retirement contributions.

Good news for provident fund members is likely to be that pension and provident funds will be treated on an equal basis, with provident fund members being able to claim their contributions as tax-deductible.

The retirement taxation proposals are likely to blow up a bigger storm than the earlier Katz recommendations to cap tax deductible contributions.Katz has apparently dropped the idea in favour of a more comprehensive review of the taxing of retirement funds.

Public servants will also take a knock, losing the tax exemption on lump-sum retirement benefits.

The commission is expected to justify the tougher taxation of retirement funds on the grounds that the state loses out by only taxing the benefits and because the benefits, particularly the lump-sums, are not taxed at a full rate.

☐ See Page 19

Just two months left to take advantage of tax amnesty

Star 29/11/95 (320)

PATRICK BULGER'S STATUTE WATCH

Figures indicating that billions of tax rands are lost to the state each year through registered taxpayers avoiding paying their taxes do not even start to take into account the number of people who remain outside the tax net.

This unfortunate situation arises in part from the perception that previous governments had neither the legal authority nor the legitimacy to impose taxes on people who had no vote and therefore no say in the government levying such taxes.

In an effort to broaden the tax base beyond the 1,8-million people earning more than R50 000 a year and the 2,7-million people earning between R14 605 and R50 000, Parliament this year passed the Tax Amnesty Act.

This allows people who were previously not registered as taxpayers to register without having to pay the taxes they would otherwise owe the state.

Obviously those who choose not to take advantage of the act and who still refuse to pay taxes can expect no mercy from the Receiver of Revenue in the future - after January 31 1996 to be exact.

Since becoming law earlier this year, the amnesty period has been extended from October 31 1995 to the January 1996 date and it is unlikely that the cut-off date will be extended again.

Who qualifies for the amnesty? Any person who on April 26 1994 was not registered with the Commissioner for Inland Revenue to pay employees' tax, normal tax and VAT and persons who were registered but whose whereabouts were unknown to the commissioner qualify for the amnesty on application.

Thousands duck and dive, but millions are outside net

This includes legal persons such as companies, close corporations, trusts and associations not for gain.

All taxes are included but there are special provisions in regard to sales tax which was previously levied in place of VAT. The only taxes excluded are transfer duty, estate duty, marketable securities tax and Regional Services Council or Joint Services Board levies.

The act applies in the former Republic of South Africa and all the formerly independent territories.

A person who wishes to qualify for the amnesty must apply in writing to the commissioner within the amnesty period.

The taxes for which amnesty should be applied are normal tax in respect of the years before March 1 1994, VAT payable before that date, stamp duties, non-resident shareholders' tax, secondary tax on companies, donations tax and sales tax. Any interest or penalties accruing on the outstanding taxes will also not be payable. Nor will penalties or criminal prosecutions be applied.

There are, however, certain taxes which are excluded from the act. These include taxes which have already been paid by the qualifying person or any taxes payable before April 27 1994 and which were the subject of an investigation of which the taxpayer was aware.

There are special clauses relating to sales tax. Where sales tax has been paid within the amnesty period or six months after its expiry, no penalty on those taxes shall be payable. Similarly, anybody who is dissatisfied with the amount of sales tax paid may, within the amnesty period, apply for a re-examination of the matter.

Where a person has been unable to furnish accurate information on the amount of sales tax payable, that person and the commissioner may reach an agreement on the amount of tax due.

The commissioner remains free to raise an assessment on the person in question and any assessment issued on the basis of an agreement between the taxpayer and the commissioner shall be final and not subject to appeal.

The act also provides for the amnesty to be withdrawn if the taxpayer defaults on any agreement contained within the act and who, "without reasonable grounds fails to pay any tax due within a period of one year after the end of the amnesty period or any shorter period agreed to with the commissioner".

There is a toll-free number that can be dialled for further information. It is 080-011-3930.

■ This is the ninth part of a series by Political Correspondent Patrick Bulger on a variety of important legislation to emerge from the 1995 session of Parliament.

Traditional healers should start paying tax

ET (BR) 30/11/95 (320)

TAXING QUESTIONS

Traditional doctors must register for VAT if turnover for the year is more than R150 000

BY MATSHERU MATSHERU

Traditional doctors, also known as sangomas or inyangas, are practitioners found on the continent of Africa.

They have been practising their ancestral-given profession successfully for ages. However, over the past decade or so, their image was dented by people who labelled them witchdoctors.

Today, traditional doctors are recognised and respected.

In fact, the Rand Afrikaans University will be conducting a three-year traditional health care diploma tailored for sangomas and inyangas from January next year.

According to Seth Seroka, a board member of the African National Healers Association, there are approximately 200 000 healers in South Africa.

My discussion with Seroka confirmed that inyangas and sangomas have not yet felt the finance minister's harsh hand. Traditional doctors use the resources of the country and they too must contribute to the cost of running the state.

Like other traders, traditional healers must register for VAT if their turnover is more than R150 000 a year. They can also register voluntarily if their turnover is less than R150 000.

They must register for income tax so as to get a tax number. All registrations must be done at the nearest revenue services office.

The traditional healer's income will fall into gross income and be taxed accordingly. Most traditional doctors work at home.

However, before home expenses can be deducted, certain requirements must be met.

The income tax law requires that the home facilities must be used regularly and exclusively for the purpose of trade. If this requirement is met, the following can be deducted: interest on mortgage bonds; rental; rates; water and lights; cleaning costs; and telephone expenses.

When your tax liability is determined, the tax gatherer will examine the total area of the house including the outside building. The room or office used for trade will also be examined.

For example, if the business area is 20 percent and the total cost incurred is R10 000, then the calculation is as follows:

$^{20}/_{100}$ X 10 000 = R2 000 Thus R2 000 will be deducted.

The traditional healer will not be able to deduct the cost of acquiring the bones because this cost is linked with the income earning structure. It is also a once-off expense. The cost of communicating with the ancestors or spirit medium will also not qualify for a deduction because it is an expense of a capital nature.

The cost of preparing the medicine will be tax deductible if it is incurred in the production of income and is not of a capital nature. Traditional doctors must seek professional advice in this regard.

Black taxpayers, who incur expenses when consulting traditional healers, will not be able to claim such medical expenses because of the lack of proof.

The recognition by the legislator of some aspects of black culture will give the tax system much needed credibility. This would seem to be the most logical and constructive answer to the present problems found in our tax law.

The preparation of the returns is one of the most important duties of every taxpayer. Tax returns are made with reference to a particular tax year. Most traditional healers trade as sole traders. A sole trader's tax year runs from March 1 to the end of February the following year.

Thus, a sangoma who operates as a sole trader must submit his tax returns immediately after the end of February.

☐ *Matsheru Matsheru is an independent tax consultant.*

DEM BONES *Seth Seroka, one of South Africa's approximately 200 000 traditional healers, throws the bone[s] As yet, traditional healers have not been drawn into any formal structures* PHOTO: JOHN WOOD

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Latest Katz tax report due out

ST(OR) 1/12/95 (320)

By Bruce Cameron

Johannesburg — The next Katz commission report on the restructuring of the country's tax system is to be released on Monday, the finance ministry said yesterday.

The report deals with a number of key issues including wealth tax, the future of the secondary tax on companies and the marketable securities tax; and a restructuring of taxation on retirement funds and benefits.

The commission, under the chairmanship of tax lawyer Michael Katz, is expected to recommend that it continue its work since it has not reached final conclusions on some important issues, including the adoption of a wealth tax.

Recommendations in the report are expected to affect the Budget in March but will first be considered by the parliamentary standing committee on finance.

The Smith committee of inquiry into the pension industry will release its report in mid-December. Parts of that report are expected to impact on the Katz report.

Gill Marcus, chairman of the committee, said that the commission's report would be available to the public from the government printer next week.

She would like interested parties to study the report over the holiday period and to send written submissions to the committee by January 8. Applications to make verbal submissions to the committee should also be in by the same date.

The committee will hold public sittings to take evidence in the week of January 15 - 22 and should have its report completed by the first week in February.

SETAI, M.

The Katz Commission

SA's tax future according to the commissioner

Here are excerpts from the recommendations issued yesterday in the third report of the Katz Commission on reforming South Africa's tax system

(320) 6/12/95
CJ (BR)

CHAPTER 2 TOWARDS A GUIDING FRAMEWORK

Ratio of Tax to GDP

☐ The commitment of the Government to avoiding increases in the present ratio of national and provincial tax revenue to Gross Domestic Product of about 25 percent is supported.

Reform of VAT

☐ The question of Value Added Tax reform should be further investigated, both with respect to an increase in the standard rate and a narrowing of the set of zero rated items. The scope for appropriate poverty relief to accompany VAT reform should be evaluated.

Income Tax Reform and Income Distribution

☐ The relationship between income tax reform and income distribution should be examined further, including attention to the issues identified below:

(a) broadening the base by removing or limiting deductions, exemptions and other preferences;

(b)reducing the gradation of the marginal rate schedule;

(c) reducing the number of marginal rate brackets;

(d) reducing the maximum marginal rate;

(e) raising the tax threshold;

(f) adjusting brackets, credits, standard deductions and other nominal amounts for inflation.

Incremental Approach to Tax Reform

☐ A stepwise, or incremental, approach to tax reform is recommended, rather than a comprehensive tax reform introduced in one package. The development of an explicit transition strategy, including improvements in tax administration, should be undertaken as an important foundation for this incremental approach.

CHAPTER 3 DEDICATED TAXES AND USER CHARGES

Earmarking of General Tax Revenues

☐ The earmarking of general tax revenues, including income taxes, the value added tax and customs duties, should be avoided. With regard to those excise taxes which can advantageously be assigned, caution should be exercised, taking account of the following issues:

(a) effects on the procedural fairness of the budgetary process;

(f) whether the envisaged tax should be regarded as a net addition to the tax burden or whether it should replace other existing revenues; and

(g) the ways in which such a tax could be linked to urban local tax systems, including cooperation in the implementation of valuation methods and ways of using the tax to smooth the urban-rural interface in South Africa.

CHAPTER 5 REGIONAL SERVICES COUNCIL LEVIES

Investigation of RSC Levies

☐ Regional Services Council levies should be investigated as a matter of priority by the Financial and Fiscal Commission who should liaise with the Commission in this matter, particularly with a view to ensuring that any continuation of such levies fits within the holistic framework for taxation as recommended by the Commission.

CHAPTER 6 CAPITAL GAINS TAX

Capital Gains Tax

☐ There should not be a capital gains tax in South Africa at this stage.

☐ When the restructuring of the tax administration has been completed in line with the Commission's recommendations in its first Report, the contentions for and against the possible introduction of this tax and its suitability for South Africa should be revisited and cognisance should be taken of the considerations set out in Chapter 6 of this report

CHAPTER 7 CAPITAL TAXES

Capital Transfer Tax

☐ The principle of a capital transfer tax, which would encompass the present estate duty and donations tax, is supported.

CHAPTER 8 RETIREMENT FUND TAXATION

Limitations on Deductible Contributions

☐ The idea of "capping" rand values of deductible contributions should not be pursued.

☐ Deductible contributions should be limited to 15 percent of aggregate remuneration in respect of employers and 7,5 percent of taxable

Proposed Tax Schedule

☐ The taxable amount arising from the net "capital sum" should be taxed according to the following schedules, the rates to be applied to that part of the taxable amount that falls within each band, without any offset against any other tax losses of the taxpayer:

Tax Rate	Withdrawal	Death and Retirement
15%	Less than R25 000	Less than R150 000
25%	R25 000 to R75 000	R150 000 to R450 000
35%	R75 000 to R125 000	R450 000 to R750 000
45%	More than R125 000	More than R750 000

Allocation of the Tax Liability

☐ There should be a convention for the sequence to be used to allocate the tax liability to different parts of the "capital sum", as follows:

(a) first, any lump sum in excess of R50 000;

(b) second, that portion of the capital sum to be applied to the purchase of the annuity (A), up to a maximum of 25 percent of A;

(c) third, the first R50 000 of the lump sum;

(d) fourth, the balance of the purchase price of the annuity.

Tax Status of Pension Annuities

☐ Pension annuities should be payable free of tax in the hands of the pensioner once tax is paid on the "capital sum" and income of the fund has been subject to tax. To the extent that it is impractical to move existing pensioners onto the new basis, old funds should be closed to further contributions and would retain their "untaxed" status and pensions paid would remain taxable in the hands of recipients.

Lump Sum Payments on Termination of Service

☐ Lump sum payments on termination of service, including payments in respect of "deferred compensation" arrangements, should be treated

Sources of South African revenue

	1994/95	1995/96	
	R000	R000	% change
National Revenue Account			
Taxes on income & profits	61 344 317	68 230 000	11,2
Taxes on property	2 105 000	2 350 000	11.6
Domestic taxes on goods & services	43 094 767	48 199 000	11,8
Taxes on international trade and transactions	5445 000	5 480 000	0,6
Other taxes	882 258	950 000	7,7
Sub total	112 871 342	125 209 000	10,9
Less:			
Customs Union Agre[illegible]men (BLNS)	[illegible]250 000	3 390 117	19,7

CHAPTER 9 SECONDARY TAX ON COMPANIES AND DIVIDENDS

Retention of the STC

☐ The Secondary Tax on Companies should be retained at this time.

Further investigation of the Imputation System

☐ Movement towards some form of imputation system is favoured in principle. While the administrative restructuring is in progress that will remove the practical inhibitions to the kind of comprehensive reform required for an imputation system, further research into alternatives should continue and empirical evidence should be gathered as to how foreign systems are progressing with removing some of the difficulties currently experienced with similar systems.

Reduction in the STC Rate

☐ The Commission favours a substantial reduction in the STC rate from its present level, in order to reduce the burden of the combined corporate tax rates and minimise the distorting effects of the STC.

STC on Foreign Branches

☐ No branch tax should be introduced, but the current law should be amended formally to remove the STC obligation on foreign branches which is simply not being enforced.

Assessed Losses, Capital Gains and Exempt Recipients

☐ No amendments in respect of assessed losses, capital gains and exempt recipients should be made at this time. Adjustments might be considered at a later stage if fiscal and administrative circumstances allow.

CHAPTER 10 GROUP INCOME TAXATION

Introduction of a System of Group Taxation

☐ A gradual approach to the introduction of a system of group taxation is proposed, beginning with a simplified consolidation method.

The Definition of a Group

☐ Group members, including the holding company, should be limited to South African companies, excluding close corporations.

☐ Companies which are subject to a special tax regime, such as those engaged in long term insurance or mining activities, should not be permitted to take advantage of a group tax system applicable to ordinary companies. The group tax system should, in principle, apply to a group comprising companies engaged in a common specialised activity.

☐ For the purpose of qualifying for group tax relief, a group should comprise a holding company and all its wholly-owned subsidiaries. The term "wholly-owned" should be defined to refer to both direct and indirect interests held by the holding company, determined on the equity share capital of the companies concerned.

☐ The term "wholly-owned" should allow for equity shares to be held by full time employees, including executive directors, in terms of share incentives schemes.

The shares held by or on behalf of employees and directors should not exceed 10 percent of the equity share capitaL Once a consolidation system has been implemented successfully, it may be possible to drop the percentage ownership requirement to, say, 75 percent of equity share capital.

CHAPTER 11 TAX AVOIDANCE

Introduction of a Business Purpose Test in Section 103(1) of the Income Tax Act

☐ Section 103(1) of the Income Tax Act should be amended so as to incorporate the principles which are reflected in the draft hereunder:

(a) section 103(b)(i) be amended to read as follows:

"(i) was entered into or carried out:

(aa) in the case of a transaction in a business context by means . in a manner which would not norm[illegible] employed/or bona fide business purposes, other than the obtaining of a tax benefit; and

(bb) in the case of any other transaction, being a transaction not falling within (aa), by means or in a manner which would not normally be

er should be deemed to have qualified end of the tax year.

Phasing Out of Previous Allowances

☐ With regard to the recoup allowances when a taxpayer ceases to qu SBU, a phasing-out period of at least t should be granted.

CHAPTER 14 VALUE ADDED TAX IN RES OF FINANCIAL SERVICE

Limitation of Exemptions of Financial from VAT

☐ Section 2(1) of the VAT Act, 1991, sl narrowed, thereby bringing into the VAT lowing:

(a) all fee based financial services;

(b) all fee based services in respec insurance and other superannuation fun

Abolition of the Financial Services Levy

☐ The financial services levy should l ished.

Definition of Financial Services

☐ A specialist team at the office of th missioner for Inland Revenue should be lished to investigate the adoption of a refined definition of financial services.

A detailed practice note should be pul following consultation with the Council of ern African Bankers, the Life Offices Asso and the Fund Managers' Association of Africa and other role players.

CHAPTER 15 TAX ON GAMBLING

Income Tax

☐ Operators: The normal income tax p ples should be applied to all gambling and c operations.

☐ Gamblers: The normal income tax p ples should be applied to the winnings of blers.

☐ Lotteries: The normal income tax princ should be applicable to operators of lotte with the sole exception of the National Lo which should be exempt from income tax.

Value Added Tax

☐ All gambling, casino and lottery activ with the exception of the National Lottery, sh be subject to VAT.

☐ The National Lottery should be treate

(b) the locus of accountability and responsibility for resource allocation;
(c) effects on access to services and the distribution across consumers of costs;
(d) impact on the fairness and efficiency of resource allocation;
(e) possible interference with fiscal policy implementation;
(f) overall efficiency and fairness of the tax system.

☐ Apart from other considerations, further earmarking of specific taxes should not be considered until a satisfactory system of intergovernmental financial transfers is in place and provinces have developed sound revenue bases.

Review of the Financing of the MVA Fund
☐ The financing of the Multilateral Motor Vehicle Accident Fund by means of an earmarked fuel levy should be reviewed.

Assignment of Percentage of the Fuel Levy to Roads
☐ Consideration should be given to the assignment of a percentage of the fuel levy to road construction and maintenance within the broader budget process.

User Charges and Taxation
☐ In determining policies regarding user charges for publicly provided services, explicit assessment should be undertaken of the interaction of fee schedules with the structure and incidence of taxation.

Assignment of User Charges
☐ The assignment of user charges to the institutions responsible for providing associated public services is favoured, where such charges represent cost recovery, fully or in part, rather than their appropriation as general national or provincial revenue.

CHAPTER 4
LAND TAX

Further Investigation of a Local Land Tax
☐ *Further investigation* should be undertaken to ascertain the merits of a local level land tax and to ensure that, if introduced, the implementation of such a tax should not have undesirable distorting effects.
The issues which, in particular, require further investigation include the following:
(a) whether the envisaged benefits of a local level rural land tax will actually arise;
(b) what the proper roles are of the national and provincial governments with regard to a local level rural land tax;
(c) what the contents are of the framework within which the proposed tax should be implemented;
(d) what the factors are that should be taken into account to ensure that, from an administrative point of view, the envisaged tax operates properly, including the definition of the tax base, the identification of the party liable for the tax, the assessment of taxable value, the tax rate, as well as the appropriate exemptions, tax relief, administration, collection and enforcement;
(e) the relationship between the proposed land tax and other revenues, including, more particularly, RSC levies, as well as the relationship between the tax and fiscal transfers;

income in respect of employees.
☐ Separate deductibility limits should be set for benefit funds and Medical Aid arrangements.

Limitations on Benefit Funds
☐ A basis should be established for limiting the scale of benefits that can be offered by defined benefit funds.

Information Required
☐ As part of an employee's tax return, a schedule should be required in support of any claim for retirement fund contributions and in which details are disclosed of:
(a) the name of the retirement fund and its registration number;
(b) total members remuneration over the year;
(c) members' contributions; and
(d) employer's contributions.

Multiple Membership
☐ Simultaneous membership by an employee of more than one approved fund offered by his or her employer should be disallowed.

Balance of Cost Schemes
☐ The feasibility of allowing "balance of cost" schemes to be recognised should be investigated.

Taxation of Fund Income
☐ Approved funds should be taxed on interest, rental and other "trading" income ("fund taxable income") at a flat rate of 30 percent.
☐ Existing "pensioner funds" should be given the option to convert from the "old" to the "new" tax regime.
☐ The taxation of income accruing to Medical Aids and other benefit funds should be further investigated.

Taxation of Benefits
☐ Within each retirement fund that pays pension annuities to retired members, it is proposed that a "pensioner fund" be formed to hold assets backing the liabilities in respect of pensioners.
☐ A value should be determined of all benefits deemed to accrue on death or retirement, whether lump sum or in the form of an annuity, and tax should be determined on this "capital sum" and paid at this stage.

Deductions from the Capital Sum
☐ In arriving at the taxable amount of the "capital sum", the following deductions should be allowed:
(a) on withdrawal from a Fund: R2000;
(b) on death or retirement: where A equals the amount from the capital sum applied to purchase an annuity, the sum of:
(i) R50 000;
(ii) the lesser of A and R120 000; and
(iii) provided A is greater than R120 000, the lesser of R210 000 and 50 percent of (A - 120 000);
subject to the overall limit of the capital sum.

Review of Monetary Amounts
☐ *The monetary amounts and schedules to be* used in determining the taxable amount and tax due should be regularly reviewed.

Qualifying Criteria for Pension Annuities
☐ Consideration should be given to establishing *minimum criteria in terms of* which pension annuities will qualify for the deduction.

Total tax revenue	**109 621 342**	**121 318 883**	**10,7**
Non-tax revenue	1 762 075	1 528 579	-13,3
Total current revenue	**111 383 417**	**122 847 462**	**10,3**
Sale of fixed capital assets	15 025	15 015	-0,1
Sales of stocks		1 200 000	
Total revenue and grants	111 399 452	124 062 477	11,4
Total National Revenue Account *	**112 721 118**	**124 491 000**	**10,4**

* Includes items, such as recovery of loans and advances, not recognised as revenue by the IMF

as if they were *retirement benefits, and included* in the "capital sum" for the purposes of determining tax liability.

Retrenchment Benefits
☐ The minimum age at which benefits paid on *retrenchment are treated as retirement benefits* for tax purposes should be reduced from 55 to 50.

Equality between Private and Public Sector
☐ Exemptions from tax of lump sum benefits payable from "funds established by law" should be withdrawn.
☐ Accrued rights to exempt lump sum benefits should be recognised and determined by reference to the *service of members up to the date of* the change. Withdrawal benefits, unless transferred to another approved fund, should be subject to the normal tax scales.
☐ The Commission favours the same tax treatment of the income of public sector retirement funds as it recommends for the private sector. If, on consideration, it is decided that certain public sector funds should be exempted, such exemption should apply only to funds which by their nature have extensive restrictions on their investment policies. Exemptions should be subject to appropriate principles, explicit application for exemption and publication by the Commissioner for Inland Revenue of the names of exempt schemes.

Retirement Annuities
☐ The maximum contribution rate to retirement annuities should be increased to 22,5 percent of taxable income.
☐ Employed persons should be permitted to contribute the sum of 22,5 percent of "non-retirement funding" income (as defined) and the difference between 7,5 percent of "retirement funding" income and allowable contributions to an occupational fund to retirement annuities.
☐ The rules determining acceptable benefits from retirement annuities should be amended to allow for lump sum benefits, or equivalently, the full commutation of pension benefits.

Review of Tax Legislation
☐ As part of a general review of the legislation applicable to pension and provident funds, the rel*evant tax legislation* should be revised.
The distinction between pension and provident funds in the Income Tax Act should be abandoned in favour of reference to "approved retirement funds".

Reinvestment within Groups
☐ Exemptions or a credit refund system to cater for reinvestment within the group context should be investigated, including their impact on administration
☐ The current exemption from STC in terms of section 64B(5)(f) of the Act should be extended to comprehend situations where a group subsidiary's shares are held by more than one shareholder within the group of companies which are themselves wholly owned subsidiaries.
☐ The *requirement for a section* 64B(5)(f) exemption that the holding company should derive its profits solely from sources within the Republic should be revised to refer to "substantially all" so as to allow for a legitimate application of the de minimis principle, and the period *over which there may be no non-RSA* profits should not encompass more than one year of assessment prior to the year in which the dividend is declared.

Intra-Group Loans
☐ The provision for the *exemption of intra*-group loans for STC purposes should be extended to encompass loans between wholly owned companies and subsidiaries whether the holding is direct or indirect. For this purpose, "wholly owned" should be defined to allow for equity share holdings *by full-time employees in terms of* share incentive schemes, not exceeding 10 percent of the company's equity share capital.

Deemed Distributions
☐ The present ambiguity regarding the scope of the exclusion from a deemed distribution (in terms of section 64C of the Income Tax Act) of amounts distributed to part shareholders in excess of profits and reserves available for distribution by way of a dividend, should be clarified by way of legislation or an appropriate practice note.

Prescription
☐ The final proviso to section 79(1) as regards Undistributed Profits Tax should be extended to STC.

Exemption of Interest Received
☐ Section 10(1) (hA) of the Income Tax Act should be amended so as to prevent the exemption of interest received which this section provides to foreign companies which are managed and controlled outside South Africa from applying in respect of business conducted in the Republic.

employed in the entering into or carrying out of a transaction, operation or scheme of the nature of the transaction, operation or scheme in question; or";
(b) the following proviso be inserted at the end of section 103(1):
"provided that the *provisions of this section* shall not apply where it may reasonably be considered that the transaction would not result directly or *indirectly in a misuse of the provisions* of the Act or an abuse having regard to the provisions of the Act, read as a whole."
☐ This new provision should *only apply to* transactions entered into after the implementation of the new section.

Additional Assessments in terms of Provisions Against Trafficking in Assessed Losses
☐ Section 103 should be amended to embody the principle contained in Practice Note No. 20 dated 25 June 1995; that is, that the raising of additional assessments in terms of section 103 is subject to the restrictions imposed by the first proviso to section 79 of the Act, so that additional assessments may not be raised after the expiry of three years from the date of assessment unless the Commissioner is satisfied that the amount which should have been assessed to tax was not so assessed or the fact that the full amount of tax chargeable was not assessed, was due to fraud, misrepresentation or non-disclosure of material facts.

CHAPTER 12
STATEMENT OF TAXPAYER RIGHTS

Principles to be Encoded in a Statement of Taxpayer Rights
☐ The basic rights of taxpayers should be articulated in a clear public Statement of Taxpayer Rights.

Appointment of a Tax Ombudsman
☐ *In* addition to recognising the role of the Public Protector in this regard, an independent Tax Ombudsman should be appointed to protect *taxpayers' rights and mediate* between taxpayers and the revenue authorities.

CHAPTER 13

Criteria for Qualifying as Small Business Undertakings
☐ The following criteria are proposed for the *taxation of natural persons* as small business undertakings (SBUs):
(a) employment of less than 50 but more than 5 employees;
(b) annual turnover of less than R2 million; or
(c) capital assets utilised (excluding fixed *property) valued at less than R2 million*
☐ In the event of a business shrinking in size to such an extent that it complies with the definition of a SBU, the taxpayer should not be afforded the benefit of the cash basis of taxation.

Period of Qualification/Cash Basis of Taxation
☐ Taxpayers who satisfy the qualifying criteria for the cash basis of taxation, should be allowed to elect to be taxed on this basis at any *time after the* regulations have come into operation.
It is proposed that taxpayers who so elect should be *deemed to qualify from the beginning* of the tax year. Upon ceasing to qualify, a taxpay-

the same manner as Government Depa[rtments]
in that the inputs be subject to VAT but no[t]
VAT be charged.
☐ The normal R150 000 annual th[reshold]
should be applicable in respect of small lo[...]

Other Taxes
☐ The foregoing recommendations [...]
detract from the Constitutional right enjo[yed by]
the provinces to impose certain taxes [...]
industry.

CHAPTER 16
EMPLOYEE SHARE OWNERS[HIP]

Tax Treatment of Share Gains
☐ In the case of employee share p[...]
schemes (where the *employee is at risk*[...]
where the employee is a dealer in securi[ties ...]
determined by reference to ordinary inc[ome ...]
principles), any gain made by the emplo[yee ...]
scheme shares should be treated as a [...]
gain.
This principle should be confirmed [...]
appropriate practice note.

Fringe Benefits Tax in respect of Lo[ans in] respect of Share Purchase Schemes
☐ In employee share purchase scheme[s ...]
have the features set out hereunder, altho[ugh ...]
fringe benefits tax provisions of the [...]
Schedule will continue to apply in res[pect of]
loans granted in terms of such schem[es ...]
employees should be permitted to elect to [...]
fringe benefits tax due either on the curre[nt ...]
or on the earlier of the expiration of five [...]
from the date of the granting of the loan [...]
the shares are resold.
Interest should accumulate at the st[...]
rate on the liability to pay fringe benefits t[ax ...]
the date on which it arose in terms of the [...]
Schedule until the payment of the fringe [...]
tax. As a matter of administration there sh[...]
an obligation on the employer to keep re[...]
the amount of fringe benefits tax payabl[e ...]
employee as well as the interest thereo[n ...]
employee fails to pay such tax then the e[...]
should be liable for such tax.
☐ The concession proposed above [...]
apply to employee share purchase schem[es ...]
the following features:
(a) the benefits of the scheme shoul[d ...]
limited to senior executives but should [...]
able to all permanent employees;
(b) provision should be made for th[e ...]
tary sale of an employee's shares on lea[...]
company; and
(c) the scheme should be approve[d ...]
Commissioner for Inland Revenue.

CHAPTER 17
MISCELLANEOUS

Marketable Securities Tax
☐ The recommendation in the first [...]
Report that the marketable securities ta[x ...]
be abolished, together with the vario[us ...]
duties on share transactions, is reiterate[d ...]

Taxpayer Education and Accessibility [of Rev]enue Offices
☐ Initiatives to provide taxpayer e[...]
and to make local revenue offices more a[...]
to taxpayers are urgently needed.

MarketFocus

UNIT TRUSTS

FUND NAME	BUY	SELL	YIELD	INCOME DISTRIB	SELLING PRICE HIGH (12 MO)	LOW
ABSA					TEL: (011) 330-2111	
GE	221,98	206,76	3,36	5,85	199,82	158,96
Balanced	114,59	106,74	4,66	na	na	na
International	103,67	96,58	na	na	na	na
Income	104,13	102,91	11,14	11,13	106,79	96,48
BOE					TEL: (021) 24-7586	
Growth	288,81	269,58	2,77	7,47	na	na
People's Income	109,84	108,68	11,35	12,33	na	na
Managed	131,74	123,40	5,14	6,34	na	na
COMMUNITY					TEL: (021) 488-2911	
Growth	183,05	171,14	2,75	4,70	171,14	120,08
Income	107,55	106,47	na	na	na	na
COMMERCIAL UNION					TEL: (011) 491-1911	
Growth	188,80	175,84	2,97	5,23	179,25	148,90
COMPOSITE					TEL: (011) 330-1171	
All Share Index	139,23	129,76	2,76	3,58	132,26	110,79
FEDLIFE					TEL: (011) 332-6789	
Growth	215,97	201,22	3,78	7,60	201,85	145,37
Income	102,15	100,10	12,00	12,01	100,02	96,80
Index	117,62	109,56	na	1,24	109,58	94,46
GUARDBANK					TEL: (011) 408-4444	
Growth	4062,36	3771,65	3,04	114,59	3771,65	3066,41
Income	122,34	121,05	13,11	15,22	121,38	112,27
Industrial	248,81	231,10	2,60	6,02	231,10	177,78
Resources	217,18	201,74	4,16	8,40	234,09	195,50
Stability	124,27	116,70	5,89	6,87	116,08	97,30
Prosperity	127,23	119,01	4,33	5,15	119,01	96,11
Capital Focus	112,59	104,91	na	na	104,91	100,00
INVESTEC					TEL: (011) 498-2016	
Commodity	96,03	89,93	na	3,50	102,40	92,95
Emerging Cos	141,22	132,62	na	4,60	130,30	100,00
Index	115,27	107,44	na	3,44	107,74	98,26
Worldwide	117,51	110,43	na	4,03	110,89	98,86
METBOARD					TEL: (011) 498-2016	
Mutual Fund	371,63	347,88	3,32	11,56	349,41	292,97
Gilt	131,96	130,58	12,20	15,93	132,25	117,76
Managed	148,10	139,04	5,10	7,09	139,06	116,00
High Income	104,80	103,70	13,60	17,20	104,60	95,46
METROPOLITAN					TEL: (021) 940-5981	
Metlife GE	171,55	159,80	2,97	4,69	159,80	127,25
Income Fund	106,55	104,84	na	6,67	105,19	96,96
NBS					TEL: (031) 366-1111	
Equity	1386,31	1294,44	3,05	39,50	1298,36	1135,33
Income	102,24	101,22	11,35	11,49	101,63	97,70
NORWICH					TEL: (011) 884-0704	
Equity	793,52	741,12	4,30	31,86	741,85	633,72
OLD MUTUAL					TEL: 0800 234 - 234	
Investors	4590,27	4280,05	2,04	87,42	4297,70	3642,32
Global Equity	229,83	214,29	na	na	217,80	196,36
Sentinel	266,68	248,75	5,91	14,69	250,12	213,44
Growth	398,76	371,78	3,35	12,45	372,59	308,47
Top Companies	463,95	432,65	2,35	10,15	434,40	339,57
Industrial	712,24	663,84	2,21	14,70	662,35	518,42
Mining	475,41	443,19	3,18	14,08	510,39	435,09
Gold	154,90	144,40	5,15	7,43	201,16	137,37
Income	111,27	110,06	12,27	13,50	110,95	106,77
Gilt	228,79	226,24	na	15,02	228,63	200,00
RMB					TEL: (011) 881-2929	
Equity	426,86	400,16	3,78	15,12	400,16	286,44
Income	103,61	102,57	na	5,93	103,60	100,23
Gilt	115,09	113,94	na	10,28	114,72	102,28
Balanced	126,06	118,31	na	5,61	118,31	101,96
SAGE					TEL: (011) 491-0911	
Gen Equity	3786,86	3522,68	2,56	90,20	3559,10	2972,50
Resources	183,97	171,28	3,97	6,80	214,58	170,93
Financial	940,20	875,13	2,22	19,40	875,13	595,36
Income	222,41	220,19	11,58	25,50	220,31	208,73
SANLAM					TEL: 0800 220567	
GE	2362,71	2201,35	1,93	42,40	2202,68	1834,43
Index	1910,87	1780,36	2,22	39,50	1786,38	1502,07
Prime Growth	775,42	722,74	2,16	15,60	725,37	595,13
Industrial	1824,97	1701,68	1,55	26,30	1701,68	1293,69
Mining	300,22	279,75	2,82	7,90	350,43	267,02
Optirand	101,96	95,09	na	1,70	101,70	93,95
Provider	1174,37	1096,89	na	21,30	1096,89	940,92
Income	89,95	88,57	12,42	11,00	89,21	86,38
SOUTHERN					TEL: (021) 658-3062	
Equity	314,03	293,10	2,48	7,28	297,25	253,12
Mining	174,70	163,05	3,66	5,97	205,91	160,87
Pure	211,31	197,12	1,67	3,30	199,19	156,98
Income	606,18	594,06	13,08	77,70	606,46	583,22

CURRENCY CROSS RATES

	$	Rand	DEM	GBP	JPY	CHF	NLG	ITL	FRF	AUD	NZD	ECU	CAD	HKD	SGD	ESP	BEF
US ($)	1.0000	0.2729	0.6964	1.5429	0.9870	0.8563	0.6217	0.6268	0.2014	0.7382	1.5457	0.7792	0.7315	0.1293	0.7076	0.8151	3.3866
Rand	3.6647	1.0000	2.5516	5.6491	0,0361	3.1382	2.2789	2.2970	0.7379	2.7051	2.3709	4.7037	2.6806	0.4737	2.5930	2.9862	12.4107
Germany (DM)	1.4360	0.3919	1.0000	2.2160	1.4171	1.2301	0.8933	0.9003	0.2892	1.0599	0.9292	1.8435	1.0508	0.1856	1.0163	1.1705	4.8646
UK (£)	0.6481	0.1770	0.4513	1.0000	0.6400	0.5554	0.4031	0.4063	0.1306	0.4785	0.4196	0.8319	0.4744	0.0838	0.4588	0.5282	2.1952
Japan (Y)	101.32	27.67	70.57	156.25	100.00	86.77	63.01	63.51	20.41	74.84	65.55	130.03	74.16	13.10	71.74	82.57	343.35
Switzerland (SFr)	1.1678	0.3187	0.8130	1.8007	1.1525	1.0000	0.7262	0.7319	0.2351	0.8621	0.7555	1.4987	0.8542	0.1510	0.8263	0.9516	3.9547
Dutch Guilder	1.6085	0.4388	1.1195	2.4808	1.5870	1.3771	1.0000	1.0080	0.3239	1.1870	1.0404	2.0637	1.1763	0.2079	1.1379	1.3104	5.4459
Italy (L)	1595.45	435.36	1110.69	2461.24	157.46	1366.26	992.06	1000.00	321.26	1177.68	1032.18	2047.44	1167.08	206.25	1128.88	1300.07	5403.00
France (FFr)	4.9663	1.3552	3.4574	7.6599	4.9008	4.2529	3.0878	3.1127	1.0000	3.6658	3.2129	6.3732	3.6328	0.6420	3.5140	4.0468	16.8185
Australia (A$)	1.3547	0.3697	0.9435	2.0901	1.3362	1.1600	0.8425	0.8491	0.2728	1.0000	0.8765	1.7386	0.9910	0.1751	0.9586	1.1039	4.5879
New Zealand (NZ$)	0.6470	0.4218	1.0762	2.3835	1.5257	1.3237	0.9612	0.9688	0.3112	1.1410	1.0000	1.9837	1.1307	0.1998	1.0937	1.2595	5.2346
Euro Currency Unit	1.2833	0.2126	0.5425	1.2021	0.7691	0.6673	0.4846	0.4884	0.1569	0.5752	0.5041	1.0000	0.5700	0.1007	0.5514	0.6350	2.6389
Canada (C$)	1.3671	0.3731	0.9517	2.1081	1.3484	1.1707	0.8501	0.8568	0.2753	1.0091	0.8844	1.7543	1.0000	0.1767	0.9673	1.1140	4.6295
Hong Kong (HK$)	7.7357	2.1109	5.3874	11.9296	7.6349	6.6247	4.8112	4.8486	1.5576	5.7101	5.0046	9.9272	5.6587	1.0000	5.4735	6.3035	26.1972
Singapore (S$)	1.4133	0.3857	0.9840	2.1795	1.3940	1.2103	0.8789	0.8858	0.2846	1.0432	0.9144	1.8137	1.0339	0.1827	1.0000	1.1516	4.7862
Spain (Pta)	122.69	33.49	85.43	189.32	121.11	105.086	76.3155	76.9189	24.7108	90.59	79.39	157.49	89.77	15.86	86.83	100.00	415.60
Belgium (BFr)	29.53	8.06	20.56	45.55	29.1252	25.2867	18.3624	18.5082	5.9458	21.80	19.10	37.89	21.60	3.82	20.89	24.06	100.00

FINANCIAL FUTURES

CONTRACT TYPE	SPOT	YIELDS BID	YIELDS OFFER	M-T-M	DAY'S MOVE HIGH	DAY'S MOVE LOW	DEALS	VOLUMES CONTS	VALUE	OPEN INT. CONTS
DEC 95 ALSI	6061	6100	6130	6115	6126	6070	58	820	50,000	4,456
MAR 96 ALSI		6370	6400	6385	6386	6310	171	2,677	170,388	40,614
5300 C				10873	9751	9751	2	13	127	1,100
5600 C				7979	6915	6915	2	13	90	1,796
5650 C				7515	7138	7138	1	50	357	1,950
7000 C				392	388	367	4	3,000	1,128	8,340
7100 C				280	218	218	1	150	33	7,950
7350 C				113	104	83	4	3,000	285	5,000
6400 P				2222	2291	2291	1	100	229	950
JUN 96 ALSI		5965	5975	5970	0	0	0	0	0	0
MAR 97 ALSI	5524	6525	6545	6535	6542	6539	3	30	1,962	20
DEC 95 GLDI	1272	1290	1305	1298	1300	1253	72	2,056	26,291	5,144
MAR 96 GLDI		1332	1352	1342	1331	1310	26	1,380	18,280	7,428
JUN 96 GLDI		965	975	970	0	0	0	0	0	0
DEC 95 INDI	7756	7800	7807	7804	7810	7765	411	3,324	258,882	6,679
MAR 96 INDI		8150	8165	8158	8166	8100	102	1,555	126,665	17,030
8100 C				2901	2362	2362	1	20	47	3,020
7700 P				877	849	849	1	10	8	1,757
JUN 96 INDI		7905	7925	7915	0	0	0	0	0	0
DEC 95 FNDI	8936	8980	9000	8990	0	0	0	0	0	160
MAR 96 FNDI		9380	9400	9390	0	0	0	0	0	1,080
MAR 96 KRND	1410	1455	1475	1465	0	0	0	0	0	512
FEB 96 R150	14.505	14.500 ↑	4.490	14.495	14.157	14.530	11	250	21,896	614
13.500 C				106	195	195	1	4	0	84
14.000 C				440	640	640	1	4	3	34
14.500 P				1237	1100	1100	1	12	13	112
14.750 P				753	670	670	1	4	3	164
15.000 P				424	380	380	1	12	5	1,732
MAY 96 R150		14.480 ↑	4.470	14.475	14.390	14.405	2	300	27,220	300
DEC 95 BBF3	14.30	14.40	14.20	14.30	0.00	0.00	0	0	0	70
JAN 96 BBF3		14.35	14.15	14.25	0.00	0.00	0	0	0	50
FEB 96 BBF3		14.20	14.00	14.10	0.00	0.00	0	0	0	120
MAR 96 BBF3		14.10	13.90	14.00	0.00	0.00	0	0	0	0
APR 96 BBF3		14.05	13.85	13.95	0.00	0.00	0	0	0	0
MAY 96 BBF3		14.00	13.80	13.90	0.00	0.00	0	0	0	40
JUN 96 BBF3		14.00	13.80	13.90	0.00	0.00	0	0	0	0
						878	18,784	703,911	663,040	

Interest on Initial Margin on DepositeTotal: 14,20 Margin On Deposite 445,808,976

METALS OVERVIEW

QUOTES IN USD/GBP	Bid	Ask
PRICE PER TROY OZ		
GOLD	386,55	387,05
SILVER	5,22	5,24
PLATINIUM	413,90	414,90
PALLADIUM	133,25	134,25
PRICE PER TONNE		
LME COPPER	2942,00	2945,00
LME ALUMINIUM	1637,00	1637,50
LME ZINC	1011,50	1012,00
LME NICKEL	7855,00	7860,00
LME LEAD	759,00	760,00
LME TIN	6165,00	6175,00
LME ALUMINIUM ALLOY	1401,00	1402,00

WORLD GOLD

	Open	Late
Hong Kong	386,05	386,45
Zurich	386,20	386,85
Sydney	386,10	386,10
London	386,00	386,60

SPOT GOLD

Republic NY	387,10	387,60
Aig Int. CT	386,55	387,05
SBCW ZUR	386,50	387,00
Comex	(Dec) 3870	
Gold	(Feb) 3880	

AGRICULTURAL FUTURES

Domestic Commodity Prices for 05/12/95

Spot			AVE
Beef	A2	City Deep	8,38
Beef	A3	City Deep	8,30
Beef	ave.	City Deep	8,36
Spud	C1M	NAPPI	9,36

Futures			Bid	Offer	MtM
Beef	Dec 95	SAFEX	7,70	7,90	7,80
Beef	Jan 96	SAFEX	7,40	7,60	7,50
Beef	Feb 96	SAFEX	7,00	8,00	7,50
Beef	Mar 96	SAFEX	7,15	7,95	7,55
Spud	Dec 95	SAFEX	8,75	9,10	8,93
Spud	Feb 96	SAFEX	8,60	9,00	8,80
Spud	Apr 96	SAFEX	8,80	8,94	8,87
Spud	Jun 96	SAFEX	8,90	8,99	8,95

Foward			Offer
Maize			
[illegible]	[illegible] 96	Kingswood	1 000,00
WMI	July 96	Migdol	900,00
WMI	Apr 96	Vierfontein	720,00
YMI	June 96	Kingswood	525,00

International Commodity Prices for 04/12/95

Spot			
Maize	US No 2 Yellow	Gulf	143,30
Soya Beans	US No 1 Yellow	Gulf	269,69
Wheat	US. No 2 Soft Red	Gulf	199,79
Sorghum	US. No 2 Yellow	Gulf	150,80

MONEY MARKETS

NCD Rates

Bank	3 mnth	5 mnth	6 mnth	9 mnth	12 mnth
ABSA	14,70	14,75	14,90	14,95	15,00
FIRST NATIONAL	14,65	14,75	14,90	14,95	15,00
NEDCOR	14,65	14,70	14,80	14,80	14,95
STANDARD	14,75	14,80	14,85	14,90	14,95

Only selling prices are reflected.

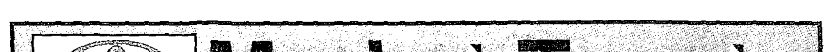
Bank Rate	15,00	Rsa 12 pct 2005	14,385
Prime Rate	18,50	Eskom 11 pct 2007/9	14,385
BA Rate Range From	14,20 to 14,40	T-Bill Tender Rate	13,65
Home loans	18,25	Business Confidence	119,40
		CPI	172,70

(Rates Shown as Percentage)

SA LIQUID FUEL

	Petrol	Diesel	Illumin Paraffin
Coastal price	177,000	146,000	91,430
Basic price	54,247	57,870	66,004
Unit recovery	0,795	57,871	66,004
Average unit recovery			
27/11 to 04/12	0,811	(3,107)	(6,372)

Price in SA cents per litre



JSE SUMMARY

MINING	Yesterday	Previous	OVERALL	Yesterday	Previous	INDUSTRIA	Yesterday	Prev
Volume	2738704	2348318	Volume	27559406	26350832	Volume	22583606	22428
Value	77266791	36638181	Value	380749881	350761397	Value	268381603	295183
Up	22	5	Up	78	94	Up	50	
Down	20	35	Down	70	110	Down	42	
Active	57	62	Active	313	363	Active	226	

JSE INDICES

Index	Latest	+/-	%Change	Opening	Earn Yld.	Div.
OVERALL	5982.7	12.9	0.22	5969.8	6.1	
ALSI40	5445.8	19.7	0.36	5426.1	6.3	
MINING PROD	3251.9	18.8	0.58	3233.1	6.8	
COAL	6629.6	-41.9	-0.63	6671.5	8.7	
DIAMONDS	18615.5	128.2	0.69	18487.3	8.3	
ALL GOLD	1287.4	11.7	0.91	1275.8	5.7	
GLDI10	878.5	10.1	1.17	868.4	6.0	
RAND&OTHERS	418.0	8.7	2.13	409.2	8.3	
EVANDER	693.3	2.2	0.32	691.1	4.2	
KLERKSDORP	2850.4	28.1	1.00	2822.3	4.1	
O.F.S.	707.1	-0.9	-0.12	707.9	4.3	
WEST WITS	2287.6	26.8	1.19	2260.8	6.8	
CURT OPS	85.5	2.0	2.43	83.5	5.6	
METALS&MIN	2409.0	8.9	0.37	2400.1	5.7	
COPPER	591.1	4.1	0.70	587.1	16.0	
MANGANESE	6178.2	-0.1	0.00	6178.3	4.6	
PLATINUM	4734.7	27.6	0.59	4707.1	5.2	
OTHER METALS	55.3	-0.3	-0.61	55.6	8.9	
MINING FIN	6772.9	1.8	0.03	6771.1	5.9	
MIN HOUSES	7912.4	3.1	0.04	7909.3	6.0	
MIN HOLDING	1431.4	-0.4	-0.03	1431.8	5.7	
EXPLORATION	85.5	-0.6	-0.68	86.1	0.6	
FIN&INDUST	9124.1	16.4	0.18	9107.7	6.0	
FINDI30	8809.1	25.4	0.29	8783.7	6.0	
FINANCIAL	6389.9	14.6	0.23	6375.3	5.8	
BANKS&OTHER	7528.2	14.5	0.19	7513.7	6.3	
INSURANCE	6925.8	20.5	0.30	6905.4	3.7	
INV TRUSTS	2955.6	16.5	0.56	2939.1	10.7	
PROPERTY	552.6	-1.0	-0.18	553.6	11.3	
PROP TRUST	157.2	0.1	0.04	157.2	10.6	
PROP LOAN ST	386.2	-3.4	-0.87	389.5	8.9	
INDUSTRIAL	7651.2	12.4	0.16	7638.8	6.1	
INDI25	7208.3	18.4	0.26	7189.9	5.9	
IND HOLDING	7180.3	66.9	0.94	7113.4	5.8	
BEV,HOTL,LES	19195.8	-8.6	-0.05	19204.5	4.2	
BUILD&CONSTR	8771.7	-35.8	-0.41	8807.5	6.0	
CHEM & OIL	1371.0	-29.0	-2.07	1400.0	10.4	
CLTH,FOOT,TX	1251.3	-3.8	-0.30	1255.0	17.1	
ELECTRON,ETC	2682.7	-11.5	-0.43	2694.1	5.3	
ENGINEERING	2733.6	-3.4	-0.12	2737.0	6.4	
FOOD	8312.7	1.2	0.01	8311.5	6.0	
FURN&HSEHOLD	1306.4	5.4	0.41	1301.0	7.6	
MOTOR	4750.0	24.8	0.52	4725.2	12.2	
PAPER&PACK	10876.0	-17.3	-0.16	10893.3	6.0	
PHARM&MEDICL	2551.8	17.0	0.67	2534.8	6.0	
PRINT&PUBLSH	31390.4	0.0	0.00	31390.4	4.5	
STEEL&ALLIED	1496.4	11.3	0.76	1485.1	11.3	
STORES	9937.7	-31.0	-0.31	9968.8	4.9	
TRANSPORT	49315.5	0.0	0.00	49315.5	7.3	
DCM	126.7	1.4	1.10	125.3	8.9	
VENTURE CAPTL	61.4	0.0	0.00	61.4	0.4	

JSE ACTIVES

VOLUME LEADERS		(No. Shares)	VALUE LEADERS		(Value in Ra
NORWICH	0	3904930	REMGRO	+50	2997
SPESCOM	-10	1503400	NORWICH	0	2284
LONRHO	+30	1314006	LONRHO	+30	1268
LEFIC -N-	-22	1000000	ANGLOS	+50	1188
UNIHOLD	0	921650	DEBEERS	+75	111
REMGRO	+50	878459	SA BREWS	0	109
USKO	-1	862200	BEATRIX	-25	97
ISCOR	+3	845965	SASOL	-100	91
QUICKCO	0	591800	LEFIC -N-	-22	88
CENPROP	0	569300	NEDCOR	+75	86
PREM GRP	0	562131	DRIES	+50	84
AUTOMKR	+10	531200	ABSA	0	73
GENCOR	-5	459189	AMIC	0	72
ABSA	0	385669	REMB BEH	0	72

RAND RATES

STANDARD BANKS CLOSING RATES FOR DECEMBER 5 1

COUNTRY	CURR	T/T BUY	A/M BUY	S/M BUY
Rates for amounts up to R 25 000				
QUOTATION ON BASIS RAND PER 1 USD				
US $	USD	3.5550	3.6434	3.6702

Bond	211,12	206,89	na	na	206,40	200,07
Managed	227,45	213,35	na	na	214,74	199,67
Global	211,11	197,47	na	na	206,78	196,76
STANDARD BANK					**TEL: (011) 636-7135**	
GE	1751,57	1643,43	4,65	76,40	1643,43	1380,74
Income	89,66	89,66	12,19	10,93	90,72	87,46
Gold	174,27	162,67	5,67	9,23	229,56	155,86
Industrial	160,41	150,27	5,40	8,12	150,27	127,71
International	139,55	130,13	3,11	4,05	138,26	119,44
Gilt	119,13	118,24	na	3,77	118,91	99,86
Growth	134,24	125,21	na	0,85	125,21	99,18
Index	123,48	115,14	na	1,19	115,14	96,57
SYFRETS					**TEL: (021) 488-2911**	
Growth	471,20	440,25	2,07	9,10	444,51	337,72
Income	112,00	110,88	12,08	13,39	113,24	107,15
Trustee	179,54	167,76	3,64	5,54	168,33	137,66
Gilt	1242,93	1230,50	11,17	137,42	1250,75	1087,18
Balanced	122,60	115,13	6,11	7,04	116,03	98,23
Prime Select	154,19	144,32	3,12	4,02	146,96	99,34
Mng & Resource	83,02	77,65	5,94	na	na	na
UAL					**TEL: (011) 630-6243**	
GE	3113,00	2903,58	2,07	77,34	2752,62	2347,87
Mining	502,20	469,87	3,28	19,06	581,09	464,64
Selected	3510,82	3280,98	2,71	126,90	3107,48	2726,27
Gilt	1266,24	1253,59	12,00	221,52	1267,77	1125,99
Managed	1434,51	1344,07	5,07	83,09	1309,04	1174,76
Maximum Income	1069,32	1058,63	13,36	176,96	1042,55	935,73
NAMIBIAN TRUSTS - OLD MUTUAL						
Growth	260,99	243,58	3,19	7,78	241,64	195,10
Income	106,47	105,16	11,20	11,78	107,04	101,21
SANLAM					**TEL: (021) 947-3395**	
Growth	134,04	124,89	2,40	3,00	124,89	100,73
Income	102,40	100,82	10,51	10,60	102,51	98,62
COMMERCIAL BANK OF NAMIBIA						
Growth	114,23	107,17	na	na	na	na

Maize	Dec 95	CBOT	131,69
Soya Beans	Jan 96	CBOT	258,95
Wheat	Dec 95	CBOT	153,77

International Oil

	Latest	Previous
Dated Brent	$17.50	$17.45
IPE London Brent futures (January)	$17.50	$17.45
NYMEX light crude futures (January)	$18.68	$18.50

GILTS

Index			Last Trade	High	Low	Close
RSA						
R119	14%	1997	14,060	14,060	14,060	14,060
R147	11.5%	2000	14,250	14,270	14,110	14,250
R150	12%	2005	14,540	14,540	14,345	14,540
R153	13%	2011	14,570	14,570	14,400	14,570
ESKOM						
E167	12%	1996	14,600	14,620	14,600	14,600
E168	11%	2008	14,410	14,475	14,360	14,410
E169	15%	1998	na	na	na	na
E170	13.5%	2020	14,490	14,500	14,360	14,490
TCTA						
WS01	12%	2005	na	na	na	na
UMGENI WATER						
UG50	15%	1997	na	na	na	na
UG55	15%	2005	14,970	14,970	14,970	14,970
TELKOM						
TK 01	10%	2008	14,555	14,560	14,415	14,555
TRANSNET						
T004	7.5%	2008	14,360	14,375	14,630	14,360
CORPORATE BOND						
SAB						
S001	14%	2000	na	na	na	na

Courtesy of J D Anderson and Standard Merchant Bank

QUOTATIONS ON BASIS FOREIGN CURR PER R1

Australia	AUD	0,3749	0,3771	0,3810	0,36
Austria	ATS	2,7900	2,8100	2,8200	2,72
Belgium	BEF	8,1500	8,1900	8,2400	7,94
Botswana	BWP	0,7795	0,7810	0,8070	0,75
Canada	CAD	0,3776	0,3791	0,3819	0,36
Denmark	DKK	1,5360	1,5450	1,5560	1,49
Germany	DEM	0,3963	0,3976	0,3990	0,38
Netherlands	NLG	0,4437	0,4457	0,4480	0,43
Euro Curr Unit	XEU	0,2141	0,2155	0,2170	0,21
Fijian Dol	FJD			0,3842	
Finland	FIM	1,1857	1,2015	1,2200	1,14
France	FRF	1,3744	1,3786	1,3834	1,34
Ghana	GHC		385,3761		
Greece	GRD	66,3012	66,7123	67,1830	62,84
Hong Kong	HKD	2,1350	2,1470	2,1670	2,08
India	INR			9,4600	
Italy	ITL	441,8600	444,4700	447,5200	431,9700
Japan	JPY	27,9600	28,0100	28,0800	27,30
Kenya	KES		15,0620		
Malawi	MWK			4,1251	
Malaysia	MYR	0,6971	0,7017	0,7029	0,68
Madagascar	MGF		892,8700		
Mauritius	MUR	5,0075	5,0265	5,0465	4,93
Taiwan	TWD			7,4059	
New Zealand	NZD	0,4283	0,4304	0,4340	0,41
Norway	NOK	1,7463	1,7565	1,7683	1,70
Pakistan	PKR			9,2850	
Portugal	PTE	41.6400	41,9000	42,2000	40,64
Seychelles	SCR			1,3175	
Singapore	SGD	0,3910	0,3940	0,3985	0,38
Spain	ESP	33,8000	34,0000	34,2200	33,10
Syrlanka	LKR		14,5850		
Sweden	SEK	1,8086	1,8204	1,8341	1,75
Switzerland	CHF	0,3219	0,3227	0,3235	0,31
Zambia	ZMK		252,9475		
Zimbabwe	ZWD	2,5450	2,5490	2,5585	2,50

ASIA

Lacklustre trade as Wall Street rallies

Hong Kong — Asian markets shrugged off another record performance on Wall Street, putting in a day of lacklustre trading yesterday.

Brokers said that bullish sentiment in the United States, aided by hopes that the Fed would ease rates later this month, was likely to propel regional markets higher in the weeks ahead.

Tokyo stocks finished easier after holding to a narrow range, consolidating recent sharp gains.

Taiwan posted a modest rise while Hong Kong's Hang Seng Index broke through the key 10 000 level early in the day but most of the gains evaporated by the close.

In Tokyo, shares ignored the 52-point rise by the Dow Jones Industrials to 5139,52.

The 225-share Nikkei index lost 17,84 points, or 0,09 percent, to end at 18 879,53. It had risen three sessions in a row and topped 19 000 on Monday for the first time since January 20.

The Topix index shed 0,45 points, or 0,03 percent, to 1502,26, while the 300-share Nikkei average edged up 0,04 points, or 0,01 percent, to 282,35.

In Hong Kong, the blue-chip Hang Seng index gained 34,74 points to close at 9 975,37, well below the day's high of 10 063,14. Turnover swelled to H$4,89 billion from Monday's adjusted H$3,73 billion.

Taiwanese share prices reversed an early downward trend to close higher as bargain hunting emerged late in the session. The index finished up 27,08 points, or 0,57 percent, at its daylong high of 4772,97. Turnover was a light T$21,29 billion.

Singapore shares were little changed, though they reached another four-month high. The 30-share Straits Times Industrials index added 3,88 points to 2168,48.

Demand from funds buoyed Malaysian shares as the Kuala Lumpur Stock Exchange Composite Index finished up 6,33 points at 991,57.

Australian stocks closed barely higher as afternoon profit taking aimed at major issues pushed them well below their highs for the day. The All Ordinaries index was 0,3 point higher at 2203,1.

The Thai market was closed for a domestic holiday.

The US dollar was basically stalled in late Tokyo trade, up slightly against the yen while edging lower against the mark. It stood at ¥101,35/40 and DM1,4380/90 against New York's final 101,30/40 and 1,4394/01.

Gold was slightly firmer in Hong Kong but off highs reached on late short-covering. Bullion finished at $386,20/70 an ounce, up from New York's close of $385,80/$386,30.

In Singapore, crude oil prices were mostly stable. — Reuter

WORLD MARKETS

Prices as at 18:00 on December 5 1995		Latest	%Chng	Net Chng
Belgium	Bel 20	1509,56	0,28	-4,21
Britain	Ftse 100	3664,20	0,15	-5,50
Chile	Ipsa	99,64	0,47	-0,47
France	Cac 40	1814,87	2,25	+40,01
Germany	Dax	2260,99	0,39	+8,83
Greece	Athens General	913,29	0,20	+1,82
Hong Kong	Hang Seng	9975,37	0,35	+34,74
Japan	Nikkei 225	18879,53	0,09	-17,84
Mexico	Mxse Ipc	2678,590	0,41	-10,990
Singapore	Straits Times	2168,48	0,18	+,388
Switzerland	CS General	705,10	0,37	-2,60
USA	Dow Jones Ind.	5170,23	0,60	+30,71

JSE

Industrials soar to new heights

Johannesburg — Industrial shares galloped to new heights by the close yesterday, spurred by a strong performance in the United States overnight, with golds ending firmer amid increased offshore demand, dealers said.

"The market was exceptionally strong with industrials gaining about 70 points to hit a new high," a trader said.

They said markets in the United States were anticipating a rate cut, which had helped drive the Dow's run to record highs.

"The perception is that interest rates will be cut soon," one trader said.

Gold shares did well amid offshore demand despite a quiet bullion price. A dealer said the market was looking for a stronger gold-price showing overnight.

Another trader said that if the gold price did not rise overnight, the gains in golds would be pared today.

The JSE all share index was up 63 points to 6045,7, the industrial index swelled 72,1 points to 7723,3 and the gold index climbed 26,4 points to 1313,8.

Near-term equity futures ended stronger, spurred by Wall Street's run to new highs overnight and the local market's rally.

The all share contract was last at 6100/30 against a previous 6046.

The gold contract was at 1290/305 from 1242 and the industrial contract was at 7800/07 against 7738.

Blue chips led the ascent with Anglos 400c stronger at R220, De Beers up 200c to R105,75, SAB up 250c at R129,50 and Liberty Life 100c firmer at R110.

Financial and banking stocks also did well with Standard rising 500c to R165, Nedbank notched up 200c to R63 and First National 75c stronger at R33,50.

Among golds, Vaal Reefs was 600c better at R246. — Reuter

WORLD INTEREST RATES

05/12/95	US	JP	UK	GER	SWISS
2YR	5,45	0,76	6,40	4,03	2,40
3YR	5,54	1,18	6,70	4,48	2,95
4YR	5,63	1,66	6,95	4,94	3,35
5YR	5,73	2,08	7,15	5,35	3,65
7YR	5,87	2,74	7,47	5,93	4,03
10YR	6,05	3,15	7,79	6,38	4,39
DISC	5,25	0,50	6,75	3,50	2,00

RAND

Light volumes after lower opening

Johannesburg — The rand held in a narrow range in late trading yesterday after opening lower against the dollar, but dealers said trading volumes were light.

"The rand market has been exceptionally quiet today with the dollar ranging for most of the day. Besides a little dollar demand at the start of the session, there have been no local factors to influence the rand's movements," a dealer said.

In late trade the dollar was quoted at R3,6642, up from its opening at R3,6623 and R3,6608 late on Monday.

"The rand was lower at the start of the session with a bit of dollar demand, but the market was pretty subdued from then on," a dealer said.

The dealer said most players' attention was focused on developments on international markets, particularly the fate of the French franc amid widespread industrial unrest, as well as the likelihood of a cut in German interest rates later this month.

In line with the slightly stronger mark, the rand slipped on the cross-es although the moves were nothing of note.

The rand was quoted at DM0,3912 in late trade against an opening level of DM0,3927. The pound was quoted at R5,6603, up from opening at R5,6191.

The dollar was mixed in early New York trading, quoted at DM1,4343 against DM1,4394 in London earlier in the day and DM1,4394 late on Monday in New York.

Meanwhile, South African long-bond yields climbed, with market sentiment dented by recommendations by the Katz commission that a 30 percent tax be slapped on the taxable income of retirement funds.

In late trade the yield on the government's benchmark R150 was at 14,535 percent, against a previous close of 14,375 percent. — AP-DJ

EUROPE

Stocks rally on Juppe's resol

London — French stocks and the franc took centre stage in European financial markets yesterday, rallying sharply on the government's determination to push through its welfare reform plans despite crippling public-sector strikes.

The Paris CAC share index jumped 2,25 percent, making up almost all of Monday's 2,53 percent losses. The franc gained two centimes to 3,4584 a mark on short-covering and operators' fear of being caught short if the rally continued.

The dollar took a back seat in what dealers said was the start of a pre-Christmas lull, ending little changed against a mark that was easier against most currencies.

The failure of the private-sector unions in France to join the public-sector strike that has paralysed the country encouraged investors to buy French stocks.

Economists said operators were covering short positions and ensuring that they were not taken by surprise if the government managed to end the dispute without major concessions, a move that would send French markets soaring.

Traders said the market was counting on Juppe facing up to the striking unions.

All 40 shares in the leading CAC index closed higher, and the index ended more than 40 points up at almost 1,815.

Elsewhere, the London bourse closed well above the day's lows with modest losses, after openi an all-time peak of 3683,6, ex ing record-breaking gains.

Prices crumbled on the that the government had sol remaining 1,8 percent stake i giant BP, about 108 million sh and on a profit warning fron conglomerate, BTR.

But the market revived wh emerged that the BP shares been placed with institutio 513p a piece, and after early Street gains lifted heavyw stocks, such as pharmaceu group Glaxo.

The FTSE index ended w net loss of only 5,5 points.

In Germany, profit t knocked the mark off its against most European curre coupled with expectations tha due this week would confir sluggishness of the econom strengthen the case for lower

The dollar was quote DM1,4366 yesterday, com with DM1,4398 in late Eur trading on Monday. It w ¥101,38 from ¥101,15.

The FTSE index of 100 k British shares closed dow points at 3664,2.

The 30-share DAX in Fra rose 8,83 to 2260,99 and endec bourse trading at 2269,34.

Gold ended stronger in L at $386,75 an ounce, up 40c.

Silver ended at $5,23 an up 1c. — Reuter

Cosatu threatens war on taxation

ARGE 6/12/95 (320)

CLIVE SAWYER, Political Correspondent and ALIDE DASNOIS, Business Editor

THE government could be plunged into a major confrontation with labour giant Cosatu if it accepts key proposals by the Katz Commission on taxation.

Cosatu is vehemently opposed to increasing the rate of value added tax (VAT) and has demanded the immediate introduction of a capital gains tax.

But, in an interim report released yesterday, the Katz Commission left the door open for an increase in VAT and ruled out a wealth tax.

And it recommended a narrowing of categories of VAT-exempt items, in contrast to Cosatu's demand for zero-rating of foods and medicine.

With the ANC component of the government heavily dependent on Cosatu as an ally, it will be under considerable pressure when considering the proposals.

The commission was appointed by the Finance Ministry last year to recommend reforms to the taxation system.

Cosatu general secretary Sam Shilowa, in a speech at the federation's 10th anniversary celebrations yesterday, called for the tax burden to be shifted to the wealthy.

While the speech coincided with the release of the report and was not a formal reaction to it, it touched on several of the taxation issues covered by the commission.

Mr Shilowa said workers had carried too much of the tax burden for too long.

The myth should be exploded that South African companies paid taxes which were high by international standards.

Many big conglomerates were avoiding tax, he said.

Cosatu demanded that there be no increase in VAT, and no taxation on basic necessities such as food and medicines.

"We should remain ready for a major battle on these issues with the bourgeoisie as they are not going to take these challenges lying down. Prepare for war on taxation," Mr Shilowa said.

● The tax burden of middle income-earners should be lightened by the commission's recommended shift from direct to indirect tax and by measures to tackle fiscal drag, according to Ernst & Young tax partner David Clegg.

He said the commission seemed to want to use a VAT increase to offer relief to taxpayers.

He expected the VAT rate to rise at least one percent next year.

People earning between R30 000 and R100 000 a year, who were relatively hard hit under the present tax system, should see their burden eased if the commission's proposals were adopted, he said.

● **Katz on tax: full details and other reaction, page 24.**

Katz recommends tax overhaul

CT(BR) 6/12/95 (320)

By Charlotte Mathews

Johannesburg — A major overhaul of the tax system, particularly in relation to the retirement industry, is implied in the recommendations of the Katz commission report, released yesterday.

Although few tax experts had seen a copy of the report yesterday — copies will only be available from the government printer towards the middle of the month — those who had seen a copy said there were no surprises in the report, but that it would give rise to extensive debate.

The main recommendations of the report are in line with what has already been leaked in advance.

The good news is that the report recommends no capital gains tax for the moment. It also recommends the retention of the Secondary Tax on Companies for the time being, although it calls for a substantial reduction in the rate. The commission further suggests that taxpayers' rights should be stated, a tax ombudsman should be appointed and that Marketable Securities Tax and stamp duties on share transactions should be abolished.

As expected, the report supports a capital-transfer tax, which would include both the present estate duty and donations tax. According to Nico Botha, the assistant general manager of Syfrets Specialist Services, if capital transfer tax were introduced at a flat rate, it could be between 20 and 25 percent. If applied on a sliding scale, it could be about 35 percent.

The bad news is that the report suggests reform of VAT, increasing the standard rate and reducing the number of zero-rated items. It suggests the Multilateral Motor Vehicle Accident Fund should be funded from an earmarked fuel levy. The commission says further investigation should be undertaken into land tax at a local level. There is also a recommendation that normal tax principles and VAT should be applied to gambling and lotteries, except for the National Lottery.

As far as the retirement fund industry is concerned, the report has moved away from the idea of capping rand values of deductible contributions. Deductible contributions should be limited to 15 percent of aggregate salary in the case of employers and 7,5 percent of taxable income for employees. If the employee does not use the 7,5 percent fully, he can make a contribution to a retirement annuity.

The report proposes taxing the value of benefits due on death or retirement at that stage and taxing approved funds on interest, rental and other trading income at a flat rate of 30 percent. But once tax has been paid on the capital sum and income of the fund, pension annuities should be free of tax.

Mike Dunster, a partner at Deloitte & Touche, said the most significant aspects were that a tax based on averaging had been replaced by a sliding scale and that there had been a complete turnaround from the previous system where the tax was payable in the hands of the pensioner. But it would be necessary to examine specific examples to see whether the effect of these changes would amount to a heavier tax on individuals.

Fisher Hoffman Sithole partner Anthony Chait said the report would now go to the joint standing committee on finance.

☐ See Page 21

'The country will be better off'

Michael Katz spoke to Business Report yesterday about his report on the overhaul of South Africa's tax laws:

☐ *What are the most important aspects of the report?*

Probably the most important aspect is Chapter 8 on retirement fund taxation. But there are other important aspects: group taxation; the taxpayers' bill of rights; VAT on financial services; land tax; secondary tax on companies; and capital gains tax. Everything in there is important.

☐ *Why is no rate mentioned for capital transfer tax?*

We took a deliberate decision not to publish a rate at this stage. We will do that when we finalise that chapter, which will be in the first half of next year.

☐ *Will the taxpayer be better or worse off under the new retirement fund tax recommendations?*

It is a very difficult question. This is probably the most revolutionary and far-reaching of our recommendations.

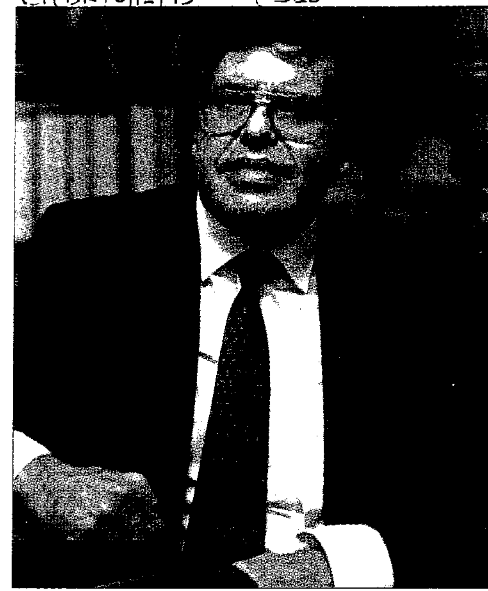
The country will be better off, some individuals will be better off and others will not. The money that becomes available by virtue of our recommendations, if they are implemented, we recommend should be used to effect reductions to the personal income tax rate.

☐ *Is there a precedent for group income tax and what are the implications for assessed losses?*

Group income tax is implemented in England and America. It means that if there are losses in one company and gains in another, they can set off. But you cannot buy companies to get assessed losses.

☐ *What is the implication of applying VAT on all fee-based financial services, and is the process of taxing financial services not rather cumbersome to implement?*

We want to reduce the exemptions. Reaching a definition of financial services will not take long, but there are some aspects related to interest that have to be discussed. No, the taxation we want to bring in will not be cumbersome.



FEW SURPRISES *Michael Katz, whose report was released yesterday*

REPORT

Agricultural tax 'unlikely to work'

(320)

Adrienne Gilliomee

BD 6/12/95

THE Katz report did not recommend a national tax on agricultural land in the short to medium term as it would not yield significant net revenue. There was also likely to be a low level of compliance with the tax by farmers.

The report said the tax would place a heavy burden on agriculture and on its potential contribution to reconstruction and development in SA, unless special compensating measures accompanied the tax.

There was also evidence that the social costs of a national land tax would be high in SA, as this would result in poor subsistence farmers being subject to the same tax as commercial farmers.

But the land tax subcommittee said evidence suggested that a rural land tax — excluding agricultural land — levied at local government level might have merit. The proper roles of national and provincial governments regarding this tax would also have to be determined.

"A local level rural land tax will improve equity.... If levied at local government level, it will give greater fiscal autonomy to rural local authorities," the report said.

Earnings on share plans regarded as capital gain

Greta Steyn BD 6/12/95 (320)

THE Katz commission recommended any gain an employee made on a share ownership scheme be treated as a capital gain, except when the employee is a dealer in securities. The recommendation is in line with the existing approach, with the report noting that the practice was sound and should be confirmed.

On loans granted to employees for share purchase schemes, the commission recommended that employees should be allowed to choose when they wanted to pay fringe benefit tax. They could choose to pay the tax either on a current basis, or five years after the granting of the loan, unless the shares were sold before the five years had passed. Interest would, however, be charged on the fringe benefit tax and employers should monitor the tax liability.

The concession fringe benefit tax should apply to schemes not limited to senior executives but available to all employees. In addition, the scheme had to make provision for the voluntary sale of an employees' shares on leaving the company.

The commission recommends greater certainty on anti-avoidance by proposing that a business purpose test be used under certain circumstances. The new provisions would apply only to transactions entered into after the Income Tax Act has changed. The commission suggested a general anti-avoidance clause should not be a substitute for adequate legislation.

Adrienne Giliomee reports it was recommended that businesses be classified as small business undertakings when they employed fewer than 50 people and had an annual turnover of less than R2m. A phasing-out period of at least two years should be granted with regard to the recoupment of allowances when a taxpayer ceased to qualify as an SBU.

Report calls for VAT base to be extended

(320) BD 6/12/95

Adrienne Giliomee

ZERO-rated items should be narrowed down while the standard VAT rate should be increased, the Katz commission recommended in its third interim report.

The scope for appropriate poverty relief to accompany VAT reform should also be evaluated. "The erosion of the VAT base should not be considered and renewed priority should be given to targeted poverty relief and development programmes," the report said.

It acknowledged that an increase in the VAT rate or a reform of the schedule of zero-rated items would have undesirable effects in the shorter term but was unlikely to effect the poor significantly in the long term.

It emphasised that VAT reform should be accompanied by intensified poverty relief initiatives.

Price Waterhouse tax partner Sabian Goody said the decrease in zero-rated items was a familiar theme from the European Union, and was an attempt to extend the VAT base.

"It is a very easily collected tax and makes sense from the government's point of view. But unfortunately it is a tax that affects the entire population, which has political implications," he said.

The VAT subcommittee also recommended that all fee-based financial services, including services in respect of life insurance and superannuation funds, be subject to the tax.

It said the financial services levy should be retained for the life insurance and pension fund industry but be removed for banks and other financial institutions, including the unit trust industry.

Calculations have indicated that the expansion of the VAT base by the comprehensive inclusion of all banking and life insurance type financial services would generate approximately R1,4bn additional revenue for the fiscus.

Premiums payable in respect of life policies issued in terms of the Insurance Act and contributions to pension, provident, retirement annuity funds and medical aids, should remain exempt. The exemption would encompass fees included within such premiums or contributions.

The report said initial and services charges payable under unit trust schemes should remain taxable.

Regarding gambling, the report said it should be treated like any other industry or activity for VAT purposes, with revenue share between the central government and the provinces as provided for in the constitution, thereby incurring no additional administrative burden.

‘Vat hike should be considered’

Katz calls for overhaul of pensions tax

BD 6/12/95

Greta Steyn

THE Katz commission has recommended far-reaching changes to pensions taxation, which should provide the state with about R3,5bn to finance personal income tax cuts.

The restructuring of pensions taxation was the most fundamental change proposed in a wide-ranging interim report released yesterday.

KATZ

Other recommendations included a call for an investigation into the feasibility of raising the VAT rate and reducing the rate of secondary tax on companies (STC).

STC should be retained for now but steps should be taken to replace it with another tax on dividends, the report said.

The commission also rejected the imposition of a capital gains tax, but accepted the need for a capital transfer tax — either estate duty or inheritance tax.

It has included a chapter proposing a statement of taxpayers' rights and the appointment of a tax ombudsman.

The most controversial proposal is the suggestion that pension fund income be taxed at a flat rate of 30%.

Interest and property income are included in the income to be taxed at this rate, but dividend income is specifically excluded.

The proposal has raised fears that there might be a move out of gilts into equities, and was greeted with dismay by the capital market where rates rose 16 points as a result.

The commission acknowledged in its report that interest rates might rise if the proposal was implemented, as retirement funds would require a higher yield to compensate for the tax.

The 30% rate came under fire for being higher than the average tax rate paid by the pension fund members.

The head of the commission, Michael Katz, said the high rate was necessary to ensure there would be no arbitrage opportunities because of different tax rates for life and pensions business.

Life assurers' policyholder funds are taxed at 30%.

The commission also proposed changes to pensions taxation that would encourage people to take their payouts in the form of annuities rather than lump sums.

It suggested that the capital value of benefits be determined on death or retirement, and that the tax paid be

Continued on Page 2

Proposals viewed with concern

Adrienne Giliomee

MAJOR players in the retirement benefits industry viewed the Katz commission's proposals with caution yesterday and many said the industry could face substantial change if government accepted the recommendations.

The most contentious issue was the recommended 30% tax rate on retirement fund income, which was termed "excessive and negative". Organisations called for a rate closer to 20%.

Retirement income included interest, rental and other trading income but excluded divided income and capital gains. The rate was proposed in light of the commission's concern about opportunities for tax arbitrage, which saw investors channel taxable income into retirement funds, where it was currently not taxable.

Old Mutual employee benefits GM Garth Griffin said that the proposed tax rate significantly exceeded the average marginal rate for most pension fund members.

"Given that retirement fund contributions are increasingly seen as de-

Continued on Page 2

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Katz

Continued from Page 1

based on that amount.

Benefits of less than R50 000 will be tax free.

The report said it would be too complicated to apply marginal tax rates, and the commission proposed a set of rates ranging from 15% on amounts less than R150 000 to 45% on more than R750 000.

The taxable amount would become less if a smaller portion was taken as a lump sum.

Katz said a major point of departure had been uniformity in the tax treatment of different contractual savings vehicles.

The commission proposed that provident fund contributions be made tax deductible.

It also suggested that there should be equality between private and public sector funds.

Public sector funds should also pay tax on income, but exemptions would be possible for funds which were heavily invested in gilts due to investment restrictions.

The commission recommended an end to the tax-free status of lump sum payments by public sector pension funds, but said that accrued rights had to be retained.

Katz said the funds raised from increased taxation on retirement funds should be used to reduce the personal income tax burden, particularly at the lower levels.

Further investigation would be necessary into how personal income taxes should be structured.

The report mentioned the need for a reduction in the top marginal income tax rate, and a hike in the lowest level of earnings attracting income tax.

The report also had recommendations on anti-avoidance measures which should enhance certainty.

In addition, it proposed a gradual introduction of a system of group taxation for a company and all its wholly owned subsidiaries.

It made recommendations on taxation of employee share ownership schemes designed to encourage them without sacrificing neutrality.

The commission also reiterated its call for the scrapping of marketable securities tax.

END

Concern

BD 6/12/95

Continued from Page 1

ferred pay, we believe a tax rate of 20% would be more appropriate."

Sanlam senior GM George Rudman warned that the taxation rate would affect lower- and middle-income investors more adversely than upper-income groups.

"An upper-income group investor would be better off investing pension fund money in the equity market or in policies through assurance companies that invested in shares," he said.

"The implementation of the proposed tax can benefit assurers through additional policy business but adversely affect it through loss of pension fund business," he said.

Institute for Retirement Funds vice-president Chris Newell said the recommended rate was too high, con-

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Reports: Page 7
Comment: Page 10

sidering that the life assurance population was probably a wealthier section of society than ordinary pension fund members. "The proposed rate draws into the tax net some people who used to pay very little tax."

Contributions to pension funds deemed deductible for tax purposes would not be capped in rand terms, as recommended in the commission's first report, but would would be proportionally limited.

Anglo American group tax consultant Marius van Blerck said retirement capping in percentage terms rather than rand values made sense as rand capping needed to be reviewed regularly, an exercise which might not occur timeously.

Newell said percentage capping was a more sensible approach.

"Capping on overall contribution rates at a level which is reasonable gives good incentives for all who contribute," he said.

Move to win taxpayers' trust

BD 6/12/95 (320)

Greta Steyn

THE Katz commission has called for a published statement of taxpayer rights along the lines of the British approach, to strengthen trust between the Receiver of Revenue and the public.

"There is currently a high level of frustration and even mistrust on the part of the taxpaying community; the revenue authorities, on the other hand, have their own misgivings about the tax morality of many taxpayers," a report said.

Complaints and submissions received from the public had helped the commission to arrive at a number of principles to be embodied in a statement of taxpayer rights. The first was timeousness — taxpayers had a right to expect their affairs to be dealt with expeditiously, it said.

The present delays in the assessment process bred disrespect on the part of taxpayers for deadlines set for compliance, and introduced uncertainty to such a degree that it could hamper businesses.

The Katz commission suggested in the report that if a tax return had not been attended to after a year, any interest which might otherwise be payable should be suspended.

Since the Receiver of Revenue's office was at present battling to meet assessment demands, the commission suggested that the recommendations on timeousness be phased in.

Also included in the statement of rights should be the principles of fairness and impartiality; transparency; respect, courtesy and helpfulness; and privacy.

A taxpayer whose rights had been infringed could take up the matter with the public protector, who has wide powers in terms of the interim constitution. But it would be better to create a mediatory role for a tax ombudsman, with the public protector serving only as the ultimate watchdog over taxpayer rights.

This ombudsman should be appointed from outside the revenue authorities, and should function independently, the report said.

He should also be accessible to taxpayers at all times and have unfettered access to the revenue authorities.

Reduction of burden on companies is a priority

(320) BD 6/12/95

Adrienne Giliomee

SECONDARY tax on companies (STC) should be retained but various forms of imputation tax should be investigated as a potential replacement, the Katz report said yesterday.

The major problem with STC was the heavy tax burden on companies, namely the 35% basic corporate rate and the STC rate of 25%, which in some instances added up to an effective corporate tax rate of 48%.

The report said the combined corporate and STC rate was too high, while the STC component itself was also too high.

"The reduction of the burden of the combined effect of the current level of both company tax and STC is the real priority," the report said.

The imputation system saw shareholders carrying the tax burden paid on distributed income while the company was merely the vehicle for generating the earnings of individual shareholders and paying tax on a provisional basis.

However, it was unlikely that an imputation system would raise the same revenue as STC.

"The high concentration of shareholding is in the contractual savings industry, which largely comprises funds exempt from tax. The maximum individual tax rate of 45% is also lower than when STC pushes the maximum corporate tax rate to 48% in some cases," the report said.

It also acknowledged that a major drawback of an imputation system was its complexity regarding legislation, subsequent administration and compliance costs.

Withholding tax was named as another alternative to STC. The report said the possibility of simply converting the STC into a final withholding tax on distribution had to be considered. In the international context, a final withholding tax would immediately be subject to treaty provisions which might reduce the tax to zero in some cases.

Referring to the disincentive for foreign companies to invest in the country, the report said Inland Revenue had taken steps to sign new double tax treaties to bring STC within the scope as an income tax.

"Negotiations to persuade foreign fiscal authorities to recognise STC as an income tax for purposes of existing double tax treaties have continued."

Panic selling hits local markets after Katz report

(320)

BY LLEWELLYN JONES

CT (BR) 7/12/95

Johannesburg — Proposals contained in the third Katz commission report caused pandemonium on the local markets yesterday, as the capital market took a pounding and equities soared to new heights.

"Panic selling set into the gilts market as the consequences of a proposed 30 percent tax on the interest income of approved funds set in," an analyst said.

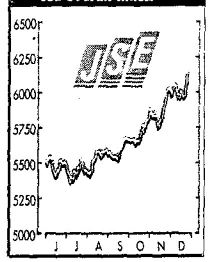
"This would significantly decrease returns and increase holding costs. The market was fairly long of stock after the recent bull run, and players went in and sold for all they were worth early in the morning."

Trade on the government's benchmark R150 stock opened at 14,62 percent yesterday morning but was soon testing the key 15 percent level. By mid-afternoon, however, rates had retreated to a "more respectable" 14,7 percent as the panic selling in response to the commission's recommendations subsided. The stock ended the session at 14,685 percent.

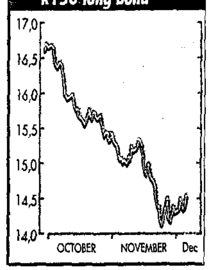
But gains in the equities market more than compensated for the gilts losses.

"The proposals to scrap Marketable Securities Tax and reduce Secondary Tax on Companies, along with the proposed tax on interest income, made it appear more beneficial to be in the equities market than the gilts market and spurred some switching between gilts and equities holdings," another analyst said. "Add in the fact that Wall Street is flying on bullish sentiment and doesn't look like it's going to pull back, especially with the yield on 30-year US Treasury bonds falling to 5,97 percent from about 6,2 percent last week, and a firming gold price, and we could be in

JSE overall index



R150 long bond



for a good run at least until the futures close-out on December 15."

The JSE overall index soared 101,8 points to a record 6147,7 as the all gold index rocketed 35,8 points to 1350,1 and the industrial index climbed 92,4 points to 7815,7.

Reuters reports that long-term bond yields in the United States fell below 6,0 percent for the first time in more than two years yesterday.

Financial markets surged after the commerce department said slower manufacturing activity helped drag the government's main economic forecasting gauge down in October. The index of leading indicators fell sharply, by 0,5 percent, after a 0,1 percent decline in September.

See Pages 24 & 25

Pension proposals throw the Katz among the pigeons

(320)

GRETA STEYN BD 7/12/95

IF MICHAEL Katz thought he could escape the controversy that dogged the release of his commission's first report on tax reform a year ago, he was wrong. Panic selling in the capital market yesterday proved that Katz will again have to endure being the centre of attention for quite a while.

But there is an important difference between the response to this year's report and last year's — pension industry players have accepted some fundamental points of departure this time around. This year's report may have put a sudden spoke in the bull run's wheels in the gilts market, but its approach to pensions taxation is generally regarded as being sound. The chances of government accepting its main recommendations, possibly in a modified form, are good — although it is unlikely that anything will happen in next year's budget.

The reason for the capital market's jitters is the proposal that pension fund income be taxed at a flat 30% rate.

Income includes interest and property rentals, but specifically excludes dividends. Dividends are excluded to ensure neutrality in the tax treatment between income in the hands of individuals and income held on individuals' behalf by pension funds. The market now fears that there will be a move out of gilts and into equities.

Investec asset management MD Hendrik du Toit says the after-tax returns to investors will fall significantly, implying a switch away from interest-bearing investments and property towards equity. He predicts the capital value of the fixed interest components of retirement funds will fall significantly, and the state's interest bill will be substantially higher.

"We estimate the expected gain of R3,5bn to the fiscus of the new tax will be diminished by at least R1,5bn of increased interest payments a year. The estimate does not even consider the potential cost to all the other parastatal, municipal and private borrowers in the capital markets," he says. Du Toit warns against implementing an "expedient" package introducing a new set of market distortions.

In theory, capital market rates would have to rise 30% to compensate fully for the tax. But no one in the market expects such a massive rise in rates, even if government accepts a 30% rate. There is nevertheless consensus that an increase in long-term interest rates will occur if the proposal is implemented. The market's current panic seems a little overdone, as it is highly unlikely that any action will be taken before the 1997/98 Budget. But the question remains — how much will rates have to rise?

One analyst sees a substantial rise of about 70-100 points; others are more sanguine and regard 30-40 points as the maximum adjustment.

Old Mutual employee benefits GM Garth Griffin does not share Du Toit's bleak view of the potential effects on capital market rates. He says the implementation of the 30% tax on life assurers' policyholder funds was "a non-event" and it is not likely to be any different for pension funds. He agrees, however, that some increase in long-term interest rates is likely.

The commission also acknowledges in its report that rates will rise to compensate, but says it is a small price to pay for "the greater system integrity" that would be achieved. It calculates that on the basis of current fund structures and yield levels, a reduction in yield of up to 1,5% a year is likely — which it accepts is significant. But it notes that the new system will be similar to taxed policies marketed by life assurers, "where positive real yields seem to have been achieved".

KATZ

Katz rejects the notion that the tax change will distort the market. He points out that if a pension fund extends a loan to a company under the present tax system, the interest paid by the company is tax deductible and it is also not taxable in the hands of the pension fund. "The change will remove some distortions," he says. He places great emphasis on the present arbitrage opportunities between life and pensions products, which he says the new approach will remove.

The need to do away with tax-driven switches between pensions and life products has also resulted in the commission opting for a 30% rate. It is the same as the rate paid by life assurers on taxed policyholder funds.

The major battle over Katz's recommendations will be over the rate at which the tax is levied, rather than over the principle of taxing pension fund income. There seems to be an acceptance that the worldwide trend towards reducing the huge tax privileges for pensions has caught up with SA. The pensions industry is gearing up to push for a 20% rate, arguing that arbitrage schemes between life and pensions products are not as widespread as the commission believes.

Industry representatives say the trustee principle — which says the tax paid by the fund should be the average income tax paid by its members — should hold. The average income tax paid by pension fund members is less than 30%.

There are also few who would quibble with Katz's approach to create incentives for people to take their pension payouts in the form of annuities rather than lump sums. The report notes, however, that the incentive will apply only to people with a benefit exceeding R50 000 (as lesser amounts would be tax exempt). It will be left to the Smith committee, appointed earlier this year to investigate retirement provision, to find a solution to the problem of low income earners taking lump sums and later becoming a burden to the state. It seems as if the Smith committee will propose a state subsidy be added to the R50 000 to encourage people to take the payout as an annuity. It is argued that the provision of a subsidy will reduce the burden on the state's pension scheme in the long run.

The Katz report makes it clear an effort has been made to achieve consistency between it and the Smith committee's recommendations, which have yet to be released.

There is major scepticism that the Katz pensions tax proposals can be implemented next year, as they would require massive administrative changes not only for the industry, but for Inland Revenue. But some of the other proposals could get into next year's Budget.

The commission's endorsement of a higher VAT rate is yet another sign that Finance Minister Chris Liebenberg might be gearing up to take the plunge next year. Ernst & Young says a one percentage-point hike in the VAT rate would raise about R2,4bn — which would be enough to remove the hated secondary tax on companies (STC) and to start alleviating fiscal drag.

The commission proposed a substantial reduction in STC rather than a complete removal, which also seems the option Liebenberg favours. He has indicated the tax will be scrapped in a phased way. He might prefer to use extra income from VAT to reduce the personal income tax burden on middle income earners, and to cut the deficit.

But government will not be able to raise the VAT rate without a battle — even though it is under major pressure to find a way to reduce SA's excessively high company tax rate and to produce a lower deficit. The extra tax from the pensions industry must seem a highly attractive solution to many problems, even if the net gain will be offset to some extent by higher interest payments.

Government will want to get its hands on the extra revenue as soon as possible. But there are hurdles to be cleared — the implementation of new administrative systems and a looming fight over the rate at which the tax on pensions income should be levied. Katz might as well resign himself to staying in the limelight.

VAT on financial services 'has twin benefit'

Adrienne Giliomee (320) (

VAT on financial services would benefit banks and government, as banks could offset it against input costs, with the fiscus receiving an additional revenue of R1,1bn.

This follows the recommendation by the Katz report calling for VAT on fee-based financial services and the abolition of the financial services levy.

The report said the implementation of the proposal would see an additional VAT revenue of R323m and R1,1bn for the long-term insurance and banking industries respectively. This would be offset by the R388m lost from the abolition of the financial services levy. BD 7/12/95

First National Bank chief financial officer Viv Bartlett said the charging of VAT on more banking services could neutralise costs if written off against input costs. "The banking system has been penalised up to date in terms of acquisition costs. But now the VAT on services can be offset against input credits."

However, Syfrets tax specialist James Wolfson said VAT on financial services could result in double taxation. "Under the proposals, a situation can arise where an individual claims a deduction for interest exemption and also has a VAT input credit."

A reverse situation could occur, with individuals paying income tax on interest of more than R2 000 and paying VAT on, for example, bank charges.

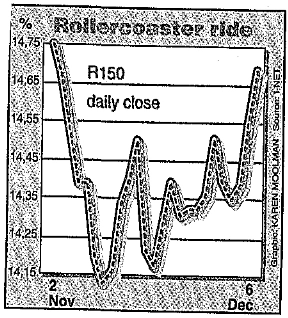
Council of Southern African Bankers (Cosab) assistant GM Stuart Grobler said in a submission to the report that no countries had integrated successfully the taxation of all financial services into the VAT system. "The current method of exemption without credit in respect of financial services is regarded to date as the only practical route to follow, and is the route that has been followed worldwide in association with invoice-based methods."

Louise Cook reports the National African Farmers' Union (Nafu), representing 700 000 black farmers, welcomed the Katz report recommendation that no national tax on agricultural land be imposed in the short to medium term.

But Nafu spokesman Moses Modise said the union was disappointed the report did not provide for unproductive land on farms to be taxed.

"This type of tax would force farmers to give up land lying idle to beginner farmers, or to use it productively."

The SA Agricultural Union (SAAU) was not available for comment. Land Affairs Minister Derek Hanekom said he needed to study the report before commenting.



Katz proposals spark rates chaos

(320)

Greta Steyn

BD 7/12/95

THE Katz commission's proposals on pensions taxation sent shock waves through the gilts market early yesterday, setting in motion a wild see-sawing of interest rates.

The report's proposal for a 30% tax on pension fund income — which includes interest but not dividends — brought the bears out in full force in the morning. Long bond rates soared 40 points at breathtaking speed, hitting 15% — a level last seen in October. But 15% was the ceiling, as institutions came in at that level, furiously buying stock they perceived to offer good value at the higher rates.

The institutional demand forced bearish jobbers into retreat. Government's loan R150 ended the day at 14,70% from a previous 14,54% finish. On Tuesday morning, long bond rates were still around 14,40%.

One trader said: "It was scary. Since the release of the report, we have seen rates jump 60 points and then fall 30. That's the kind of thing that causes grey hairs." He said rates had initially looked "toppish" at the 14,70% level and the sudden skip up to 14,95% had caught most players by surprise.

He said it seemed that institutional

Continued on Page 2

Katz proposals

(320)

Continued from Page 1

BD 7/12/95

investors perceived value in capital market stock at levels above 14,50%. That would remain the case as long as money market rates were at current high levels. At levels below 14,50%, foreign players dominated the gilts market and institutions remained largely on the sidelines.

The realisation that it would probably be another year before new administrative systems were in place to implement the Katz proposals — if they were accepted by government — helped calm the market. The fact that pension funds make up only a quarter of the market and that state pension funds would probably be exempt from the tax on income also helped soothe frayed nerves. "But there is no doubt that the report has created a lot of uncertainty that will be around for a while," a trader said.

The rand also came in for a bout of selling which was linked to the weaker gilts market. However, some traders were sceptical about the extent to which foreigners were a factor in the gilts market yesterday. They blamed jobbers for the surge in rates and said the rand had been overvalued anyway.

I-Net reported that the local unit was changing hands softer at R3,6683 from Tuesday's R3,6635 finish shortly before the close after hitting a worst level of R3,6710 during the morning.

See Pages 3 and 16

Panic selling hits local markets after Katz report

(320)

By Llewellyn Jones

CT (BR) 7/12/95

Johannesburg — Proposals contained in the third Katz commission report caused pandemonium on the local markets yesterday, as the capital market took a pounding and equities soared to new heights.

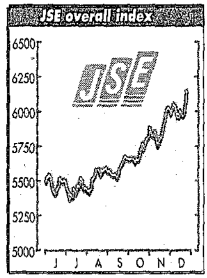
"Panic selling set into the gilts market as the consequences of a proposed 30 percent tax on the interest income of approved funds set in," an analyst said.

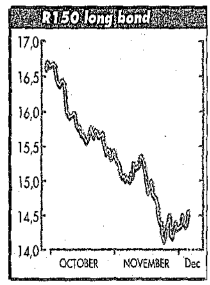
"This would significantly decrease returns and increase holding costs. The market was fairly long of stock after the recent bull run, and players went in and sold for all they were worth early in the morning."

Trade on the government's benchmark R150 stock opened at 14,62 percent yesterday morning but was soon testing the key 15 percent level. By mid-afternoon, however, rates had retreated to a "more respectable" 14,7 percent as the panic selling in response to the commission's recommendations subsided. The stock ended the session at 14,685 percent.

But gains in the equities market more than compensated for the gilts losses.

"The proposals to scrap Marketable Securities Tax and reduce Secondary Tax on Companies, along with the proposed tax on interest income, made it appear more beneficial to be in the equities market than the gilts market and spurred some switching between gilts and equities holdings," another analyst said. "Add in the fact that Wall Street is flying on bullish sentiment and doesn't look like it's going to pull back, especially with the yield on 30-year US Treasury bonds falling to 5,97 percent from about 6,2 percent last week, and a firming gold price, and we could be in for a good run at least until the futures close-out on December 15."





The JSE overall index soared 101,8 points to a record 6147,7 as the all gold index rocketed 35,8 points to 1350,1 and the industrial index climbed 92,4 points to 7815,7.

Reuters reports that long-term bond yields in the United States fell below 6,0 percent for the first time in more than two years yesterday.

Financial markets surged after the commerce department said slower manufacturing activity helped drag the government's main economic forecasting gauge down in October. The index of leading indicators fell sharply, by 0,5 percent, after a 0,1 percent decline in September.

☐ See Pages 24 & 25

KATZ COMMISSION

Capital gains tax rejected

Tightening of tax avoidance proposed

FM 8/12/95 (320)

The Third Interim Report of the Katz Commission has addressed a wide range of fiscal issues but produced detailed proposals for change only in certain selected areas — those, admittedly, important.

The most important is a detailed scheme for fiscal reconstruction of the entire system of retirement benefits (see *Economy*). Other areas for which detailed proposals have been made are:

❑ Tightening up of rules for the secondary tax on companies (STC), mercifully linked to a call for a "substantial" reduction in the rate (now 25%);

❑ A significant rewording of the general anti-avoidance section (Section 103(1) of the Income Tax Act), which would make it easier for Revenue to strike down tax avoidance schemes;

❑ The elimination of the irritating Financial Services Levy imposed on financial institutions (to be replaced by an extension of Vat);

❑ A start to a system of unified taxation of corporate groups; and

❑ The Marketable Securities Tax and stamp duty on share transactions should be abolished, to stimulate liquidity on the JSE.

There should also be enacted a statement of taxpayer rights (a so-called taxpayer's bill of rights). The principles to be enunciated should incorporate a commitment by Revenue to expeditious and timely tax administration; fair, impartial and consistent application of the law; full disclosure (in simple language) of the reasoning behind adverse decisions; as well as privacy of information.

In addition to recognising the role of the Public Protector in assisting taxpayers, an independent tax ombudsman should be appointed with the specific task of protecting taxpayers' rights.

Katz has heeded long-standing complaints from free market quarters that the Vat base had been eroded through zero-rating of so-called basic foodstuffs. At least in principle, the report argues for the extension of standard rating, coupled to a system of targeted poverty relief, as well as hinting at the desirability of a higher standard rate.

The report has also taken a sharp look at user charges, which it differentiates sharply from dedicated taxes (see table). User charges are accepted as a reasonable means for public service-providing bodies to recover all or part of their costs. The main dedicated taxes totalled a significant R6,4bn, while other selective taxes added a further R167m. User charges, at national plus provincial levels, stood at about R2,3bn in 1993-1994.

The main items were motor licences of R827m and hospital and other health charges of R605m. At the national level, items such as mining leases and operating surpluses of government departments totalled R721m. The report expressed itself in general against earmarked taxes and levies, with the possible exception of a road maintenance levy on petrol, which can be regarded as a reasonable proxy for a vehicle user charge.

In its preamble, the report re-emphasises the urgent necessity of implementing the recently announced plan to restructure the gravely malfunctioning departments of Inland Revenue and Customs & Excise, to achieve effective revenue collection and tax administration.

This is intrinsically necessary, for the obvious reasons of equity between honest and dishonest taxpayers, keeping tax rates as low as possible and providing revenue for socio-economic upliftment.

A further reason for beefing up the administrative capacity of Revenue is to make it possible to move away from STC entirely in favour of an imputational system of company tax, which would notionally apportion to each shareholder his aliquot of pre-tax company earnings.

A most significant start has been proposed for implementing group tax on a graduated basis. The starting point should be a simplified form of consolidation of the accounts of holding companies and their wholly owned subsidiaries, whether directly or indirectly held. The ownership of 10% or less of a company's equity by employees under a share incentive scheme should not be counted for these purposes. This would apply to shares held by executive directors.

This would make it possible to set-off losses by one group company against profits made by another, so that the group as a whole would be treated for tax purposes on a one-year basis as though it were a single entity. Any net losses could not be carried forward on a group basis. But this requirement would not detract from the ordinary rule that a single company's loss may be carried forward within its own accounts.

In the initial year of implementation of this limited group tax arrangement, individual companies' assessed losses carried forward from previous years would not be available on a group basis.

What remains to achieve a fully fledged group tax system would be to permit the carry forward of group losses as well as individual company losses. In the year of implementation of this proposed group tax scheme, existing losses could only be used to set off profits in the specific company carrying forward the loss. This would also apply to companies joining a group after implementation of the group system.

Tax consultant Willem Cronje says these restrictions are commonly found internationally where group tax is permitted.

Under this, or any group tax system, each company will still be required to submit its own return, described as a sub-return.

A group may opt out of group tax, but having done so it may not revert to the group basis before three further tax years.

The report deals at some length with the taxation of employee share incentive schemes. Gains on shares acquired through incentive schemes are now considered capital gains unless the employee is regarded as a dealer. This principle should be enshrined in a practice note.

The fringe benefits rules now require that an employee is taxed on low interest loans. The report suggests that this tax should be postponable for five years, or until the shares are sold. Cronje rejects this as administratively impracticable. He would prefer a limited annual exemption from fringe benefits tax on concessionary loans to stimulate a broader spread of share ownership.

Some simple proposals are included for rationalising the taxation of gambling: casino operators or other gambling operations should be subjected to the normal income

P.T.O.

Company car scheme cut

MtG(BM)8-14/12/95 (320)

An amended tax act has removed certain lucrative tax benefits, reports Rowan Callaghan

A NUMBER of tax consulting firms have had to scrap a company car scheme which they marketed as part of their attractive executive employment packages, after amendments to the Income Tax Act.

Gareth Beaver, a tax consultant at Ernst & Young explained the tax benefits the package had offered prior to the changes. A firm would lease a vehicle from a financial institution and allow the employee to use it. The employee would then pay the company a rental on that car and receive a car allowance equal to the rental amount. (The rental would cover both running and fixed expenses of that vehicle.)

The employee would be taxed on the portion of the allowance used for private use only. "Through this system the rental amount cancels out the fringe benefit of the company car as every cost the employee bears reduces the fringe benefit value of the car," says Beaver.

Since the beginning of September, this has changed. "You can't have a travel allowance and receive a company car and avoid paying the fringe benefit tax on that company car," explains tax consultant Mark Goulding.

The amendment stops the employee from reducing the amount of tax he has to pay on his fringe benefits by the rental costs he pays to the company. In effect, the employee is now taxed on the fringe benefit of the car and on a car allowance if received.

Members of the scheme are advised to use either a company car or receive a travel allowance, or pay tax on both benefits, says Goulding.

And the amendments don't stop at that. Previously when employees moved from one subsidiary to another within a large group, their company car would be sold to their new employer at a lower price. This would reduce the value of the employee's monthly fringe benefit and subsequently the tax. Now the benefit is calculated on the market value of the car at the time the employee first used it.

Executives who use more than one company car have also been affected. In the past if they were granted the right of use of more than one company car, they were required to include in their taxable income 1,2 percent of the "determined value" of the various motor vehicles available for use by them.

Today, this percentage applies for the first car while a rate of two percent has to be added to their taxable income for every other car they use.

The final amendment applies when an employer buys a moveable asset to sell to the employee. The fringe benefit value used to be the cost of the asset to the employer which was often almost nothing, because of the nature of items such as finance lease agreements.

These agreements give the company the option of buying an asset for the cost price minus the lease payments after leasing it for a certain period.

"If the company paid R10 for a car after a lease agreement expired and sold it to the employee, the fringe benefit value was R10. Now the fringe benefit value to be added to the employee's taxable income is the fair market value of the asset," reports Goulding.

FORUM

Katz has guided our tax system down the right path

(320) ET (BR) 14/12/95

TAXING QUESTIONS

BY MATSHERU MATSHERU

The question is to what extent will the report influence politicians?

Plenty of promises and optimism are perhaps the best ways to describe the third Katz commission's tax report. Katz's recommendation that small and micro enterprises should have the option of being taxed on a cash flow basis cannot be over-praised.

The present system, based on accruals of income and expenditure, is complicated and gives rise to the majority of fiscal disputes. Administrative simplicity is one key measure to ensure the efficient collection of revenue.

And, in a people-oriented society such as ours, this alternative is long overdue. It may, however, be hampered by practical realities. First, despite the cash flow recommendation, it will still be relatively difficult for small businesses to manage their tax affairs without being educated on tax matters. Also, some businesses may opt to remain small to qualify for the new concession.

Although tax-avoidance measures have been recommended in this regard, policing may still be difficult because of the lack of skilled personnel. Worse still, it may be costly to do so. The last thing we want to do is solve one problem but create others in the process.

Small businesses are mushrooming. Taxing this sector is an important factor. Perhaps a special ministry of small business tax affairs should be appointed to deal specifically with the sector.

Another mouth-watering recommendation is the statement on taxpayer's rights. This recommendation will ensure effective communication between the taxpayers and the tax collector, removing mistrust on both sides.

It will also accommodate the concepts of neutrality and equity.

However, a statement of taxpayer's rights does not guarantee effective tax collection. Taxpayers must also comply with their tax obligations.

It would be unfair to expect the department of inland revenue to nurse the rights of taxpayers who are dodging their tax responsibilities.

Katz's recommendation to close tax loopholes is equally commendable. Tax avoidance problems, however, cannot be solved by legislation only. There is a strong perception that income-tax rates (corporate and individual) are high.

What makes matters worse is it is the few people in the income tax net who are feeling the heat, and who argue that the government is doing nothing about it. Who can blame them when they avoid paying tax?

The government has the responsibility to make sure all its citizens contribute to the cost of running the state.

When everybody starts to pay tax, rates will naturally be reduced. People will then feel the comfort of paying less tax rather than spending their time and energy trying to avoid it.

I recommend that all the politicians, led by President Nelson Mandela, should start a tax road show under the theme: Let's pay tax for responsibility and development.

This should be a matter of urgency because democracy without responsibility is not complete. Our politicians are not giving tax the attention it deserves. Yet it is tax which creates a basic relationship between the state and the citizen.

Katz's recognition that the rate of secondary tax on companies should be reduced may brighten many corporate faces. But it would have been better to have recommended its death.

The commission's recommendation that capital-gains tax should be shelved is good. It is widely believed that the tax is not a tax on gains realised on the disposal of certain capital assets. It is a tax on inflation.

The general assessment of the report shows the Katz commission has tried to separate tax from politics. For example, many expected the commission to strongly recommend that the VAT rate be pushed from 14 percent to 18 percent, with the complete removal of zero-rating of any items.

There is no proof that zero-rating certain goods helps the poor. There is evidence that greedy business people are exploiting people by adding tax on zero-rated items or goods.

It is difficult to make satisfactory recommendations for everyone in our complex tax system. But, even with its shortcomings and omissions, the Katz report will go down as one that — in words if not yet in deeds — showed the tax system the right path. The million-dollar question is how far the commission will influence the minds of politicians?

☐ Because of space, other Katz recommendations will be discussed in future articles.

☐ *Matsheru Matsheru is an independent tax consultant.*

which appreciates where markets

Lindeque appointed to reform SA tax service

(320)

Mungo Soggot

BD 19/12/95

THE finance department has appointed former Eskom executive director George Lindeque to help transform SA's floundering tax collection services.

The department said yesterday Lindeque would help steer the revamp of the inland revenue and customs and excise departments into one SA revenue service.

Lindeque would head a team which for the past four months had been examining how to implement Cabinet's decision to create the homogenous tax department, which would have its own board and CE.

Lindeque would wind down his involvement in April — the target launch date for the department.

Department sources said Charles Stride, the accountant appointed after the Budget to advise on restructuring the department's revenue collection, had not taken on the job as he already had his hands full.

Finance Minister Chris Liebenberg unveiled plans to build an autonomous revenue services entity in October, claiming the move would allow government to cut taxes.

Loan will improve services

Stephen Laufer

BD 19/12/95

The greater Johannesburg metropolitan council would finance a range of infrastructural measures with the R237m loan it had secured from Absa and other lenders, executive committee chairman Colin Matjila announced yesterday.

Basic services, including water and sewerage pipes, would be provided to the newly incorporated informal settlements of Orange Farm, Poortjie, Sweetwaters and Wheeler's Farm. Roads, water and sewerage infrastructure, the electricity network and community facilities would either be built from scratch or upgraded in other areas, particularly other low-income housing developments.

Matjila said the loan brought "close to finality" the council's borrowing for the current financial year, which runs to June 30 1996 for local authorities.

The council remained concerned about the pressure rapidly advancing urbanisation was placing on its budget, Matjila said.

Business Day Tonight

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(320) BD 19/12/95

Call to change draft constitution

Dispute over tax powers for provinces

BD 20/12/95

(320)

Greta Steyn

THE financial and fiscal commission and the writers of the final constitution are at odds over the powers that provinces should have to raise revenue by charging a surcharge on personal income tax.

Commission chairman Murphy Morobe said yesterday the commission would call for a change to the draft final constitution to enable the provinces to raise the surcharge.

The ability to raise a surcharge on personal taxes was crucial for the effective functioning of provincial government. "The fact that provinces are not allowed to raise the surcharge is a fairly drastic constraint. We shall be taking the matter up with the Constitutional Assembly early next year."

He feared there was a danger that fiscal arrangements made possible under the interim constitution would be nullified in the final constitution.

The commission believed the interim constitution, with its ambiguous wording, would allow provinces to raise a surcharge on personal income tax. But the draft final constitution explicitly prohibited provinces from raising surcharges and levies on a range of taxes, including personal income tax.

Morobe said without the ability to raise taxes, provinces would simply be spending agencies of central government. Traditional revenue instruments such as gambling taxes and licensing were not enough. A surcharge on personal tax was the easiest way to enable provinces to raise their own revenue, as other important revenue sources such as VAT created administrative difficulties.

Allowing the provinces to raise personal income taxes would depend on central government reducing taxes, so that the burden on individuals would remain unchanged. The final decision would rest with politicians and would depend on the extent to which central government wanted to devolve financial power to the provinces.

"We can only recommend what we believe to be the most efficient system," Morobe said, predicting there would be a lot of debate on the issue next year.

The commission recommended in its framework for intergovernmental fiscal relations that a surcharge be levied at a flat rate, and that it be limited to only a few percentage points.

If the national tax rate was lowered too much, giving the provinces more room to raise tax, the poorer provinces would suffer.

There would be less finance for them from central government, and disparities in the tax rates of the different provinces would be aggravated.

Continued on Page 2

Levy

Continued from Page 1

Morobe said the earliest that such a radical change could begin would be in the 1997/98 Budget. The commission took part in next year's Budget only as an observer, but its role would change once the entire Budget process had been reformed.

The commission had hoped its recommendations on revenue sharing would be implemented from next year, but that had proved impossible. The formula for dividing up revenue, which was based on each province's population and economic growth, could change radically once next year's census had given a better picture of the population distribution.

The commission had used the work of independent demographers to arrive at its initial recommendations, and after discussions with the Central Statistical Service had decided that that source remained the best until next year's census data. The census information would not be processed in time for the 1997/98 Budget.

The commission had "by and large" had a positive response from the provinces to the formula. They had discussed it with all the provinces except KwaZulu-Natal.

Saica pushes for taxpayers' rights

Cape Town — Any statement of taxpayers' rights will be ineffective unless the departments of inland revenue and customs and excise are given the necessary autonomy and resources to live up to the promises made in the Katz commission's report, says Ken Mockler, the chief executive of the South African Institute of Chartered Accountants (Saica).

(320) CT (BR) 20/12/95

He said the institute had been promoting the recognition and formalisation of taxpayers' rights since 1993 and the commission had accepted more than 90 percent of Saica's recommendations. He was encouraged by the positive steps being taken to address the question of autonomy and resources.

"This too is something for which Saica has lobbied for many years," he said. — Françoise Botha

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(320)

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Morobe said without the ability to raise taxes, provinces would simply be spending agencies of central government. Traditional revenue instruments such as gambling taxes and licensing were not enough. A surcharge on personal tax was the easiest way to enable provinces to raise their own revenue, as other important revenue sources such as VAT created administrative difficulties.

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The commission had used the work of independent demographers to arrive at its initial recommendations, and after discussions with the Central Statistical Service had decided that that source remained the best until next year's census data. The census information would not be processed in time for the 1997/98 Budget.

The commission had "by and large" had a positive response from the provinces to the formula. They had discussed it with all the provinces except KwaZulu-Natal.

Costs may be offset by sliding oil price

Govt likely to slap extra 5c onto petrol tax

(320)

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Mungo Soggot

SA MOTORISTS faced hefty increases in petrol tax next year as government sought to clamp down on excessive fuel consumption and siphon off more revenue from the country's fuel pumps, industry sources said yesterday.

Analysts and economists said SA's petrol tax was among the lowest in the world, and represented a captive revenue source.

Transnet economist Mike Schüssler said the tax was likely to go up 5c a litre next year — pushing the total revenue take from fuel to R10,5bn from this fiscal year's R9,6bn. Petrol pump prices would rise 6,2% to an average 195,7c. He assumed a 1,2% increase in the average crude oil price to $16,99 a barrel.

But international consultancy Europe Energy Environment predicted the taxman would hit far harder.

"There is a realisation in government that SA's petrol is under-taxed and a foreign exchange gobbler," MD Humphrey Harrison said.

"If it (government) doesn't increase the tax substantially it will be flying in the face of a string of recommendations from international organisations which have observed that the low tax encourages the profligate use of a strategic commodity."

Other sources said government was also likely to increase the tax on petrol in a bid to increase the differential with the diesel price. This would be coupled with efforts to promote the use of diesel in taxis, so diesel would become a "working" fuel and petrol a luxury. Schüssler said diesel was likely to rise only 4% next year to about 183c a litre as its tax was unlikely to be raised.

He said government had already secured an extra R500m from the fuel price by slashing its handout to Sasol, so most of next year's tax increases would go to funding the introduction of unleaded petrol, which would be phased in at a discount.

SA's petrol tax was one of the lowest in the world at 34% — 62,5c on each litre sold. He predicted the tax would increase to 40% of the total price by the end of 1997 and 50% by 2000.

By the end of the decade, government would acquire about R18bn a year from the pumps, which would be about 10% of its total income.

Harrison said the tax increase would be spurred by fears about the effect of SA's oil import bill on the vulnerable balance of payments.

But he said there were arguments to suggest the oil price could slide significantly, which would offset the blow of higher taxes. Opec was finding it increasingly difficult to control its members, Iraq might return to the market and non-Opec countries were increasing production.