TAXATION

1996

JAN. — JULY

Tax averaging could impoverish pensioners

(320) CT(BR) 4/1/96

In the second article of his two-part series, Bryan Hirsch looks at the cash cost to retirees of the new rules on tax averaging and contends that this constitutes a type of retrospective tax net

The new treatment of pension pay-outs to retirees means significant revenue gains for the fiscus, but at a potentially damaging social cost because many older people could find themselves impoverished just a few years into retirement, through no fault of their own.

This lose-lose situation is already discernible in the broad outline of revised tax-averaging provisions. Perhaps it was lost sight of because so much media attention focused on the case of those who were about to retire before September 1 of last year.

A clearer perspective can be gained if we look at the implications of the removal of the one-year tax-averaging concession and its replacement by a two-year window in detail.

Consider the case of an employee who retired in April and received a lump sum of R450 000.

For the sake of simplicity, let us ignore complex formulas and assume that it was better to opt for the usual R120 000 tax-break. This would leave R330 000 vulnerable to tax. Add to that, say, an income of R48 888 a year from other sources. This would translate into a tax average of 20,1 percent or a tax bill of R66 000 on retirement benefits.

Under the new rules, things are not nearly so simple.



INDIGNANT *Bryan Hirsch of the Pride group*

Two years, not one, are now considered before the tax percentage is determined.

If the employee was earning R7 500 a month over the last two years, the average tax rate would be 31,8 percent. If the earnings were R10 500 a month, the rate would be close to 36 percent.

Under the new rules, the employee — who contributed to a provident fund and retired two months into the new tax year — would be faced with additional, payable tax of:

Earnings before retirement and the additional tax:

R7 500 a month R38 610

R10 500 a month R52 470

In the old days (remember, we calculated a R66 000 tax bill) they would have walked away with R384 000 in cash.

Under the new dispensation, the retiree walks away with R345 390 (if their final pay was R7 5000) or just R331 530 (if their pay was R10 500). Let's look at some associated scenarios.

Table A

	Other income	12,5% before tax	Gross income	Tax payable	Actual income
Previous	R48 000	R48 000	R96 000	R31 343	R64 657
Based on R7500 a month	R48 000	R43 173	R91 173	R29 170	R62 003
Based on R10 500 a month	R48 000	R41 444	R89 444	R28 225	R61 219

Assume the employee had made an investment producing income at, say, 12,5 percent a year. Three totally different outcomes are achieved if we look at the previous tax environment or the new tax climate with monthly pay of R7 500 or R10 500.

This is shown in table A above.

These outcomes will be more readily understood by retirees if the actual income is divided by 12 to arrive at a monthly retirement income. Under the old dispensation, this would have been R5 388 as opposed to R5 166 a month under the new rules. If a pay rise means being placed in a higher tax bracket, monthly income could drop to R5 101.

What happens in a scenario involving a substantial lump sum and no other investment?

Let's assume a lump sum of R1 320 000, less a tax-free amount of R120 000, leaving a taxable amount of R1 200 000.

Earnings before retirement will once again substantially alter the net retirement picture, as shown in table B below.

Table C, at the bottom, shows just how big a chunk of retirement income could be lost to retirees through tax.

As a planner, I am aghast.

The slices of retirement income vanishing into government coffers will increase massively once again if that R120 000 tax-free concession is withdrawn (a rumour noted in our initial article).

Table B

	Average rate	Tax payable
Previous rules	17,5%	R210 000
New rules:		
R7 500 a month pay	31,8%	R381 600
R10 500 a month pay	36%	R432 000

The social consequences are enormous if these trends continue. Even modest inflation levels will send sensible savers plummeting below the poverty line just a few years into retirement.

☐ *The Pride Group is one of South Africa's leading firms of financial consultants.*

Table C

	Lump sum after tax	12,55% return before tax each year	After tax annual amount	Monthly income
Under old rules	R1 110 000	R138 750	R87 584	R7 298
New rules: R7500 pay pre-retirement	R938 400	R117 300	R76 205	R6 350
R10 500 pay	R888 000	R111 000	R72 740	R6 061

SMITH REPORT (320) FM 5/12/96

Contradicting Katz

The committee set up last June by Finance Minister Chris Liebenberg — under the chairmanship of former KPMG senior partner Guy Smith — has published a discussion document on the effectiveness of retirement provision.

The Parliamentary Joint Standing Committee on Finance plans to call for submissions in late January.

Two of its terms of reference — in the context of the democratisation of SA — were to consider:

❑ The effect of contractual savings on the national economy and how this element might be enhanced to achieve increased and sustained growth; and

❑ The improvement of the retirement system to reduce the role of the State in providing social pensions, while at the same time enhancing pension coverage for the informal sector and the lowest income groups.



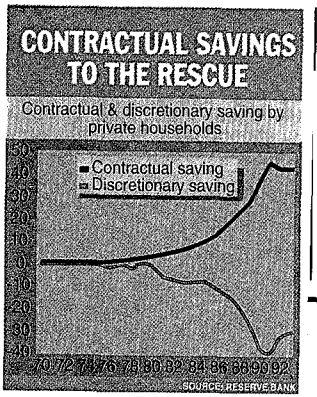
Katz

What emerges strongly from the report is the importance of contractual savings (see graph). From 1980 onwards, discretionary savings by households collapsed. But the fall into dissaving has thus far been at least offset by the rapid growth in contractual savings. In 1994, the net balance was nearly R12bn in the black.

However, there can be no room for complacency in a situation where households drew on savings and investments to sustain current consumption of about R30bn.

It is reasonable to guess that the heavy impact of fiscal drag on the hard-pressed middle class had a great deal to do with this.

Essentially, Smith has said that contractual savings should be encouraged. Late last year, the Katz Commission (*Economy* December 15) told us, by implication, the contrary — that contractual savers were benefiting too much from tax concessions as they affect contributions, build-up of capital in pension funds and eventual pay-out.



There can be no doubt that Smith is right and Katz is wrong — and government tampers with the contractual savings industry at its peril.



Smith

Any shortage of revenue can be addressed more constructively.

Firstly, there should be an acceleration in re-establishing the effectiveness of Inland Revenue and Customs & Excise — a process already in motion.

Secondly, Vat is available as an indirect tax with a broad base and a currently modest rate.

Free-market principles indicate that we should tap Vat for more revenue if this becomes necessary.

We must hope Smith becomes a heavyweight counter to the Katz proposals, and redirects government's thinking along sensible lines. ■

SECONDARY TAX

Technical issues

SA's clumsy and unpopular secondary tax on companies (now levied at a swingeing 25%) continues to attract attention.

The third interim report of the Katz Commission recommended an imputational system for taxing companies, to eliminate the influence of secondary tax on corporate dividend policy.

In whatever form, says Kessel Feinstein tax partner Ernest Mazansky, these systems credit shareholders for their portion of tax paid by the company. The amount is granted as a credit when imposing income tax on the shareholder.

This system is used in countries such as the UK and India.

However, the resource crisis at Inland Revenue, including the relative lack of accounting sophistication in large areas of the private sector, would make it difficult to introduce the imputational system.

The commission also recommended a technical change to the treatment, for secondary tax purposes, of SA branches of foreign companies.

It recommended that these be exempt from secondary tax. This would mean local branches' tax liability would be pegged at the rate of company income tax (now 35%) irrespective of the proportion of profits distributed abroad in the form of dividends.

It has been acknowledged that it is impractical to attempt to impose SA secondary tax on foreign-domiciled companies with a proportion of SA-sourced profits when they declare dividends.

The latest proposal from the commission would confer, on local branches, a distinct advantage over local subsidiaries controlled from abroad. The commission considered counterbalancing this concession by imposing a corporate tax rate higher than 35%.

But this was rejected on the curious ground that the introduction of a branch tax might be seen as a permanent commitment to secondary tax; and the commission did not want to give the impression that it was wedded to secondary tax.

Mazansky says it is strange that such a wide loophole should be opened deliberately — notwithstanding the current enforcement problem — and such blatant discrimination proposed against foreign investors choosing to operate in SA through a subsidiary rather than a branch.

❑ Mazansky notes some press reports have claimed the commission recommends a reduction in the rate to 15%, but this is not strictly true. The commission employed this rate in some illustrative examples. What the commission proposed was a substantial reduction. ■

Health tax assurance

CT 9/1/96 (320)

ANEEZ SALIE

THE taxpayer need not fear huge tax increases to pay for the government's new health plan, national director-general of health Dr Olive Shisana said yesterday.

"The options being examined by the Department of Health include only a small increase of not more than R300-million a year, escalating to slightly more than R1 billion by the year 2000," she said.

"However, additional funds will only be needed as of April 1997. This gives the department sufficient time to consult the National Economic Development and Labour Council (Nedlac) ... if this ends up being the means to close the funding gap," she said.

In the plan everyone will enjoy free primary health care, and contracted general practitioners will provide free service. A hospital insurance scheme — of about R400 a year per person — will be available to the employed.

Dr Shisana said the private medical aid system was extensively abused: "There is a lot of cheating by all involved, which drives up costs. We are terribly unhappy and will clean it up. The effect could be that medical aid members end up paying less for a more efficient service, because we are definitely going to regulate."

Drug prices should also be reduced, she said.

Currently, the state has on tender a list of about 3 000 drugs. This will be replaced by an Essential Drugs List with only 400 drugs, many of them inexpensive generic medicines.

More expensive medicines will not be included, unless there are no substitutes.

The National Health Plan will be finalised this quarter.

Urgent call for tax overhaul

eITCBR) 9/1/96 (320)

BY JOHN SPIRA

Johannesburg — South Africa's tax and exchange control systems no longer make economic, social or human sense.

It is therefore of "critical urgency" to bring the South African tax system into line with the tax codes of sophisticated and successful Organisation for Economic Co-operation and Development economies and to abolish exchange control, says Barry Spitz, senior consultant at the International Law & Tax Institute.

"Our existing tax and exchange control legislation and regulations are now utterly out of date," says Spitz, professor at the Hautes Etudes Commerciales School of Management, Paris. He said the Income Tax Act was also antiquated. They are, maintains Spitz, out of context with domestic and global fiscal realities.

"The recent history of tax and exchange control in South Africa is a tale of inadequate and makeshift solutions, as if somehow the real problems would just go away on their own, without really having to address the central issues.

"The failure to come to grips with an effective tax and exchange control reform has resulted in these makeshift solutions exponentially compounding the very problems that they were intended to solve."

Spitz has compiled a blueprint which he believes is the only way in which a true and effective solution can be found.

His blueprint outlines the following steps:

- ☐ Tax foreign source revenue;
- ☐ Tax South African taxpayers on their foreign source revenue;
- ☐ Make tax collection effective;
- ☐ Abolish exchange control, because the first three steps would make exchange control unnecessary;
- ☐ Lower income taxes for everyone — companies and individuals alike — especially the lower income brackets;
- ☐ Introduce capital gains tax, except on items like personal homes;
- ☐ Reduce VAT rates on non-luxury consumer items and abolish VAT on those items which cause such hardship to the poor; and
- ☐ Put a halt to corruption and profligate spending.

Thousands of tax dodgers have applied for amnesty

BD 10/1/96 (320)

Greta Steyn

INLAND revenue's tax amnesty is drawing to a close with thousands of people streaming in to take advantage of the write-off of their debts before a major clampdown begins.

Amnesty applications have almost doubled since the first deadline expired at the end of October. When the amnesty was first announced, there was scepticism that people who had got away with not paying taxes for years would come forward, and the first few months seemed to confirm this view. However, inland revenue spokesman Syd Pope said yesterday the department had received 14 539 applications for the amnesty, which began on July 25 and ran until the end of this month.

Pope said government had approved 9 748 applications. He expected most of the rest of the applications to get the nod.

He said: "Once the amnesty is over, inland revenue will be forced to make examples of people who fail to pay their taxes." Offenders would no longer be able to count on escaping detection because of inland revenue's capacity problems as the process of beefing up systems and staff had begun.

Pope warned offenders that they could face criminal records and would face penalties charged by inland revenue over and above any court sentence. Tax dodgers could find themselves paying the receiver of revenue up to three times their original tax bills. "The good old days of ducking the system are over," he said.

He also made a strong appeal to people who did not qualify for amnesty but were in default to come forward. People who owned up of their own accord would be treated more sympathetically, Pope said. Each case would be dealt with on its merits but government would not "throw the whole book" at offenders who came clean.

Finance Minister Chris Liebenberg granted a tax amnesty last year, saying people had failed to pay taxes to the apartheid government for political reasons. The amnesty, which was in line with recommendations made by the Katz commission, meant many people would be absolved from past taxes.

People who had never registered as taxpayers qualified, as did those who had registered but whose whereabouts were now unknown to inland revenue.

Pope said most approvals granted so far had been for income taxes (7 728). PAYE accounted for 580 and VAT and GST approvals for 1 440.

Boardrooms turn over as law changes pensions tax

(320) CT (BR) 11/1/96

By Charlotte Mathews

Johannesburg — Changes have swept through boardrooms in the past 12 months as retirement before the end of last August became the only way that many executives in the private sector aged 55 and older could avoid paying heavy taxes on their pension benefits.

However, many have continued as consultants for their previous employers.

From the end of August it was no longer possible for members of private pension schemes to reduce their tax liability on the pension funds they withdrew by buying a single-premium annuity, said Beric Croome, a tax partner at Kessel Feinstein.

Previously, any pension payment above the first R120 000, which was tax free, was taxed at the member's average rate of taxation in the year of retirement. Buying a single-premium retirement annuity in the retirement year made it possible to reduce the average rate of tax to the minimum 17 percent.

Under the new rules, a retiree would be taxed at whichever was the higher of the average rate of tax in the year of retirement and the tax rate for the previous year.

This change does not yet apply to members of state pension funds who can withdraw their lump-sum benefit tax-free.

Consulting after retirement has also been addressed. The commissioner for inland revenue said last June that an employee could continue to provide knowledge and skills to a former employer in a different capacity if he or she no longer qualified for membership of the pension or provident fund and had been paid out all retirement benefits.

☐ See Page 14

Katz report broadens rights of taxpayers

CT (BR) 11/4/96 (320)

"The law on the subject is weak. The zeal of the official is strong. And the ignorance of the taxpayer is colossal," R Staples once said.

TAXING QUESTIONS



BY MATSHERU MATSHERU

The commission proposes a more liberal view in favour of the taxpayer

Here is a statement of taxpayers' rights as recommended by the Katz tax commission. The information will help anyone who wants to make suggestions or comments to the parliamentary joint standing committee on finance.

Elements of taxpayers rights recommended are as follows:

☐ Punctuality

The principle here is that taxpayers have a right to expect their affairs to be dealt with promptly by the taxman.

The point is that the implementation of taxpayers' rights should not be done in bits and pieces because it will lose its effect. It should either be used as a comprehensive package or not at all.

☐ Fairness and impartiality

Under this principle, taxpayers will be entitled to expect the law to be applied fairly, impartially and consistently. The commission also states that the following should be included:

☐ No taxpayer should be expected to pay more tax than that due under the law;

☐ All possible efforts must be made to ensure that no taxpayer is allowed to pay less tax than that due under the law;

☐ Where the Receiver has made a mistake in the collection of taxes, a fair assessment of the costs to the taxpayer shall be made and refunded;

☐ The taxpayer is entitled to suitable representation in any meeting or other interaction with the revenue authorities; and

☐ Respect, courtesy and helpfulness

Here every taxpayer is entitled to be treated with respect and courtesy, and to be given reasonable assistance in compliance with his or her obligations under the tax laws.

According to the commission, the code of practice should contain the following:

☐ The Receiver should set up help centres, inform the public adequately and then render assistance required for basic compliance. This recommendation cannot be overpraised. In fact it is long overdue.

☐ A reassurance should be given that searches of business or private premises allowed under the restrictions of the constitution will be limited further to cases of extreme need, and that in those cases every possible consideration will be extended to the taxpayer in the manner in which the search is carried out.

I think this recommendation is giving taxpayers too many, and sometimes unnecessary, powers. Tax officials should not be restricted from searching any business or premises — whether they are dealing with so-called extreme cases or not. Tax inspectors will only be effective if they visit taxpayers without making an appointment. The Katz commission is taking democracy too far in this regard.

☐ Privacy

The principle is that taxpayers are entitled to have the information which they supply for purposes of their compliance with tax laws used for that purpose only.

☐ Tax ombudsman

Another exciting recommendation of the Katz report is the taxpayers' watchdog, labelled by the commission as the tax "ombudsman or adjudicator".

The report also suggests the following:

☐ The ombudsman should be appointed from outside the revenue authorities, and should function independently;

☐ Appropriate separate funding should be provided, although the staff complement may be drawn from the Receiver's office;

☐ The ombudsman should at all times be accessible to taxpayers, and have unfettered access to the revenue authorities.

Broader

It is clear that the Katz report has adopted a broader, more liberal tax view in favour of the tax-paying community.

Whether taxpayers will be responsible enough to reciprocate under these recommendations, if they become law, remains to be seen.

At this stage we can only adopt Lord Asquith's celebrated dictum: "Wait and see."

☐ *Matsheru Matsheru is an independent tax consultant*

Questions remain as SA enters double-taxation agreements

(320) CT(BR) 15/1/96

By Charlotte Mathews

Johannesburg — Double-taxation agreements came into effect between South Africa and France, Denmark, Finland, Romania and Sweden on January 1.

However, agreements between South Africa and the United States, Canada, Japan and Taiwan are still under negotiation or waiting to be finalised, while negotiations with Australia and New Zealand have yet to begin.

A double-taxation agreement restricts signatories from twice taxing the income of a company or individual, both in the country it was generated and in the country where it is being remitted.

Although South Africa has had some long-standing double-taxation agreements, since sanctions were lifted, some of these are being renegotiated and new ones are being entered into with other countries.

Petro Bester, deputy director, international affairs at Inland Revenue, said discussions with the United States had been on hold since last year, but would resume from mid-year.

According to Deloitte & Touche's associate tax director, Mike Ahern, the French and Romanian agreements do not refer specifically to secondary tax on companies — the 25 percent tax paid on any dividends distributed by a South African company.

A Deloitte & Touche tax partner, Anne Bennett, said the question of whether secondary tax could be set off under the terms of a double taxation agreement, if it was not specifically mentioned, was debateable.

Obviously the South African government would like its treaty partners to recognise secondary tax on companies, which it regards as a corporate tax. However, other countries could argue that it is levied separately from corporate tax and is still payable even if a company has an assessed loss, so it is not a standard corporate tax.

Bennett said the South African government had seemed to be moving away from secondary tax on companies, but the latest Katz Commission report said there were no attractive short-term alternatives.

Credit-laden consumers face new tax

CT(BR)18/1/96 (320)

By Llewellyn Jones and Reuter

Johannesburg — Holders of the new breed of in-house credit cards may soon be faced with the same 15c transaction tax levied on credit cards and bank transactions — if the department of inland revenue has its way.

The deputy director of inland revenue, Aidan Keanly, proposed to the government yesterday that the 15c transaction tax on credit cards and bank accounts should be extended to cover in-house credit cards issued by retailers.

He said the proposal had been made to extend the net from the narrow base of established credit cards to the plethora of company credit cards.

Analysts believe the in-house cards are largely responsible for financing a Christmas buying spree. And economists cite credit spending as one of the major reasons why the Reserve Bank is reluctant to cut interest rates.

Ian Sturrock, a director of Wooltru, said the rationale behind the proposal was that the in-house cards were "credit cards by another name" and should be subject to the same terms and conditions.

"The news is not a surprise and was discussed by the consumer credit association at its December meeting."

Retailers said the 15c tax was unlikely to have any e ffect on consumer spending.

Dennis Cuzen, managing director of CNA Gallo, which launched the CNA Goodie card at the end of last year, said the proposed levy had already been incorporated into the Goodie card's structure and would have no impact on CNA.

"What is important is the negative signal regarding the extension of credit this proposal is giving to retailers."

Peter Abbott, the assistant general manager at Standard Bank's card division, said the effect of the proposal would depend on whether it was passed on to the end user.

"It is more sensible to pass it on to the end user as is the case with bank credit cards."

He said: "In the bank's experience the levy has had no impact on consumer behaviour."

Earlier yesterday, the finance spokesman for the National Party, Theo Alant, called for a credit-card transactions tax as a non-regressive revenue source that could be used to ease the personal tax burden.

B/D 19/1/96 (320)

Katz proposals 'are unable to be effected'

Tim Cohen

CAPE TOWN — The Katz commission's proposals on retirement fund taxation could not be implemented in the March Budget, nor could the inland revenue service currently handle its proposals on group income taxation and employee share ownership, inland revenue commissioner Trevor van Heerden said yesterday.

Van Heerden told the parliamentary finance committee yesterday that the commission's proposals to tax pension fund interest, rental and trading income could however be implemented to take effect at the beginning of the 1997 financial year.

The committee heard yesterday the first arguments in what promises to be a tough battle between the retirement fund industry and the commission on its proposals.

In their overview of the report to the committee, commissioners referred again to the argument that taxation of the retirement fund industry would lead to a move from gilts to equity, suggesting the claims that the shift would be drastic were a "gross overstatement".

Commission chairman Michael Katz said the basic problem was that all the nation's savings were going into a single receptacle, whereas it should be under the management of disparate entities.

He urged government to finalise its policy as soon as possible. "The sooner the principles of a new regime can be finalised, the sooner people can order their affairs."

There were some sharp exchanges between commission members and NP representatives on the committee, with the latter charging that about R11bn was going to be withdrawn from the nation's savings and used by government for consumption spending.

Commissioners said this notional loss to the fiscus took place to the benefit of the comparatively privileged, while the actual amount involved was much less and would probably amount to about R3,5bn.

The debate will resume on Monday when the committee hears evidence from the representatives of the public and private pension fund industry.

On other topics, Van Heerden said the complexity of the group income taxation made its implementation impossible for the internal revenue service at this stage.

The service also did not think the commission's recommendations on employee share ownership were able to be implemented.

On the taxation of small and micro enterprises, Van Heerden raised the problem of compliance costs and suggested the commission's proposal, that the cut-off should be enterprises with a R2m-a-year turnover, was too high.

Secondary tax is yielding less

Tim Cohen

CAPE TOWN — Government revenue from secondary tax on companies (STC) is likely to yield only about half the budgeted expectations of R1,76bn despite a dramatic increase in the rate, an inland revenue official said yesterday.

Inland revenue commissioner Trevor van Heerden told the parliamentary finance committee STC receipts were expected to be less than R1bn for the 1995/96 financial year.

STC yielded R1,3bn in fiscal 1993/94 and fell to about R900m in 1994/95.

Despite the increase in the STC rate from 15% to 25% of net cash dividend payments in June 1994, government expected to receive slightly less than R1bn from STC this year, Van Heerden said.

This was mainly because companies were holding back on issuing dividends because of announcements by Finance Minister Chris Liebenberg that the STC system was likely to be changed.

Many companies were issuing scrip dividends rather than ordinary dividends as an avoidance measure.

Van Heerden was commenting on the recommendations of the Katz commission on STC. The commission calls for the retention of STC for the time being, but favours a substantial reduction in the STC rate in order to reduce the burden of the combined corporate tax rates and to minimise the "distorting effects" of the tax.

MAIL & GUARDIAN
January 19 to 25 1996

Tax nightmare again!

M+G (BM) 19-25/1/96 (320)

The absence of new tax guidelines for 1996 is creating millions of rands of wasted effort for local companies, reports **Karen Harverson**

LAST year was a tax nightmare for payroll personnel because of the changes wrought by the special tax levy, the removal of gender discrimination and the incorporation of ex-TBVC states.

This year may prove just as frustrating because no guidelines on the new tax rates will be given by the Receiver of Revenue before the Budget is announced in mid-March, and it usually takes three-to-four-months thereafter for the new tax tables to be printed and distributed.

Employee tax expert Ron Warren advises companies which use computerised payroll systems to use the existing tax rates and exclude the special levy until the new rates are announced.

"Usually, the previous year's tax rates and tax tables are used until the new tax tables are available. This year, however, it will cause problems for the thousands of non-computerised companies which rely on tax tables, because last year's tables were heavily loaded to recover or repay the tax over or under deducted for the period March to May 1995."



Ron Warren: Use the existing tax rates until new rates are announced

He says the users of manual tables can't be expected to calculate by how much the tables have been loaded, and then manually adjust the tax shown in the official tables.

"So do they continue using the tables which have the wrong tax in them? When the new Budget comes out and new tables are drawn up, will these tables take into account those incorrect rates which have been deducted for the first part of this year?" he asks.

Instead, Warren urges the Finance Minister to change the March to February tax year to a July to June year.

"Then, by the time the new tax year starts, we'd know what the new tax rates are and the Receiver of Revenue would have had time to issue new tax tables."

Under the present system, payroll system suppliers have to use last year's rates until mid-March when the Budget is announced, then frantically make changes to computer programs and get their customers to implement the new changes as soon as possible.

He adds that the amount of tax deducted from employees also depends on whether their company uses a computerised or manual system and how soon the new tax rates were implemented.

"It costs millions of rands in wasted effort and more seriously, creates confusion in the minds of employees as their tax deductions keep changing," says Warren.

Small firms to benefit from cash-based tax

CT(BR) 19/1/96 (320)

By Charlotte Mathews

Johannesburg — The Katz commission report has proposed a cash basis of taxation, which will ease some of the cash-flow problems of small businesses.

Sejanamane Lethale, a tax consultant at Deloitte & Touche, said it was encouraging to see that the government acknowledged the role that small and micro-enterprises played in job creation and was aware of their problems in having access to capital.

Lethale said an announcement on the cash basis of taxation was expected in this year's Budget.

A cash basis of taxation would mean that tax was levied on the difference between cash receipts and cash payments of a non-capital nature. Cash payments of a capital nature include spending on assets such as vehicles, but exclude purchases of stock.

Lethale said the advantage of a cash-based tax would be that a business which derived some turnover from cash sales and some from credit sales would only have to pay tax on the cash it had received, rather than having to find the money to pay the receiver before its customers had paid.

This is the main benefit. The tax rate for qualifying businesses would be the same — 35 percent in the case of a company and the individual's tax rate in the case of profit received from a partnership.

To try and cover as many loopholes as possible, the Katz commission endorsed the definition of a small business, drawn up by the trade and industry department.

Such a business has to employ between five and 50 workers, have an annual turnover of less than R6 million or use capital assets, excluding fixed property, with a value of less than R2 million.

The commission recommended that if a business shrunk in size to meet the requirements, it would not qualify for the cash basis of taxation.

Lethale said this would be done to prevent larger businesses from dividing themselves into smaller units to take advantage of the cash basis of taxation.

Receiver stalls Katz on retirement taxes

CT(BR) 19/1/96 (320)

By Staff Writer and Reuter

Cape Town — The Department of Inland Revenue yesterday rejected the Katz commission's proposed R3,5 billion-a-year tax on retirement funds in this year's budget.

This provoked a row in parliament with members of the Katz commission on tax reform.

Trevor van Heerden, the commissioner for inland revenue, told the joint standing committee on finance that further study was needed before the proposed 30 percent tax could be implemented.

But Michael Katz, the chairman of the commission, pressed the committee for quick implementation. "The integrity of the tax system is undermined by the present situation with regard to retirement funds," he said at the beginning of a week of hearings on his commission's proposals.

Katz said the controversial suggestion of a 30 percent tax on the interest, rental and "other trading" income of retirement funds was in line with the commission's overall search for integrity, coherence, equity and neutrality.

Van Heerden said the plan would be impossible to implement in the March 1996 budget, but that it could be introduced in the 1997-98 financial year.

Katz claimed that one of the important elements of the proposal was to bring neutrality to the savings industry. "It is a fundamental requirement that there should be a single tax regime for all retirement funds," he said.

Katz commissioner Jannie Graaf said the proposals would not net more than R3,5 billion of about R11 billion lost each year because of the tax exemption given to retirement funds.

"The R11 billion loss of current revenue is simply how much more tax we could get in the next financial year if we eliminated the deferral of tax on current contributions. We would also have to attribute the fund income to all the members of those funds and tax them at their marginal rates," Graaf said.

"That is the extent of the incentive which is being given to taxpayers and only to taxpayers ... to keep them out of the old-age assistance programme at the end of their lives. We have to ask ourselves the question: Is it money well spent?"

The Katz commission estimates that about 14 000 funds control assets of almost R500 billion. This represents the retirement funds of about 7 million people. Contributions amount to about R25 billion a year.

Responding to criticism by National Party finance specialist Org Marais, commissioner Dennis Davis said savings incentives were biased towards the rich and should change.

"What we are seeking to achieve here are the two fundamental principles of taxation — efficiency and equity. The present system doesn't stand up to the scrutiny of either efficiency or equity," Davis said.

The joint standing committee on finance will report its recommendations to the finance minister by the end of January after closed meetings and public hearings.

Katz report leaves vital questions unanswered

(320) BD 22/1/96

WILLEM CRONJE

AN UNCOMFORTABLE aspect of the Katz commission's recommendations on retirement is that they anticipate the findings of the Smith committee, which is focusing on the broad pension industry, not merely on its tax aspects. It is clear from comments in the Katz report that the commission believes it unlikely it will be possible to address directly a major mischief in the current system — the ready availability of cash extractions from retirement funds.

The basic purpose of retirement funds — assisted as they are by generous tax concessions — is to provide for pensions, whereas the free access to cash on withdrawal from funds (as opposed to retirement), and the free access to cash on retirement from provident funds, negates this. What the commission is proposing is to dissuade heavy recourse to cash by creating tax hindrances. This implies a view that a more direct approach of proscribing availability to cash in the first place is not achievable or advisable in SA.

While this may well be the case, it is surely not the province of the Katz commission to make this decision, as it lies within the province of the Smith committee.

The Katz commission proposes complex formulas, which heavily tax cash extractions from funds, as opposed to taking annuities. This may be all well and good (assuming it is not possible to reduce recourse to cash through direct legislation) but it is not realistic to portray — as the commission does — the overall impact of their recommendations as benefiting the poorer members of the community.

It is unrealistic to assume the less wealthy would be deterred by high tax from extracting cash from their funds. It is more likely the more wealthy will do their tax homework, and may settle for annuities, if the present value is greater on a discounted cash flow basis.

In short, heavily loading tax on cash benefits could be a trap for the less wealthy. This again raises the question of whether it would not be better, by legislation, to reduce recourse to cash benefits.

I also take issue with the major thrust of the retirement section of the commission's report, that the cash-flow tax system inherent in the retirement industry is inequitable and at odds with the SA tax system. This is simply incorrect.

Farming and mining are largely on a cash basis of tax, in that many of their outlays are 100% deductible, with the result that only the net profits become taxable. This is what is meant by a cash-flow basis of tax, and is what happens under current retirement benefits laws.

Another example is that the VAT system is essentially a cash-flow system — a system of tax on expenditure, as opposed to income. So it is not fair to argue the pension fund tax regime is the odd man out.

In fact, many economists believe tax systems of the future will tend towards cash-flow as opposed to income or accrual, and it is short-sighted of the commission to attempt to cast out of the system its cash-flow elements.

The commission takes pains to point out the excessive tax benefits inherent in the current treatment of retirement funds by virtue of current exemption and deferral of tax until the end, when benefits are taken. This is correct actuarially, but the report makes a fundamental error in its analysis — omitting entirely the impact of capital gains.

In other words, the commission's conclusions are correct in a world that deals purely in gifts and interest earning obligations, but deeply flawed in the real world of SA, where a large element of retirement fund benefits emanate from capital gains on equities.

It is therefore not correct to say a pensioner is ahead of the game taxwise through deferrals, without recognising that he does in fact ultimately pay tax on capital gains, as these are a large component of his ultimate retirement benefits. Whether he takes his benefits in cash or as an annuity, the capital gains element is taxed. This would usually not be the case in respect of the employee who chose to save outside of the tax system, and who bought shares from after-tax salary. He would normally not be subject to capital gains tax on the realisation of those shares.

As the commission draws major conclusions from tax deferral inherent in retirement funds, it is disconcerting that it has not brought into account the impact of capital gains.

The main thrust of the report in respect of retirement funding, that there should be a tax loading on cash benefits, that is, a bias in favour of annuities, requires as its consequence that the annuities be free of tax.

This is well and good, if one accepts that it is necessary to create this tax bias in the first place. But despite the importance it attaches to holistic and equitable tax systems, the commission has apparently ignored the opportunities for evasion inherent in a system whereby there would exist, in parallel, taxable pensions and a new breed of tax-free pensions.

The mind boggles at the mess we may get into in attempting to control such a system, bearing in mind our low tax morality and currently weak administrative capabilities.

There are some very good proposals in the report, in particular the dropping of the previous proposal for rand caps and their substitution with percentage caps in respect of contributions; the equal treatment of government and private funds; and the attempt to treat equally the various forms of retirement funds.

The report has also pointed out correctly that non-retirement funds such as medical aid funds should not be treated with retirement funds as at present. The two funds have nothing in common.

The report states it has set the stage for intensive public debate and comment, and here the commission has met its objectives. Provided the inconsistencies and oversights are recognised early on in the debate, a truly holistic and equitable system may develop in this most complex area of our tax law.

□ Cronje is a Johannesburg-based tax consultant

JSE and mines to report on Katz proposals

CT(BR)22/1/96(320)

By Charlotte Mathews and Llewellyn Jones

Johannesburg — The joint standing committee on finance will hear submissions this week on the Katz commission report from the JSE and the retirement fund, gambling and mining industries, among others.

The JSE and the Life Offices' Association declined to pre-empt their submissions to the committee.

Llewellyn Kriel, the communications manager for the Chamber of Mines, said it was the chamber's consistent policy to give its partners in any discussion the courtesy of hearing its views first, before raising those views in a public forum.



Michael Katz

The chamber has set out its position on the taxation of mines in the Mining and Minerals Policy Document, which is available on the Internet.

In the document, the industry has appealed for a stable system of taxation; taxation on profit and not indirect imposts and levies, which increase operating costs; the retention of accelerated depreciation and capital allowances; and the abolition of ring fencing.

Ring fencing prevents a mine from using the existing financial strength of one mine to help establish a new mine.

The standing committee would be hearing from several parties on proposals to tax the gambling industry, Peter Bacon, the managing director of Sun International, said on Friday. Sun International intended to make representations on the application of VAT to gambling revenues, he said.

"In terms of the Constitution, the provinces are also entitled to impose a levy on the gambling industry and if there is no proper co-ordination between the provinces and the government it will result in double taxation which would inflict quite a considerable tax burden on the industry," he said.

According to Maurice Harding, the president of the Institute of Retirement Funds, the institute welcomed some of the Katz proposals but was concerned about others.

It was concerned that the proposed tax of 30 percent of fund-interest, rental and trading income was higher than that at which a large portion of the fund members would be taxed.

This would discourage retirement saving by lower-salaried members who would probably be able to obtain better returns outside the retirement saving system, which would result in a probable increase in consumption spending, and thus a greater burden on the state-sponsored old age pension system.

The institute felt that there were many consequences of the proposals that had not been foreseen by the Katz committee.

"One of these would be that pensioners' assets would be taxed substantially more heavily than other fund assets held on behalf of active members.

"The proposals as regards the taxation of the capital value of all benefits do not seem to fully achieve that which we understand to be their purpose," Harding said.

Among other issues the institute will draw to the attention of the committee is the prohibition against multiple-fund membership and that the withdrawal-benefit taxation proposals to encourage members to elect pensions instead of lump sums do not contain sufficient incentive.

SET TO MAKE SYSTEM 'FAIRER'

Crucial hearings on tax reforms start

(320) CT 22/1/96

OBJECTIONS TO THE Katz Commission's proposed tax reforms are to be heard from today by the Joint Standing Standing Committee on Finance, which is to submit its report in time for the budget. **BARRY STREEK** reports.

CRUCIAL hearings on reforming the tax system begin before Parliament's Joint Standing Committee on Finance this morning.

The Katz Commission-initiated reforms are intended to make the tax system fairer.

It has proposed reducing personal income tax and placing a 30% tax on the interest and other income of the country's 14 000 retirement funds.

It has also recommended that gamblers pay VAT and income tax on their winnings.

The bad news for hard-pressed taxpayers is that the reforms could lead to an increase in VAT and a reduction in the number of zero-based items.

The all-party Joint Standing Committee on Finance, chaired by the ANC's Ms Gill Marcus, is to make its recommendations to the government by the end of the month.

The government is to consider the Katz proposals and the committee's recommendations before finalising the changes to the tax system.

The changes are to be incorporated in the budget, which is to be delivered by Minister of Finance Mr Chris Liebenberg on Wednesday, March 13.

A range of organisations is to make representations to the joint committee, beginning at 9.30 this morning with the Life Officers' Association and Institute of Retirement Funds, both of which are to lodge objections to the proposal to tax retirement funds.

Dr Jannie Graaff, who served on the Katz Commission, told the joint standing committee last week that the present system of taxing retirement funds was costing taxpayers R11 billion, whereas the proposed 30% tax on pension fund income would bring in R3,5bn a year.

The two retirement fund organisations are to be followed in making representations this morning by the deputy director-general of finance, Dr R W Burton, who is to discuss public sector pension funds, the Chamber of Mines and Cosatu.

Tomorrow, the Federation of South African Labour Unions, the Afrikaanse Handelsinstituut, the SA Chamber of Business, the National African Chamber of Commerce and Dr Alistair Ruiters, who is responsible for the promotion of small business in the Department of Trade and Industry, are to give evidence.

They are to be followed on Wednesday by the SA Revenue Service, Msele and the Johannesburg Stock Exchange, the gambling industry on Thursday and the Masibambana Trust and Department of Housing on Friday.

On Thursday, the evidence is to focus on VAT and the targeting of poverty.

On Friday, the effect of VAT on housing will be discussed.

The committee is to finalise its report from Monday, January 29, onwards.

The Katz Commission has rejected the possibility of introducing a capital gains tax and a land tax, but says there is a need for a capital transfer tax, which would incorporate estate duty and donations tax.

It has also proposed that a statement on taxpayers' rights be drawn up and a tax ombudsman appointed.

This statement, it said, should emphasise speedy and timeous tax administration; fair, impartial and consistent application of the law, full disclosure in plain language of the reasons for adverse decisions; respectful, courteous and helpful treatment of taxpayers, and the privacy of information.

The commission said national income tax should apply to operators of casinos, gamblers and lotteries, except the national lottery which should be exempt from income tax.

All gambling, casinos and lotteries, except the national lottery, should be subject to VAT, the commission said.

Katz commission's proposals on pension funds come under attack

(320) BD 23/1/96

Tim Cohen

CAPE TOWN — Organisations as diverse as the retirement fund industry and Cosatu yesterday attacked the Katz commission's proposals to introduce new taxes on pension funds, sparking a spirited defence of the recommendations by commissioners.

In evidence before the parliamentary finance committee, the Life Offices' Association charged that the commission's proposals could reduce the net benefits of fund members by between 20% and 25%.

Association spokesman Arnold Basserabie said the proposed 30% tax rate on fund interest, rental and trading income was too high and would affect low-income earners most.

Institute of Retirement Fund president Maurice Harding and Basserabie rejected the commission's argument that the 30% proposal was suitable because it would minimise the chance for arbitrage within taxed funds in the industry. In his submission Harding said it seemed the commission had overestimated the incidence of tax arbitrage and, in any event, it was inappropriate that the possibility of arbitrage should be the main motivation for such far-reaching changes. Such problems could be dealt with by appropriate legislation, he argued.

Finance deputy director-general RW Burton said he had heard that there was grave concern in the public service about the proposals, which suggest equality between the public and private sector funds.

Cosatu submitted that many other investigations were in the pipeline, including the Smith commission, the restructuring of public servants' pension funds and the Pensions Fund Amendment Bill which affected the industry. Cosatu's Ravi Naidoo said deciding on a new tax system before deciding what to do with the industry was "putting the cart before the horse".

The commission was unable to predict the likely impact of its recommendations in the retirement industry, and therefore its recommendations should not be implemented until their effect and national priorities related to the industry could be better assessed.

Cosatu said its proposals suggesting a differentiated VAT system had been ignored by the commission, while spokesman Colin Coleman charged that the union movement's original misgivings about the composition of the commission had proved justified.

In response, commission chairman Michael Katz said the commission's recommendations on retirement fund

Continued on Page 2

Katz

(320)

Continued from Page 1

BD 23/1/96

taxation had not sought to increase revenue for the fiscus. The intention had been to achieve equity as the commission had identified the problem that a disproportionate incentive accrued to a single industry.

Any reform was likely to have an impact but, in principle, the tax system ought to be neutral as between all forms of savings, he said.

Commission member Dennis Davis said the retirement fund industry was "desperately trying to kick for touch" in suggesting further delays. He called for acceptance in principle of the commission's recommendations which could then be refined in deliberations.

The committee continues its hearings today.

Samantha Sharpe reports that Davis said the commission had missed its goal of applying a holistic approach to tax reform.

Speaking at a Syfrets Unit Trust presentation, Davis said substantial tension between the work the commission had to complete and the need to look at tax reform holistically had made the latter impossible. But the commission's call for a tax on the accumulated capital in pension funds and other retirement industry taxes were in the context of an efficient, equitable and balanced tax system.

He said there had been no "singling out of the retirement industry" and it would be wrong for the industry's "powerful forces" to defer implementation of the commission's proposals.

Taxation of retirement funds could help to reduce personal tax rates

(320) CT (BR) 23/1/96

By Audrey d'Angelo

Cape Town — The Katz commission's recommendations on the taxation of retirement funds, which cannot be implemented this year, would bring in sufficient funds to reduce personal tax rates, Dennis Davis, a member of the commission, said yesterday.

Davis said he hoped powerful influences in the industry would not succeed in getting them quashed because the priority was to ensure equity in the tax system.

Presentation

He was speaking at a quarterly Syfrets unit trust presentation.

He said the Katz commission was looking at the tax system as a whole. It had not recommended a rise in VAT this year because poverty relief was not sufficiently well organised and the RDP was still in the early stages of implementation.

A watch would have to be kept on the introduction of taxes by different government departments.

Although user taxes represented cost recovery "we cannot have a plethora of dedicated taxes imposed", he said.

The Regional Services Council levy could be unconstitutional and although it brought in R1,8 billion a year no one seemed to know what was being done with the money.

"It needs to be looked at and either imposed at provincial level or stopped completely."

Capital gains tax would not be imposed in the foreseeable future because it would bring in less than R1 billion and the inland revenue department was not up to dealing with the burden of administering it.

"They would have to index for inflation and take roll-over relief into consideration."

A capital transfer tax which would be a beefed-up version of estate duty would possibly be included in next year's Budget but there would not be time for it to be introduced this year.

Davis said secondary tax on companies should not last forever but the commission did not want it to be abolished this year.

However, the tax had caused a plethora of capitalisation issues leading to a reduction in the take from company tax.

If secondary tax on companies remained it would probably have to be reduced from 25 percent to 10 or 15 percent, with no accompanying rise in the company tax rate.

Syfrets would pay more attention to smaller companies listed on the JSE, which were "the ones generating magnificent returns", Syfrets unit trust manager John Karas said yesterday.

Under-researched

He said such companies were under-researched by fund managers and "the secret is to get into them before much is known about them".

In an upbeat forecast for this year, Karas said South Africa's economic outlook was "the best for decades, with growth accelerating towards 4 percent and inflation under control."

The manufacturing sector grew 7,5 percent last year.

The bond market had benefited from lower inflation and companies listed on the JSE were reporting good earnings, he said.

The financial markets were still offering good returns.

He said Syfrets was increasing its exposure to growth stocks and reducing its exposure to cyclical stocks.

'REFORMS FAVOUR THE RICH'

Tax proposals will hit poor hard — Cosatu

CT 23/1/96 (320)

STRONG CRITICISM of the Katz Commission's tax reforms by ANC ally Cosatu has raised questions about their being approved by the cabinet. **BARRY STREEK** reports.

THE Congress of South African Trade Unions (Cosatu) has slammed the Katz Commission's tax reform proposals as favouring the rich and hitting the poor.

"Katz wants the poor to finance tax concessions to the rich through higher VAT and less zero-rating," the trade union federation said in a submission to Parliament's Joint Standing Committee on Finance yesterday.

The vehemence of the criticism by Cosatu, an alliance partner of the ANC, raises serious questions about whether the committee, the ANC and the cabinet will endorse the commission's proposals.

Cosatu urged the committee to look seriously for an alternative approach to VAT.

"The danger, if this is not done, is that VAT itself will become the target of major social opposition, in turn threatening to destabilise our whole tax system," it said.

Cosatu called for zero-rating to be extended, said no increase in VAT should be considered and proposed that a differentiated rate be investigated.

Spokesman Mr Zwelinzime Vavi told the committee it was shocking and disingenuous of the commission to claim that no evidence was available about VAT's impact on the poor.

Vavi said a recent study quoted by the Department of Finance clearly showed VAT's hugely regressive effects on the poor.

People earning under R9 000 a year paid 9,1% of their income in VAT, whereas someone with an income of R330 000 a year paid only 5,5%.

In its submission, Cosatu said it was "of great concern to us that the commission seems to be under the impression that the task of restructuring our tax system is the exclusive preserve of tax experts and business technocrats".

"The virtual absence of mass-based constituencies in (submissions) to the commission and the standing committee reflects the alienating way in which the commission has gone about its business."

The Katz proposals would place an increasing tax burden on workers, Cosatu said.

The commission appeared to have ignored Cosatu's arguments for the need for measures to redress imbalances in the tax system.

"There is not even an attempt to make a symbolic gesture in the direction of supporting the RDP's commitment to a progressive tax system.

"Rather, what we see is a set of recommendations which continues to pander to the demands of the corporations and the high-paid and places further burdens on the shoulders of working people and the poor."

Cosatu said it supported tax reforms that would be effective and achieve equity, but there was no evidence that the Katz Commission's recommendations were based on what was effective and in the interests of the country.

"Parliament should avoid short cuts (of) going for soft targets or those who are regarded as too poor and powerless to defend their interests.

"Katz takes the line of least resistance by avoiding all taxation that the rich and powerful will oppose ... and proposes taxation that will largely discriminate against the poor," Cosatu said.

Hawking is arguably the nation's biggest employment programme

Street sellers outperform formal sector

By Ross Herbert

CT(BR) 23/1/96

Johannesburg — Streetside hawkers, with their wares arrayed on overturned cardboard boxes, blankets and milk crates, may appear to be on the lowest rung of South Africa's economic ladder. But if the earnings they claim is any measure, many hawkers are substantially outperforming formal-sector workers.

No studies confirm it, but central Johannesburg seems to be experiencing a rapid rise in streetside hawkers.. The streets of the Johannesburg central business district seem to grow narrower daily with the arrays of tomatoes, bananas, sweets, knick-knacks and roasted mealies.

The business is huge and is arguably the nation's biggest employment programme. Street hawkers sell goods worth an estimated R500 million a year in central Johannesburg and earn R100 million a year in profit, according to the Central Johannesburg Partnership, which focuses on street trade.

According to the government White Paper on small business strategy published last March, there were about 800 000 small, medium and micro enterprises and an estimated 3,5 million people involved in some type of "survivalist enterprise".

Who is really better off, formal-

☐ Continued on Page 16



BANANA KING *Joseph Manjati and his partner sell 200 to 225 bunches of bananas a day for R2 each. Take home pay is R1 430 a month each, better than most formal-sector jobs offered him, with no hard work*

Cosatu attacks tax proposals

From Reuter

CT(BR) 23/1/96

Cape Town — The Congress of South African Trade Unions (Cosatu) yesterday accused the state-appointed Katz commission of placing an increasing burden of taxation on the poor while benefitting the rich.

In a submission to the parliamentary joint standing committee on finance, the country's largest trade union federation attacked the recommendation to abolish VAT on some items and place new taxes on retirement funds.

It calculated that these and other recommendations, such as a possible increase in VAT, could raise an additional R5,6 billion in tax, mainly affecting the poor.

Cosatu was concerned that none of its submissions to the commission appeared to have been accepted. It suggested that the parliamentary committee consider an alternative approach to VAT, including the extension of zero-rating and capping rates.

Earlier, commission chairman Michael Katz said the commission stressed that any review of VAT had to be considered alongside poverty-relief programmes. It also had to be sensitive to the effect on the poor.

Boost for jobs in Durban with development of industrial site

CT(BR) 23/1/96

By Jon Beverley

Durban — Work has begun on a 65-site industrial township south of Durban to be developed at a cost of R35 million by Umlazi Industrial Park — an AECI subsidiary. It will be known as Southgate Industrial Park.

"There has been no development on this scale south of the Umgeni River in the past 20 years," said Simon Noyes-Lewis of AECI.

Some of the stands will be ready for occupation next January, but the company has already sold or reserved about one-third of the 47ha area prior to any concerted marketing effort.

The park is about half the size of Prospecton, the industrial area next to Durban's international airport. A second phase is envisaged once the initial set of sites has been sold.

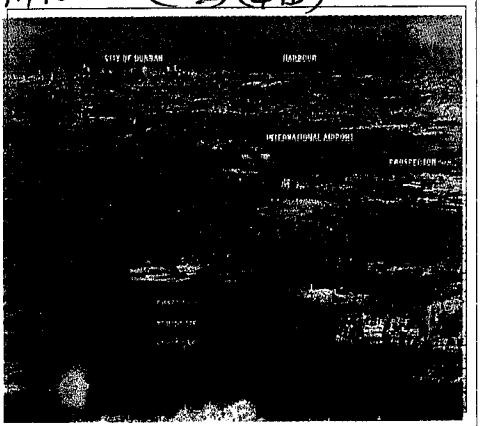
Noyes-Lewis says the initial phase of clearing about 1,7 million square metres, which is now underway, will create 120 jobs, rising to around 3 500 for the construction of the park.

Over the next five years some 10 000 permanent jobs are expected to be created as office blocks, warehouses and industrial development takes place.

A new township, Lovu, is being developed a short distance away to accommodate workers.

Noyes-Lewis said that while the land was originally available for any sort of industry, he was conscious of the existing AECI factories and had decided Southgate would be subject to special conditions including a prohibition on noxious industries.

He said environmental reviews had been carried out and discussed with local authority representatives.



JOB CREATION *Part of AECI's Umbogintwini site is making way for an industrial park set to provide employment for about 10 000 people*

Sacob and Nafcoc oppose Katz's pension proposals

Tim Cohen
BD 24/11/96

CAPE TOWN — The SA Chamber of Business (Sacob) and the National African Federated Chamber of Commerce (Nafcoc) opposed the bulk of the Katz commission's proposals on the retirement fund industry yesterday.

Nafcoc said taxing retirement lump sum benefits would affect the ability of black entrepreneurs to establish businesses. Western Cape Nafcoc president Themba Pasiwe told the parliamentary finance committee that many of its members traditionally used their lump sum pension benefits to finance the establishment of small businesses.

Giving evidence on the Katz commission's third interim report, Pasiwe said increased taxation of pensions would reduce their ability to establish businesses because Nafcoc members often found it difficult to raise finance to start businesses.

Commission chairman Michael Katz responded that one of the commission's desires was to give people access to the benefits of state incentives at times other than retirement. The problem with the existing situation was that tax benefits were granted to citizens only on retirement whereas they needed access to their "lifetime savings" at other times, he said.

In its written submission, Sacob said it warmly applauded the Katz recommendations on equal treatment for private and public sector pensions. But it could not accept the recommendations on taxation of the retirement fund industry because there was a contradiction between the expressed wish for a holistic approach with its recommendations which were at odds with the Smith commission report.

On general issues, Sacob said real tax reform would be possible only if there was a reduction of government's consumption expenditures and the immediate and effective improvement of the country's tax administration.

Sacob felt secondary tax on companies should be scrapped but, if it was to remain, the rate should not exceed 10% which would give rise to an effective maximum corporate tax rate of 40,9%.

Reuter reports Nafcoc called for next week's tax amnesty deadline to be extended and for a blanket indemnity. Pasiwe said the amnesty had failed to net thousands of small businesses.

Deputy Finance Minister Alec Erwin is due to brief the committee on the tax amnesty today.

Comment: Page 14

Sacob says piecemeal tax reform is creating business uncertainty

CT(PBR) 24/1/96 (320)

STAFF WRITER AND REUTER

Cape Town — The country's biggest employer organisation, the South African Chamber of Business (Sacob), criticised the government yesterday for its piecemeal approach to tax reform, which it said created uncertainty in business.

Bob Wood, the former chairman of Sacob's taxation committee, said the tinkering and adjustments to the tax system over the past few years had raised real concerns about where the reform process was headed.

Ernie Lai King, the present chairman of the Sacob taxation committee, said: "We need a vision of where we want to get to, and without that vision, there is a concern that many of the proposals will, if implemented, result in an ad hoc reform process."

Tax reform depended on continued efforts by the government to cut fixed costs while improving revenue collection, he told the parliamentary joint standing committee on finance's hearing on the Katz commission's tax proposals.

Lai King said it seemed reform of revenue collection had been stalled by red tape, which prevented the inland revenue department from taking on qualified staff at suitable salaries.

"We need concrete results. We know that much has been discussed but strategy and implementation has been painfully slow ... it has been bogged down by bureaucratic red tape and we urge that parliament assist the minister of finance to cut through that red tape."

The National African Federated Chamber of Commerce (Nafcoc) called for next week's tax amnesty deadline to be extended and a blanket indemnity instituted.

Themba Pasiwe, Nafcoc's Western Cape president, said the amnesty had failed to include thousands of small businesses.

"People are ignorant about it. The message has not been given to them correctly in terms of the benefits if they come up-front."

Most outstanding rent and service charges had been written off and Pasiwe said the same should apply to taxes with immediate effect, instead of from March 1 1994.

Sacob economic policy director Ben van Rensburg said the Katz commission was "wedded to the idea of a purist business tax system without incentives" while the trade and industry department was investigating tax incentives to attract foreign investment.

"There is a contradiction here within the same government," he said.

☐ *Katz commissioner calls for retirement-fund plan to be included in the Budget. Page 18*

CT (BR) 24/1/96

SA petrochemical industry hit by 'lack of co-operation'

(283)

By Charlotte Mathews

Johannesburg — The most critical deficiency in South Africa's petrochemical, plastics and synthetic fibres industries is the lack of collaboration between the upstream industry, the downstream producers and the transport industry, according to Terry le Roux, a partner in Chem Systems.

He was speaking at a meeting of the petrochemical, plastics and synthetic fibres industry in Midrand yesterday.

The upstream industry refers to the producers of primary petrochemicals, intermediates, polymers, fibres and resins. Downstream industries are those that convert polymers and produce textiles, paints, and other goods.

Le Roux, whose firm is an independent international consulting company specialising in this field, said the upstream sector depended on a successful downstream sector and a vibrant local manufacturing industry.

He said the industry needed to attract foreign investors to develop the upstream industry. That required a favourable fiscal regime, including the ability to repatriate dividends fully and provide investment incentives.

South Africa ranked last when measured against several other countries attracting foreign investment. It scored poorly on a comparison of raw material costs, quality of labour, interest rates and internal transport costs, he said. But the country compared well with others on economies of scale and having low energy costs.

Claas Daun, a German entrepreneur with South African investments, compared South Africa with Germany.

Daun said Germany was in trouble as a result of having built a "society of entitlement" over the past 30 years, where regulations protecting jobs and pensions were costly for businesses.

He said that over-regulation of the labour market might do the same to South Africa because the costs of complying with increasing regulations meant there was less to invest in creating jobs for the unemployed.

The South African Futures Exchange and the Bond Market Association are expected to follow the JSE and set up their own automated trading systems in the winter.

Nicholas Rainier, the marketing manager for Dow Jones Telerate, says his company has already started identifying new targets, and, like Peterson, believes the key battle will be fought in equities. "We are about to produce a new technical charting package, with which we expect to gain substantial market and revenue growth," he said.

Rainier readily concedes that Bloomberg is a formidable competitor. But, he argues, the company is hamstrung by its "stand-alone" technology, which means the Bloomberg terminal runs only its own service, rather than being able to switch between sources.

Bloomberg has brought out an "open system", though technical managers say it is far from ideal.

For all three "foreigners" there lurks yet another potential threat — the home-produced financial news agency, I-Net, which is already entrenched in the equity market.

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Principles of Katz proposals are the key, says tax expert

(320) CT (BR) 24/1/96

By Llewellyn Jones

Johannesburg — The Katz commission report formed the basis of a "serious and rational" debate on all taxation issues, Dennis Davis, a member of the commission, said at a Syfrets unit trust presentation in Johannesburg yesterday.

This was particularly true for retirement funding where the system was skewed towards the wealthy.

"Whether we have the figures wrong or not is for debate, but the principles have to be accepted now."

Davis said the system of taxation within retirement funding allowed for the deductibility of contributions to a pension fund, the tax exemption of the investment of the build-up in that fund, and the taxation on withdrawal from that fund (the so-called EET system — exempt, exempt, taxed).

The cost of this system to the fiscus was about R11 billion a year, assuming an average marginal rate of 30 percent for members of these funds. This was divided into R7,5 billion as a result of the tax-exempt nature of contributions, and R3,5 billion because of the exempt nature of trading, interest and rental income.

Davis said the commission believed contributions to a pension fund should be deductible because encouraging saving for old age was a legitimate objective of the government. However, it was not a legitimate objective of the tax system to "promote wealth creation above an acceptable pension level".

After sampling 165 funds, the commission chose 22,5 percent of annual remuneration as an acceptable cut-off level for the deductibility of pension contributions.

He said the commission had recommended that lump-sum withdrawals over R50 000 be taxed. This would act as an incentive to ensure people would be in a position to provide for their old age. The first R50 000 should be tax deductible as this would prevent members being taxed double at the build-up stage.

"Over and above the R50 000, the balance should be applied to purchase an annuity, with a maximum capital-free tax lump sum of R540 000 buying an annuity of about R4 000 a month."

Davis also explained the motivation behind taxing the buildup: "What we are concerned about here is neutrality within the tax system; that it should be as neutral as possible between different forms of income accrual. We believe there is substantial arbitrage in the system."

Davis said the commission recommended that there should be a tax on interest and trading income at a rate of 30 percent, which is similar to that of life assurers. And this would "probably get you as close as possible to stopping the arbitrage".

"That figure could be altered, but the principle ... is something we hold sacrosanct to ensure both equity and efficiency in the system."

Davis admitted there were problems: "We know there could be an effect on the pattern of interest rates. We accept that there might be a reduction in the funds' yield, and we accept that the 30 percent might be problematic, particularly for people who don't have anywhere near a 30 percent marginal rate."

But the commission believed the R3,5 billion in extra income would outweigh the disadvantages if it was used to subsidise the pensions of lower-income groups or to reduce the marginal rate of taxation for those groups.

Tax reform warning

(320) Star 25/11/96

A MAJOR business organisation, the Afrikaanse Handelinstituut, has cautioned the Government to approach its proposed tax increase warily.

In its presentation before Parliament's joint standing committee on finance on the third interim report of the Katz Commission, the institute cautions the Government to adopt a careful approach to tax reforms.

The institute says it will support a simplified version of capital transfer tax structured in the form of an estate duty.

According to the AHI the present form of inheritance tax will only serve to create uncertainties among local enterpreneurs and discourage foreign investors.

On the other hand, the AHI expressed support for the appointment of the Smith Committee which is to set guidelines regarding retirement provisions.

Fireworks over tax proposals

M+G 26/1 -1/2/96

Racial divisions rocked the latest financial hearing on taxation for the future, reports Lynda Loxton

(320)

THE wide economic divide that still separates blacks and whites in this country was highlighted during this week's parliamentary joint committee on finance hearings into the Katz Commission's proposals on taxation.

On the one hand, there were the multi-billion rand insurance companies pleading for the idea of a tax on their profits to be scrapped or the poor would suffer because they would not be able to fund the Reconstruction and Development Programme. Big business called for government spending cuts and better tax collection.

On the other hand, there was Cosatu angrily denouncing Michael Katz for trying to ease the tax burden on the rich while making the poor pay even more, and black business saying the tax amnesty in its present form was unworkable because blacks feared retribution despite the fact that they had obeyed past calls not to pay taxes to the apartheid government.

The committee is going to have a difficult time reconciling these different demands, especially with the commission dangling the promise of billions-of-rands in extra revenue should its proposals be accepted.

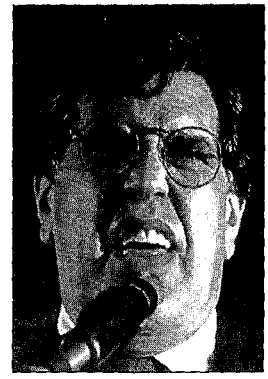
Their job will not be made easier by the fact that the commission came under fire from just about everybody for different reasons about the basis for their conclusions, their calculations on new revenue collections and the effect of their proposals on the economy.

Perhaps the most controversial issues were the planned 30% tax on the income of pension funds, which was attacked by almost everyone, and the retention and possible increase in value-added tax.

The commissioners launched a spirited defence of their work, arguing that each interest group was looking at the proposals only in terms of their own interests and not in terms of what was good for the nation as a whole.

Cosatu made a vital point: Tax concerns us all, and few, if any, actually enjoy paying it. But if most South Africans don't understand what the Katz Commission and, eventually, government, is trying to do to the tax system, it generally won't.

Cosatu's submission on the commission's proposals was presented to the committee as it sat down to hear its views, giving them no chance to read it beforehand.



Michael Katz: Tax proposals for the nation PHOTOGRAPH: NAASHON ZALK

It apologised, but said that a major handicap had been the "unnecessarily complex and inaccessible style used by the commission in presenting its findings.

"It is of great concern to us that the commission seems to be under the impression that the task of restructuring our tax system is the exclusive preserve of tax experts and business technocrats," Cosatu said.

"This seriously underestimates the sensitivity with which the majority of South Africans view the question of taxation, and the need for the tax system to be aligned to the tasks of transformation of our country."

It could be argued that more people should be involved in making tax laws, but whether that will make them any easier for all to understand is another question.

The committee will meet behind closed doors to make its final recommendations to the government, within the next week. Expect some fireworks ahead!

Katz says 'voluntary tax' is strangling SA

ST 28/1/96 (320)

FROM THE GALLERY



By RAY HARTLEY

SHORT, bespectacled and punching his pen in the air, lawyer Michael Katz summed up the problem with the collection of tax: "People are paying tax voluntarily in South Africa at the moment."

It was a stunning statement made before Parliament's finance committee, which was hearing evidence on his third report on taxation in Cape Town this week.

The estimated R21-billion government's hopeless tax bureaucracy has failed to collect may be one of the greatest limitations on government's ability to pursue its transformation agenda.

President Nelson Mandela's ability to pay off the massive government debt inherited from the apartheid era has been constrained severely by the shortage of revenue from taxes. As Deputy President Thabo Mbeki has pointed out, after servicing its debts and seeing to its ongoing commitments, government has a bare eight percent of its budget to spend on transformation.

In an effort to motivate its revenue collectors, government has been weighing up paying them on a commission basis, which would encourage collection by rewarding them according to how much money they brought in.

But the proposals have run into difficulties with the Public Service Commission, which has been reluctant to allow individual government departments to pursue their own employment and payment policies.

Deputy Finance Minister Alec Erwin told the finance committee revenue collecters needed to be "a specific and rather special component of the public service".

While negotiations between the Public Service Commission and the Commission for Inland Revenue have been carrying on behind the scenes, Mr Katz has been casting around for other sources of revenue. In his third report, he has suggested a reduction in the tax benefits of South Africa's enormous R500-billion retirement industry to put it on the same tax footing as other forms of saving.

Mr Katz, a meticulous workaholic who was top of his class at Harvard Law School, said money always gravitated to places where it was less taxed. "You can't stop water from flowing down."

If implemented, his tax reforms will bring the government at least R3-billion in additional revenue.

But by the end of the week, Mr Katz's proposals had come under fire, predictably, from the retirement industry and the SA Chamber of Business.

They were joined by an unlikely ally in Cosatu, which fired a broadside at the Katz commission in a submission on Monday.

Cosatu's Ravi Naidoo and Neil Coleman asked why restructuring the tax system should be "the exclusive preserve of tax experts and business technocrats".

With investments in the retirement industry being one of the few ways in which black workers had built up financial clout, the union movement hinted that it was prepared to take the fight outside Parliament if necessary.

The federation produced a grey and white table to illustrate its main concern — the Katz proposals would hit the poor hard and benefit the rich.

Coupled with other proposals to abolish certain taxes affecting businesses, Mr Katz and the Finance Ministry appeared to be "pursuing the same regressive tax agenda", Cosatu said.

For good measure, the federation revisited the issue of whether or not VAT should be increased, an earlier proposal by Mr Katz aimed at broadening the tax base.

With 50 percent of the potential workforce unemployed and only 10 percent paying personal income tax, the tax pool has become a small pond. By cutting personal income tax and increasing VAT — a tax that affects those who do not earn enough to pay personal tax and those who have remained outside the income tax system — more people will fall into the tax net. In another move aimed at increasing the number of tax payers, the Commission for Inland Revenue has been trying to lure tax dodgers into registering with an offer of amnesty.

Inland Revenue Commissioner Trevor van Heerden read out a string of statistics on the amnesty to the committee: "Telephone calls — 35 480; interviews — 9 982; letters — 3 300; forms — 15 205 ..."

While the amnesty had little success in attracting new tax payers, it sparked what Mr Van Heerden described as a "terrific backlash" from obedient tax payers who felt cheated because dodgers were being let off the hook.

The retirement question — and other proposals to restructure the tax collection system — will present the finance committee with one of its most difficult challenges to date.

Under the chairmanship of Gill Marcus, the committee has earned a reputation for independence, often questioning the motives of interest groups and showing scant respect for mealy mouthed government bureaucrats.

Ms Marcus, an exile who served as the ANC's public face after its unbanning in 1990, is on the organisation's national executive committee. Now she will have to balance the interests of the ANC's trade union allies with the organisation's determination to restructure the tax system.

With proposed tax reforms coming under heavy fire and its tax amnesty having failed to improve the number of tax payers significantly, the government's revenue collection is in a dangerously unhealthy state.

And the irrepressible Mr Katz's efforts to rescue the system could soon be drowned out by a chorus of shrill lobby group voices.



IRREPRESSIBLE . . . Michael Katz is determined to revamp the tax system

Heavier taxes under new plan

ET 1/2/96 (282) (320)

OWN CORRESPONDENT

PORT ELIZABETH: Provinces should have the power to impose a surcharge on the taxable income of individuals, it has been proposed.

And no objections have been put forward by the Ministry of Finance and State Expenditure, the Commissioner of Inland Revenue, or the provinces.

The recommendation comes from the influential Finance and Fiscal Commission and states that provinces should be allowed to impose flat-rate surcharges on the tax bases of national taxes, levies and duties.

It is estimated that if the recommendation to the Constitutional Assembly is accepted a one percent surcharge could net the nine provinces a total of R2 billion a year.

A uniform five percent surcharge would net R10 billion, but this would not be spread evenly across the nine provinces because some are wealthier than others.

The surcharge would be imposed on taxable income, not on tax payable.

The commission recommends the maximium surcharge should be "limited to a few percentage points".

This would keep maximum rates "within acceptable limits", and not dissuade people, especially the rich, from living in particular provinces.

One reason for keeping the maximum rate low would be to avoid lowering the national income tax rate, as the effect of this would be that the richer provinces would benefit from the provincial surcharge revenue, while the national revenue pool would shrink, making less available for the poorer provinces.

The commission notes in its submission that provinces' own revenues on average are about five percent of total revenues, leaving them almost totally dependent on national transfers.

"If provinces are not provided with the potential to raise a greater proportion of their own revenues, they become unsustainable as viable political and economic entities and remain unaccountable for their activities." They would merely be "spending agencies" of the national government.

The commission argues that the "simplest, most cost-effective" way to achieve a "reasonable measure of accountability is to allow provinces to choose the rate of a surcharge on personal income tax".

'Tax collection assists growth'

(320)

Sowetan 2/2/96

Campaign to help build payment morality needed, says commission

By Rafiq Rohan
Political Correspondent

TAX COLLECTION SHOULD not be seen as something damaging to the economy but rather as something which will assist economic growth and redistribute resources correctly in the country.

Releasing the final draft on the Third Interim Report of the Katz Commission of Inquiry into Taxation, the Joint Standing Committee on Finance in Parliament recommended that a far-reaching communications campaign be considered that will "help build tax morality".

Another recommendation is that the tax amnesty, which ended on Wednesday, be not extended.

The committee recommends a new system in which exemptions are allowed to encourage provision for retirement. It proposes the build-up of retirement funds and pensions.

Deductible contributions should be limited to 15 percent of the aggregate remuneration for employers and 7,5 percent of taxable income of employees.

Also: Separate limits of deductibility should be set for benefit funds and medical aids;

A basis should be established for limiting the scale of benefits that can be offered by defined benefit funds;

Membership by employees of more than one approved fund be disallowed.

Existing pensioner funds should be given the opportunity to convert from the old system to the new one.

In addition the committee recommends that pension annuities should be paid free of tax to pensioners once tax has been paid on the capital sum.

Lump sum payments on the termination of service should be treated as if they were retirement benefits and included in the capital sum to determine tax liability.

The age to get benefits recognised as retirement after retrenchment has been drastically reduced in terms of the recommendation.

"The minimum age at which benefits paid on retrenchment are treated as retirement benefits for tax purposes should be reduced from 55 to 50."

No tax incentives for ESOPs

M+G(BM) 2-8-2-96 (EP) (320)

Lynda Loxton

THE Katz Commission was slated last week for not going far enough in recommending a special tax dispensation for employee share ownership programmes (ESOPs).

Msele Corporate and Merchant Bank joint managing director Litha Nyhonyha told the parliamentary joint standing committee on finance that the commission had missed a unique opportunity to promote ESOPs, and do something about the highly skewed distribution of wealth in South Africa.

He was surprised that the report had recommended that no special tax incentives be provided, especially exemption from fringe benefits tax.

"The commission's recommendations do not go far enough to create incentives for the establishment of ESOPs and will not effectively promote the creation of ESOPs by South African companies," Nyhonyha said.

The commission justified its stand by saying that tax incentives for ESOPs would be a disadvantage to self-employed people, which Nyhonyha said he found "difficult to understand.

"While the South African economy is premised on a free market system, people can choose to be employed or self-employed, there still remain certain structural imbalances [which] must be addressed by fiscal policies, among others," he said.

The commission's objection to special tax incentives was it would go against the principle of discouraging the use of non-cash remuneration.

Nyhonyha agreed that the commission should be encouraged in its efforts to curb tax avoidance.

"In doing so, though, it should not frustrate attempts to redress past imbalances," he said.

ESOPs were first introduced in South Africa in the mid-1980s, when many foreign companies withdrew from South Africa because of anti-apartheid sanctions. White South African managers jumped at the chance to take the companies over and, using various loopholes in the tax legislation as it existed then, took them over with little or no injection of cash and were soon very wealthy.

Legislation has been tightened up since then and employees who participate in ESOPs have to pay fringe benefits tax.

Nyhonyha recommended that fringe benefit tax should not apply to financing provided to employees to participate in ESOPs or to shares given away to employees.

Further incentives, such as making payments made by employers for ESOPs tax deductible, should also be considered. But, as an earlier submission by Cosatu highlighted, ESOPs are not yet a major priority for many workers.

"Given the low wages for the majority of Cosatu-affiliated members, the conversion of wage increases into shares does not appear to be a viable option," Cosatu said.

"In addition, the extension of employee capital ownership and control can be more effective through pension fund acquisitions."

Such schemes, it felt, would be more effective in providing collective ownership of blocks of capital thus providing some degree of effective control.

Committee supports call for VAT to be charged on gambling

BD 2/2/96 (320) (292)

Tim Cohen

CAPE TOWN — Despite strong lobbying from the gambling industry, the parliamentary finance committee yesterday recommended that VAT be imposed on gambling activity, provided that the funds went to the provinces where they were raised.

The committee supported the Katz commission recommendation that the integrity of the tax system required that all gambling other than the national lottery should not be VAT-exempt. In taking this decision, the committee partially rejected the arguments of the gambling industry that it was a special case because the constitution allowed provincial governments to impose a special tax on gambling.

In insisting that the VAT raised should go to the provinces where it was raised, the committee has effectively made imposing this special tax unnecessary, although provinces still have the power to impose it.

Amanda Vermeulen reports Kessel Feinstein Consulting CE Delano Caras said the resultant higher tax rate — which could leap to between 20% and 30%, from the proposed 15% to 20%, would force investors to scale down their investment or refrain from participating in the industry. VAT should go directly to the provinces, as proposed last week by Gauteng finance MEC Jabu Moleketi to the finance joint standing committee. The provinces would then have a direct revenue source and would be unlikely to impose their own punitive levies.

Sun International MD Peter Bacon said the possibility of double taxation could result in downsizing the current casino and tourism industry, fewer new jobs created, and would significantly limit future local and foreign investment in these industries. Global Resorts CE Ernie Joubert said the aggregate tax payable on gross gaming revenue should not exceed 15%, whether it was VAT or provincial levy.

Greta Steyn reports commission chairman Michael Katz was delighted with the committee's speedy decision. He called on Finance Minister Chris Liebenberg to come to a decision quickly, saying there were many issues that required certainty. "Private sector planning depends on government's response." Certainty was needed most on the taxation of retirement funds, dividends and on gambling.

Samantha Sharpe reports life offices expressed concern about the committee's decision to support Katz's retirement fund recommendations.

Life Offices Association (LOA) exec-

Continued on Page 2

Gambling (292) (320)

Continued from Page 1

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utive director Juries Wessels said: "Our most important request was that the recommendations of the Smith committee should not be ignored.

"The finance committee said in its report that any changes in legislation would be further debated and discussed, including discussions on the Smith committee recommendations."

On the introduction of a tax on the build up of income in pension funds, Wessels said the LOA was "nervous" about the tax. "Until such a time as the final details of the tax have been debated and discussed it is difficult to judge what its ultimate impact will be."

Institute of Retirement Funds vice-president Chris Newell said he was concerned that the Katz commission had fallen short of its intended holistic approach to tax reform, "although the finance committee did say it would investigate further."

Institute of Life and Pension Advisors counsellor Paul Robson warned that the taxation of income build-up would ultimately harm the low-income earner, who were likely to take home less.

Katz proposals offer scant relief to share incentive schemes

BD 2/2/96 (320)

LITHA NYHONYHA and LOREN M BRAITHWAITE

AT FIRST reading, the report of the Katz commission on tax reform seems to support and encourage the use of employee share ownership programmes. But, in the end, the recommendations of the commission leave in place such odious obstacles and create such administrative burdens that only the most determined employer would attempt to put such a programme in place.

The proposals simply do not go far enough to provide incentives for share programmess and, if implemented, would set creation of such initiatives in the wrong direction.

Share programmess provide for employee ownership of equity in the company of their employ, usually including every full-time employee of the company. In developed and developing countries, share programmes have enjoyed widespread support. More than 11-million workers in the US and more than 10% of all employees in the UK are able to participate in such schemes.

In SA, however, share programmes have only rarely been instituted; instead, due to the complexity of current tax formulations, most share schemes benefit only the most wealthy of employees.

SA companies wanting to set up a share programme must usually provide financing for their lowest-paid employees to purchase the shares (the Companies Act forbids a company to give away its shares unless fair market value is received). At present, if the company provides financing at a rate of interest which is less than the official rate of interest for fringe benefit tax purposes the employees are taxed on this "fringe benefit". Also, if an employer wants to make shares available at a discounted price, the difference between the market value and the actual price is deemed taxable income. The larger the discount the company gives employees, the larger the tax bill. In a country where more than 50% of the African population makes less than R300 a month, this tax is prohibitive.

The Katz commission recommended that no changes be made to existing income tax principles and no special tax dispensation be provided for share programmess. It did, however, recommend that employees be given the choice of electing to pay the fringe benefit tax on the earlier of the expiration of five years or when the shares are resold by the employees. During this five-year tolling period, interest will accumulate at the stipulated rate on the liability to pay fringe benefits tax. In recognising that keeping records of the interest chargeable and the tax over a five-year period would create administrative problems, the commission further recommended that the employer be obliged to keep records of the amount of tax due. The employer would also be liable for the failure to keep such records and for the employees' failure to pay the tax. What prudent business manager would establish a share programme under these rules?

Yet employee share ownership programmes are urgently needed. The excessive concentration of economic power in the hands of a small minority must be addressed.

Although increasingly important consumers, blacks have little control of SA's assets or investments. In a report released last week by the RDP office, it was confirmed once again that SA has the highest rate of income disparity in the world.

Political changes alone cannot bring stability and growth; economic redress is also needed.

A programme to democratise equity will, in the long term, reduce ethnic conflict, reduce the economic disparity of population groups and contribute to development.

Share programmess are a valuable tool to provide the majority of the population, who presently have no access to capital, with the means to achieve ownership of some portion of the economy. As noted in the Katz report, share programmes are a primary mechanism to achieve wealth redistribution through free enterprise, rather than taxation. When government's policy goal of unbundling is implemented, employee share ownership can be a primary vehicle to ensure wealth is redistributed rather than passed among the already wealthy few.

In a World Bank-sponsored study, such programmes have been seen to increase worker productivity, improve management-employee relations, and increase commitment to the company. The Katz commission reasoned that it could not grant any special tax dispensation for employee share ownership because doing so would be a disadvantage to self-employed people.

This logic just does not figure. By example, should the contemplated educational bursary scheme be abandoned because it would disadvantage people without children?

The commission also argued that encouraging share programmes would go against the principle of discouraging the use of non-cash remuneration. In spite of this principle, a plethora of share incentive schemes still exists which benefit senior white management.

The commission also suggested companies should simply pay people more so they would have the money to buy shares. We doubt this alone would result in greater share ownership by the lowest paid employees.

Most disconcertingly, the commission found share programmes to be of no particular merit when they weighed the encouragement of broadening share ownership in the SA economy against other goals. In the face of the overwhelming need to deconcentrate the economy, surely it is government's place to weigh and balance competing objectives.

Both in the US and the UK, the success of employee share ownership programmes has been driven by tax-based incentives. Companies may make tax-deductible contributions to employee share trusts for the acquisition of shares to be distributed to employees. In the US, for a company choosing to finance the sale price of the shares, payment of both principle and interest on the loan is tax deductible.

Without these tax incentives, the share programmes revolution simply would not have happened.

Real incentives need to be provided to companies to distribute their shares to employees.

A company's contribution of shares to a share programmes trust for eventual distribution to employees should be tax-deductible, as other defined benefit plans are.

Similarly, fringe benefit tax should not apply to the financing of employee share buying. Government established a precedent of not imposing such tax on employee participants when it established the National Sorghum Breweries employee share scheme. The achievement of wealth redistribution and democratising the SA economy is of paramount importance and employee share ownership programmes have been proven to be an effective tool to achieve these objectives. Legislation should be considered to provide real incentives to companies considering giving employees a stake in their enterprises.

□ **Nyhonyha is joint MD of Msele Corporate and Merchant Bank. Braithwaite is the bank's senior manager.**

Go-ahead on retirement fund plan

Katz's tax reforms gain acceptance

BD 2/2/96 (320)

Tim Cohen

CAPE TOWN — The parliamentary finance committee has shrugged off the pleas of interest groups and accepted almost all the Katz commission's latest recommendations, calling for a decision in principle to tax the retirement fund industry's trading income in this year's budget.

In its report on a broad variety of proposals contained in the Katz commission's third interim report, the committee said it was convinced that the commission had put forward sufficient justification for an early announcement by government of what has become known as an "exempt, tax, tax" system.

This system would result in the taxation on interest, rental and other "trading" income for retirement funds, which could net the fiscus anything between R3bn and R11bn annually.

The report said any announcement accepting an "exempt, tax, tax" system should be accompanied by a firm commitment to reduce the overall tax burden on individuals, especially those in the lower-income brackets.

Committee member Rob Davies said the committee was not specifying how the overall tax burden should be reduced, saying only the boost to the fiscus should be used to make the overall tax system more progressive.

NP committee member David Graaff suggested the boost could be used to eliminate fiscal drag while Davis conceded that it might provide government leeway to avoid a possible increase in the VAT rate. However, committee chairman Gill Marcus cautioned that there was no direct link between the committee's report and the budget process.

Once acceptance of the system had been signalled an investigation — to be completed by July — ought to be set up to debate the issue further, assist in preparing legislation and deal with questions surrounding the magnitude of the tax, committee members said.

Asked whether the "exempt, tax, tax" system could be implemented in the 1996/97 financial year, Marcus noted that discussions still had to take place and some administrative problems might exist, but said: "I certainly would not want to close that door."

The committee broadly endorsed the commission's recommendations on public service pension funds, underlining the principle that they ought to be placed on the same footing as private sector funds but emphasising that existing rights should be protected. The committee also called for the urgent investigation of a "pay as you go" system for public sector funds which it said could "dramatically reduce public debt service and the budget deficit".

Continued on Page 2

Katz

(320) BD 2/2/96

Continued from Page 1

Committee member and ANC MP Rob Davies said dramatic figures were presented to the committee on what would happen to the budget deficit and government's debt service obligations if a "pay as you go" system was introduced. The committee concluded the matter needed urgent consideration.

The committee endorsed the commission's finding that government ought to avoid increases in the percentage of national and provincial tax revenue to GDP above the present 25% level. But because this percentage was pivotal to the whole question of the tax system, the committee called on the commission for a detailed explanation as to how it arrived at this figure.

On VAT, Davies said the commission had presented powerful arguments against zero rating, but that the reduction of zero-rated items depended on legitimate and widespread poverty relief systems being in place. Until effective delivery systems were in place, the committee could not recommend the removal of zero-rated items.

Specific recommendations of the report include:

- ☐ Ssecondary tax on companies should be retained but changes to the rate could be considered;
- ☐ The scrapping of marketable securities tax be determined by budgetary constraints;
- ☐ An investigation into a land tax, taking into account effect on production and marginal farms;
- ☐ Financing of the Multilateral Motor Vehicle Accident Fund by via an earmarked fuel levy should be reviewed;
- ☐ Regional service council levies should be investigated, and an immediate ban placed on using private agents for tax collection on a commission basis;
- ☐ No capital gains tax should be introduced but the present weakness of inland revenue to administer should not be the basis of an in-principle decision;
- ☐ A public statement of taxpayers' rights should be produced;
- ☐ Recommendations on small, medium and micro enterprises be accepted, but that the definition of a small business as an enterprise with a R2m annual turnover be reconsidered; and
- ☐ Employee share ownership schemes should be investigated further.

Marcus backs retirement funds taxation

320

CT(BR) 2/2/96

By Llewellyn Jones

Johannesburg — South Africa's powerful parliamentary joint standing committee on finance yesterday threw its weight behind proposals to impose a 30 percent tax on the interest, rental and trading income of retirement funds.

It is estimated this could raise up to R3,5 billion a year.

The committee, reporting on hearings last week into the findings of the Katz commission on changes to the country's tax regime, also roundly endorsed a string of Katz recommendations on the treatment of corporate taxes which had been welcomed by industry.

Voicing its support for the imposition of a tax regime on retirement funds, the committee acknowledged the sharp differences of opinion that had occurred during the hearings and said all detailed submissions would be sent to the finance ministry, along with the committee's report.

It also endorsed the commission's proposal that pension and provident funds be treated equally and that different forms of saving should be tax neutral.

The committee rejected evidence placed before them calling for a postponement of any decision on retirement fund taxation until the Smith committee report on the retirement industry had been fully discussed and there was clarity on government policy towards retirement in general.

The committee's chairman, Gill Marcus, told a news conference that it had left the door open for implementation of the Katz proposals on retirement funds during the fiscal year beginning April 1.

Marcus said the final decision would have to be taken by the government.

"I would certainly say it's possible that it could in fact be effective in the next financial year.

"I certainly wouldn't want to close that door ... I don't see why it should be ruled out," she said.

The committee's report said that attempts to delay implementation would lengthen the period of uncertainty in a situation in which there was an urgent need for clarity and certainty.

There would be no guarantee that delay would lead to any greater consensus in circumstances in which powerful vested interests were at stake.

The committee "recommends that government take an early decision on certain broad matters of principle, and simultaneously announce procedures for further negotiation on matters of detail."

Backing the Katz proposals on company taxes, Marcus's committee agreed that:

☐ It would be unwise to introduce a capital gains tax until tax administration had been improved, but said the present weak state of inland revenue should not be used to justify not imposing the tax;

☐ The secondary tax on companies should be substantially reduced. It said the tax should be retained for the time being although levels could be reconsidered;

☐ The marketable securities tax should be abolished, but warned that this decision should be "determined by budgetary constraints."

Backing for surcharge

BARRY STREEK
POLITICAL WRITER

THE Western Cape government has backed the proposal for a provincial tax surcharge, but this did not mean it would result in a tax increase, provincial finance spokesman Pieter Coetzee said yesterday.

The provincial government unanimously supported the proposal that provinces be given the power to raise their own taxes.

Coetzee quoted provincial Finance Minister Kobus Meiring as saying it was essential for the provinces to be given powers to raise their own taxes to supplement their income and to be able to borrow funds for development.

This, he said, did not necessarily mean a tax increase. If the central government reduced personal tax from 43% to 40%, the three percent could go to the provinces.

A potential problem could arise if one province had a 10% provincial tax and another had no tax, because people would just register in the province with no provincial tax even if they lived in another province, Coetzee said.

TOP EARNERS TO BE HIT

Parliament targets tax-dodging schemes

CT 2/2/96 (320)

ALL PARTIES HAVE AGREED that tax should be imposed on retirement fund earnings but there should be no change in value added tax at this stage.

PARLIAMENT has targeted tax-dodging measures of higher income earners and incentives that give disproportionate benefits to men.

All parties in Parliament's standing committee on finance have agreed that tax should be imposed on the earnings of retirement funds but there should be no change in the value added tax at this stage.

To protect lower income earners, no change is envisaged in VAT zero rating

At present there are about 14 000 pension funds controlling assets worth an estimated R500 billion, falling largely outside the tax net.

Parliamentarians agree that contractual savings of this kind — which benefit men in particular — should not provide "a huge incentive" compared to other forms of discretionary savings.

The committee, in a final report on the Katz Commission of Inquiry into Taxation, also accepted in principle the need for a rural land tax but has ruled out a capital gains tax. However, a land tax should be further investigated, it says

It also supports the retention of the secondary tax on companies "for the time being", although the rate of 25% "can be further considered" as revenue has dropped since it was increased from 15%.

The report was accepted unanimously by the parties represented on the committee, including the "big three" — the ANC, the NP and the IFP.

It supports the view that the level of tax should be maintained at 25% of the of the gross domestic product.

ANC committee chairperson Ms Gill Marcus said tax on earnings in retirement funds had been accepted in principle, but could not confirm it would be part of the March 13 budget. She said it would be up to Finance Minister Chris Liebenberg to include the proposal.

However, the measure could be implemented through legislation later in the year after the committee had heard further representations from interested parties. — Political Staff

● See Page 15

State urged to delay tax decision

(320) ART 3/2/96

Business Editor

THE Life Offices Association has urged government to delay a decision on the taxation of investment income proposed by the Katz Commission.

In a statement yesterday, LOA chairman Desmond Smith said the proposal should be held over pending an inquiry by the Department of Finance into all aspects of retirement provision tax.

Mr Smith was reacting to recommendations by parliament's joint standing advisory committee on finance the government accept the proposal.

In its third report, the Katz Commission suggested the trading income of retirement funds be taxed.

Exempting the retirement funds from tax, the Commission said, was costing the state up to R11 bn in lost revenue.

Mr Smith said if the tax was to be used to eliminate arbitrage, it would have to be set at 30 percent or more.

"We find it inconceivable that attention is not being paid to other means of eliminating arbitrage instead of running the risk of severely jeopardising retirement provision in South Africa."

Introducing a tax at this rate, he said, would place a burden on lower-paid employees whose retirement benefits would be reduced.

The Commission's recommendations on retirement fund taxation were "insufficiently researched and unquantified", he said.

Katz part 2: the storm

(320)

ST 4/2/96

THE SUNDAY MORNING ASSESSMENT

By SVEN LUNSCHE

THE R450-billion retirement industry is clearly one of the more powerful interest groups in the country, representing millions of members.

Having easily weathered Katz report No 1, ahead of last year's Budget, it is facing a new attempt by the Katz commissioners to reform the tax system. This time Mr Katz has a powerful ally in the parliamentary joint standing committee on finance, chaired by Gill Marcus.

This week the committee urged the government to implement the bulk of the Katz proposals.

On Friday the Life Offices Association, which represents the life insurance and retirement industries, launched a stinging attack on both Mr Katz and Ms Marcus.

The association's chairman, Sanlam's Desmond Smith, says the Katz commission's recommendations on retirement fund taxation "are insufficiently researched, unquantified and lacking in an appreciation of the real issues".

The commission's premise is that current tax incentives result in a significant loss to the fiscus and that many exemptions granted to the industry are being misused.

The commission's most contentious proposal is that the investment income of retirement funds be taxed. It calls for a 30 percent tax on interest and rental income, but not dividend income, earned by retirement funds.

The Life Offices Association argues that such a tax will deter low-income earners, who pay income tax at below 30 percent, from investing in pension and provident funds.

"We find it inconceivable that attention is not being paid to other means of eliminating tax sheltering instead of running the risk of severely jeopardising retirement provision in South Africa," Mr Smith says.

Garth Griffin, Old Mutual's general manager employee benefits, believes a 20 percent rate would be more appropriate.

The second key recommendation by the commission is to tax, at a progressive rate, the lump sum on retirement or death in a bid to ensure that pensioners choose more regular payouts rather than a large lump sum.

Urgent revamp demanded for wilting tax men

ST 4/2/96 (320)

By RAY HARTLEY
Political Correspondent

THE government has been urged to speed up the reform of tax legislation and deal with the low morale of Inland Revenue staff.

In its official comment on the third report of the Katz commission, Parliament's joint standing committee on finance said that the cabinet, the Department of Finance and the Public Service Commission needed to repair tax legislation "as a priority".

The committee, which is chaired by the ANC's Gill Marcus, also called for:

● Outside experts in change management to be brought in "to assist in changing previously negative attitudes" among tax collectors;

● The speedy filling of vacancies for eight chief directors and 20 directors in the revenue collection services; and

● A full progress report on these matters to be presented to the committee before the March 13 Budget.

The committee said: "The past year has seen a continued decline in the efficiency of both offices, with a further loss of skilled personnel and consequent decline in effective tax collection or the administration of customs regulations.

"The current situation gravely impacts on our economy and the tax morality of the country," it said.

After noting progress towards the amalgamation of Inland Revenue and Customs and Excise into a new revenue service in April this year, the committee expressed serious concern over "when the intended reforms will result in increased efficiency and effectiveness".

The committee said it supported, in principle, the Katz commission's recommendation that pension funds be subjected to greater taxation — a move which could bring more than R3-billion into the fiscus.

But the details of the tax would have to be negotiated with the industry, it said.

The committee recommended that the amnesty designed to bring more taxpayers into the system should not be extended because it had had limited success.

It also recommended that the zero-rating of basic foodstuffs not be removed until "there is certainty that effective delivery structures with widespread acceptance are in place".

The committee noted that the tax reform process had "become rather fragmented, with an increasing number of issues referred for further investigation".

"There is a danger that issues drift off into the realm of abstraction or uncertainty, earmarked as requiring further investigation at some unspecified time."

NEWS

Samcor hits at Toyota's finance cuts

CT(BR)5/2/96

BY ROY COKAYNE

Pretoria — Samcor, the motor vehicle manufacturer, last week told critics of its reduced prices that it had made the move in the long-term interest of motorists.

Samcor criticised Toyota South Africa, which last week also entered the car-price war with the announcement of a 0 percent, fixed-interest-rate finance package on selected vehicles.

Samcor said its price reductions were permanent and not a short-term measure.

Arthur Mutlow, the managing director of Samcor Marketing, said he believed reduced interest rates and discounting were short-term actions.

They "distress the product and produce a negative influence on resale values", he said.

Mutlow said Samcor's pricing strategy applied to all its vehicles and not only entry, or selected, problem models.

Revenue offers olive branch to remaining tax defaulters

CT(BR)5/2/96 (320)

BY JAMES LAMONT

Johannesburg — The Inland Revenue department has held out an olive branch to tax defaulters beyond the January 31 deadline for the six-month tax amnesty.

On Friday department spokesman Syd Pope said tax dodgers would receive lenient treatment if they approached the department and did not wait for the state to track them down.

"Inland Revenue appeals to all persons who have remained outside the tax net to approach the Receiver of Revenue," Pope said.

"They will not get amnesty any longer, but we won't throw a 200 percent penalty at them. We'll be lenient as far as a penalty is concerned."

He said penitent fraudsters who had not taken advantage of the amnesty would receive a friendly reception and could negotiate favourable terms of payment, including deferment.

Deputy Finance Minister Alex Erwin also indicated the government would consider ways to draw in black businesses which had fallen into the habit of not paying taxes to the former apartheid government.

But Pope warned that those who had never registered, or whose whereabouts were unknown, "would be dealt with severely" if they did not surrender.

Most would face a 200 percent penalty on the amount due or a court summons. In extreme cases this could mean imprisonment. The amnesty could not continue indefinitely, Pope said.

Inland Revenue hoped to improve its tax collection services after an estimated R100 million integration with Customs and Excise on April 1 to form the new South African Revenue Services.

Pope said new information technology systems would replace the present 30-year-old computer system. New infrastructures would help overcome difficulties encountered in appointing qualified staff. Both steps would improve the department's ability to trace tax villains, he said.

"Revenue is in a weakened state. But we want to get to a situation where we are able to render a more efficient tax collection service."

Of an estimated total South African population of 40 million, Inland Revenue had some 4,5 million on its income tax register. About 1,8 million of those earned more than R50 000 a year, the level at which a tax return had to be submitted.

After an extension beyond an initial October 31 deadline, the tax amnesty ended on January 31 with a last minute flurry of applications. On the final day Inland Revenue received as many as 1 200 applications for amnesty.

By January 25, it had received 17 055 applications, but Pope indicated that a final count for forgiveness covering income, sales tax and VAT could be closer to 20 000.

Pope was unable to estimate how many people remained beyond the tax net nor how much in outstanding tax would be written off by the amnesty. But, he admitted: "We weren't in a position to expect anything."

Although the amnesty was directed at those who for political and ideological reasons had refused to pay tax, Pope said a cross-section of good, bad and indifferent people had come forward.

Gill Marcus, chairman of the parliamentary joint standing committee on finance, said: "Tax morality in this country is extremely poor". She recommended an education programme and improved revenue collection to remedy the malaise. Her committee has heard that tax avoidance is rife among large corporations, wealthy individuals and small black businesses.

Katz report lacks clarity, says Sanlam

(320)

Adrienne Giliomee
BD 7/2/96

LIFE assurer Sanlam criticised yesterday the report on the Katz commission by the joint standing committee on finance, saying that it added confusion and lacked clarity.

It said the time frame of the new tax dispensation was still unclear.

While the joint committee was calling for the acceptance of the principles of some of the Katz proposals, Inland Revenue had given a strong indication that they were not in a position to implement the Katz proposals during this year.

"The recommendations by the joint standing committee indicate that the implementation could not take place during the first half of 1996, possibly only in 1997."

The group said it hoped the budget speech in March would shed more light on the subject and clarify speculations.

"Until final decisions have been taken by the Cabinet, it would be impossible to compare the relative merits of the different funding options that are available."

Old Mutual Employee Benefits assistant GM Chris Newell said the National Retirement Provision Forum had to be started up before implementing the Katz proposals on tax reform.

"There is a crucial need for certainty in our long-term retirement provision system," Newell said.

The forum should first achieve consensus before the proposals by the commission were considered.

"Tinkering with parts of the retirement provision system without holistic analysis would destroy the integrity of the entire system," Newell said.

Easing of law on tax arrears expected

(320)
BD 7/2/96

Greta Steyn

GOVERNMENT is expected to soften legislation dealing with the collection of arrears in tax payments and interest on debt to the taxman in a move to draw more people into the tax net.

A spokesman for Finance Minister Chris Liebenberg confirmed yesterday that the issue of arrears and interest was being investigated.

This follows a call from the National African Federated Chamber of Commerce to extend the tax amnesty, saying black entrepreneurs had been forced out of business because of interest on outstanding tax. Government has ruled out extending the amnesty,

Continued on Page 2

Tax

(320)
BD 7/2/96

Continued from Page 1

but has said a new dispensation on the treatment of arrears is in the pipeline.

The parliamentary standing committee on finance, in its report on tax reform, called on inland revenue to contact people who withdrew their applications for amnesty when they were told they had to pay capitalised interest on their debt to the taxman. The committee said efforts had to be made to facilitate payment of principal debt.

An inland revenue spokesman said yesterday the law would have to change before it could ignore interest payments. "It is up to the minister to come up with a lifeline. We cannot do anything until we know what the criteria will be for people to qualify."

It had been clear, though, that there were people who were forced to "throw in the towel" as the huge interest build-up meant they felt they could not reach a point where the capital started diminishing. A major concern was how quickly legislation could be put in place, as speculation that a change was imminent could prevent people from paying in the interim. Payments currently first reduced interest and then capital, but an earlier system had seen both reduced together.

Inland revenue commissioner Trevor van Heerden said last month he doubted that a large proportion of errant taxpayers had been incorporated into the tax net. Deputy Finance Minister Alec Erwin said the amnesty had not brought in many people in rural areas or small businesses that had expanded rapidly. More than 15 000 applications had been received and about 10 000 granted by the end of January, when the amnesty expired.

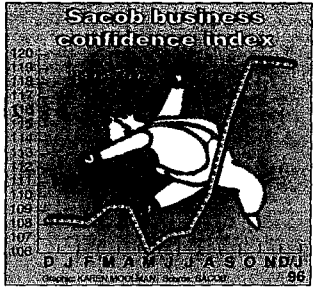
higher gold price had start to filter through to the rest of the economy.

But this growth rate was not nearly enough to dent ballooning unemployment — the chamber expected the number of formal employment opportunities in SA to grow by less than half this year's new job hunters.

It expected the economic climate to be ripe for an interest rate cut by about mid-year — particularly if the Budget reflected a continued firm commitment to fiscal discipline and if the rate of credit extended to the private sector slowed. There were already signs that most consumers had reached their borrowing capacity.

It appeared government's attempts at fiscal discipline were being stymied by its efforts to consolidate the finances

part of the country.



Divisions over health compensation

John Dludlu BD 8/2/96

OFFICIALS from Mpumalanga, Northern Province and Northwest were yesterday divided over plans by Gauteng to seek compensation for health care provided to their citizens.

Northwest health department spokesman Aubrey Fenne denied talks had taken place with Gauteng, saying there was no agreement on compensation. Gauteng finance department said yesterday it was negotiating with the provinces for an arrangement that would see Gauteng being compensated for all patients formally referred from hospitals in the provinces.

Gauteng said a draft report of a study commissioned with the three provinces showed that formal and informal referrals cost about R180m.

Mpumalanga government spokesman Oupa Pilane confirmed his province had participated in talks on compensation, but the region felt the scheme could not work. He said his government had a problem with direct inter-provincial compensation.

However, Northern Province finance spokesman Simon Matome confirmed that agreement in principle had been reached for compensation on various services, including health.

The finance department's deputy director-general for inter-government and auxiliary services Flip Rademan said the national treasury had agreed to the concept, but this would be done without involving state expenditure.

The matter was discussed at a meeting of the technical committee on finance, in which all the provinces and the central government were represented, held on January 23.

Financial and fiscal commission chairman Murphy Morobe did not feel compensation arising from consultation would distort budgetary formula.

Business, labour square up to do battle on VAT

BD 8/2/96 (320)

Greta Steyn

THE VAT battle will kick off in earnest today when Finance Minister Chris Liebenberg and his deputy Alec Erwin attend a discussion in the National Economic, Development and Labour Council on tax issues in next month's Budget.

Business and labour are expected to table submissions for debate. While government is not likely to take a view, it is understood it wants to test the water for labour's resistance to a VAT hike. Economists expect government to raise the rate by one percentage point to help bring down the fiscal deficit.

Business is expected to call on government today to raise VAT to help finance a drop in corporate taxation, as well as personal income tax. It is expected to argue a hike in VAT cannot be postponed any longer, because of the need to encourage investment.

The business constituency's argument rests heavily on the belief that lower direct taxes will generate a sustained increase in economic growth — and therefore in employment. This should offset the negative effects on the poor of a higher VAT rate. Business also believes the increase can be made more palatable if government can demonstrate the extent to which spending has already been reorientated towards the reconstruction and development programme.

Business representatives are also expected to emphasise the need for government to stick to its commitments of a continued reduction in the deficit, a tax burden of no more than 25% of GDP, no increase in real terms in recurrent spending and a gradual elimination of government "dissaving" — the practice of using long-term loans to finance consumption spending.

John Dludlu reports that business and labour are also expected to respond to government's proposals on supply-side measures.

Government issued a discussion document in November calling for a possible introduction of tax-based incentives for investment and training. It also outlined incentives for work organisation, industrial development finance, technology enhancement, productivity improvement and small business development.

In its initial response, labour expressed disappointment at the document's narrow focus, mainly because it excluded the mining and agricultural sectors.

Government has said the measures will be financed from savings on the general export incentive scheme which is to be terminated next year, but numbers have yet to be discussed.

Nedlac officials said issues such as "investment incentives, sensitive industries and training" would be on the agenda at today's meeting, as would progress reports on the social clause and on the Social Plan Act.

Constitution could allow provinces a surcharge on personal taxes

Greta Steyn

THE financial and fiscal commission expects the final constitution to be changed to give the provinces power to raise revenue — paving the way for a small provincial surcharge on personal income taxes.

The surcharge would, to start off with, add a few percentage points to the national tax rate.

Commission chairman Murphy Morobe said yesterday he expected a favourable response to submissions made to the Constitutional Assembly calling for provinces to be given the power to levy a surcharge on personal income tax.

The commission made the submissions after the draft final constitution had specifically outlawed such a move, along with corporate tax, VAT, fuel levies and customs and excise duties at a provincial level.

The commission placed a major emphasis on accountability in its submission. It argued that the only way to compel provinces to become accountable for their actions was to make them less dependent on finance from central government. If the current system continued, they would become unsustainable as viable political and economic entities. "They will have all the paraphernalia of political entities but merely be spending agencies of national government," the commission said.

The maximum surcharge had to be limited to a few percentage points, which would initially be added to the national tax rate. Central government should set a band of, say, two to five percentage points on the tax base — and the provinces could choose within those tight constraints.

Central government should initially not raise less tax to compensate for the provinces raising some tax because that would shrink the revenue pool available to the poorer provinces. The surcharge had to be kept to only a few percentage points to prevent people — especially the rich — from moving between provinces. It should be levied at a flat rate on the tax base.

"With the future in mind, when provincial disparities have been reduced, the use of surcharges should be encouraged and entrenched," the commission said.

(320) BD 8/2/96

Provincial taxation powers had to be spelled out in an Act, which finance sources said could take more than a year to set up after the finalisation of the constitution.

The commission noted that the departments of finance and state expenditure, the commissioner for inland revenue and the provinces had not objected to the proposal.

Tax incentives could aid training

ARG 8/2/96 (320)

GEOFF ELLIOTT
Business Reporter

THE government should consider tax relief and other incentives to encourage business to implement training programmes for the youth, said Chris Nissen, the African National Congress's minister for economic affairs in the Western Cape.

Mr Nissen said the country "needs more part-time and vacation opportunities in other sectors and industries."

He also called for debate on how to help finance poor youngsters through education. While admitting the economy could not afford the fiscal burdens of free education, Mr Nissen added "we must look very carefully at ways to help..."

The minister was speaking at the official launch of the Informal Business Training Trust's (IBTT) training program aimed at the corporate sector. IBTT is a non-government organisation (NGO) which finances the country's emerging entrepreneurs.

Mr Nissen told the lunch yesterday that the unemployment crisis cuts across all age groups but jobless youth was the biggest concern.

"Statistics suggest that unemployment levels amongst out-of-school youth are the highest of all these categories," Mr Nissen said.

He added that more appropriate education and training and expanding part-time career opportunities were other areas to look at.

IBBT trustee Cedric Buffler said that of 400 000 matriculants just five percent were finding their way into the formal sector.

The IBBT, like most NGOs, had found funding a problem in the new dispensation as donors from the past switched to the new government.

The new training programme is one of the IBBT's drives to be self-sustaining. It will charge corporations R1 175 plus VAT to provide training for unemployed dependents of their employees.

The course has been dubbed the "Township MBA" and according to the IBBT an independent survey indicated that 81 percent of those graduating from a recent programme in a squatter community "are now gainfully occupied."

The attraction of the course for companies would be more than altruistic, added Clive Dutlow, chairman of IBBT.

He said worker productivity improved when not burdened by the financial drain of the family.

MAIL & GUARDIAN
February 9 to 15 1996

Demands for zero-rating to be extended

M+G (BM) 9-16/2/96 (320)

Lynda Loxton

THE huge disparities in income distribution in South Africa make it vital that any tax system takes into account ways in which to lessen the impact on the poorest of the poor.

One easy and obvious way would be to zero-rate as many basic necessities from value-added tax (VAT) as possible. At the moment this mainly covers food, but some would like to see zero-rating extended to medicines and services such as water.

But, as the parliamentary Joint Standing Committee on Finance heard recently, that can open up a whole can of worms, not the least being that the rich as well as the poor benefit from the zero-rating of foodstuffs.

For that reason, many, including the Katz Commission, want to limit zero-rating to a small range of basics, if not eliminate it altogether, while considering other, more targeted, ways of providing poverty relief programmes.

That argument, however, does not hold much water with the likes of Cosatu, which argued strongly to the committee during its hearings on the latest Katz Commission report that even more items should be zero-rated, there should be no increase in the general VAT rate and that there should be different levels of VAT, a low one for basics and a higher one for luxuries.

'There should be no increase in the general VAT rate and there should be different levels of VAT'

Because raking in as much revenue as possible for the Reconstruction and Development Programme is a top priority, the finance committee finally conceded that zero-rating as it stood now was perhaps not the best approach.

But, it added, "there [should] be no move towards targeted relief as an alternative to zero-rating basic necessities until there is certainty that effective delivery structures with widespread acceptance are in place and that such a move enjoys wide support in the community at large."

As this was "clearly not the case", the committee recommended that "there be no removal of zero-rated items at present".

It also recommended an evaluation of the revenue lost through zero-rating, as opposed to the benefits of targeting poverty and development programmes through the use of such revenue.

The committee also believed that further investigation was needed to find other areas where VAT could be levied. It was probably for this reason that it supported imposing VAT on financial services and gambling, despite vehement protests from the provinces about the latter because of the effect it could have on this potential source of job creation.

But the committee did recommend that the Katz Commission should look at whether zero-rating really benefited the poor. This should include an "analysis of price escalation of zero-rated goods compared with goods on which VAT is imposed at the standard rate".

The committee said the issue of a differentiated tax rate should be further investigated, especially in view of the fact that it could be cumbersome to administrate for tax authorities already stretched to the limit and in need of a major revamp.

In its submission, Cosatu had said that the rejection of differentiated VAT, because it was "too complex for South Africa", was unacceptable as it has been successfully implemented in a number of countries already — and much had been made of the fact that the tax collection system was being beefed up.

VAT is widely termed a "regressive" tax because it affects the lowest paid and the committee said ways should be found to make the tax system more "progressive" by, for example, raising the tax threshold and further adjusting tax brackets for fiscal drag.

During the hearings, the committee heard several other proprosals for dealing with poverty and income inequality. These included scrapping the old-age rebate and the means test so that all people who reach a certain age can receive a pension, and making the pensions of taxpayers over the age of 75 tax-exempt.

Eskom shrugs off leaked proposal on tax

BD 9/2/96 (320)

Mungo Soggot

ESKOM and government yesterday shrugged off a leaked report which proposed taxing the parastatal, imposing a levy on electricity sales and setting up a national electrification fund.

Reuter reported the draft white paper on electrification policy also proposed ditching government's pledge to make 2,5-million new connections to the national grid by 1999. It suggested only making cost effective connections.

The mineral and energy affairs department said the report was a discussion document written by the Energy for Development Research Centre of the University of Cape Town — an organisation appointed to explore energy policyby the department. Eskom CE Allen Morgan said the issues raised in the paper had to be seen within the context of the wide-ranging shake-up of the industry currently under way.

The electricity working group, which includes the recently formed National Electricity Regulator, has proposed setting up a single decentralised distributor with regional operating arms. The new company would house all SA's electricity distribution assets, most of which belong to Eskom and the rest to about 400 local authorities — developments which, Morgan said, would obviously affect the policies outlined in the draft white paper.

The working group's proposal has been touted as the only solution to inefficiency in the fragmented sector.

Reuter said the report proposed that a national electrification fund be set up by August and be funded by a levy on bulk electricity sales, donor grants, government grants and loans. The fund would steer electrification planning and seek "to arrest the unchecked, often inappropriate and inequitable subsidisation presently occurring, primarily by Eskom". Eskom currently meets the bulk of government's annual electrification target at a cost of about R1bn.

The report's proposed levy would be shared between domestic and other clients, should provide a third of the annual investment in electrification programmes but would have a negligible effect on industrial and commercial consumers.

A clause on restructuring electrification has as a target injecting more flexibility into the commitment to provide 450 000 new connections in each of the first five years of the current dispensation.

Pensioner body slams tax plan

☐ *National representation called for*

(320)
ARG 9/2/96

Business Editor

THE 20 000-member Association of Retired Persons and Pensioners has slammed proposals to tax the income of retirement funds, calling for a national forum on retirement provision.

In a strongly worded statement, the Association's chairman, John Visser, criticised the Katz Commission's proposal to impose a 30 percent tax on interest and rental income of funds.

By reducing profits on investments, he said, a tax on pension fund income would make it harder for funds to finance cost-of-living increases for pensioners.

"Equally disquieting will be the temptation for trustees to increase the proportion of equity in the investment spread, with its attendant risk," Mr Visser said.

"As companies may not be able to maintain prospective pension benefits for employees at the present rate of contribution, inevitably the pension fund will be meeting the cost, again at the expense of pension increases or the improvement of pension benefits."

Only about 30 percent of pension funds paid benefits that keep pace with inflation, Mr Visser said.

In other funds, profits from investments were used to finance retrenchment programmes or other benefits for existing employees at the expense of pensioners.

Pensioners wanted full cost-of-living increases to be enforceable by law, he said, subject only to affordability and the maintenance of a reasonable reserve in the fund.

Pensioners also wanted equal representation on boards of trustees, instead of just one representative, "which is hardly equitable on larger boards of trustees".

Mr Visser said pensioners should organise themselves into a national body that could represent their interests to the Registrar of Pension Funds, parliamentary standing committees and commissions set up by the government.

"It is not sufficient to rely on well-meaning bodies such as Cosatu, the Life Offices Association or Sacob to represent pensioners' interests," he said. "Pensioners must also speak out for themselves and forcefully so.

"We want a national forum on retirement provision as recommended in the Mouton Report... This is long overdue."

Mr Visser said retirement fund members numbered 9,3 million, of whom 1,2 million received pensions.

"An organised voice of such numbers cannot be disregarded by the politicians if they want their votes and by the captains of industry if they want them to buy their products."

Electricity tax this year?

ARG 10/2/96 (320) (56) (260)

DOMESTIC consumers face a double blow this year if a secret draft white paper on energy circulating at parliament is adopted by the government.

The confidential draft, of which Reuters has a copy, proposes a strategy to achieve social equity, efficiency and economic competitiveness of electricity supply in a market economy, but allows for state intervention "where market failures prevail".

University of Cape Town researcher Grove Steyn, who wrote the draft, said it was "an early rough draft of the electricity section of the proposed energy policy paper".

"As such, this document has no status," said Steyn, who is a member of a team mandated to draft an energy white paper for the Department of Mineral and Energy Affairs.

Two aspects of the proposal would hit established domestic consumers and rural communities waiting to be switched on could find themselves further back in the queue.

The draft white paper calls for a levy on electricity bills to fund a National Electrification Fund (NEF) that will manage the electrification of areas neglected under apartheid.

Domestic consumers will pay half the levy, with commercial users adding the rest to take the total levy up to one third of the cost of electrification projects.

"The levy, together with the termination of internal cross-subsidies, will have a negligible effect on industrial and commercial consumers," the document says.

"Combined with national domestic tariff rationalisation, it would have the effect of raising average domestic tariffs to the average level presently maintained by Eskom for its newly electrified consumers," it adds.

The draft also proposes that Eskom should lose its tax-exempt status, a move that would add to the electricity bills of existing consumers.

An Eskom official said the utility "pays no conventional companies tax because we are a non-profit organisation. Obviously, if we are to pay tax, the cost of electrification would have to be offset against it."

■ A draft white paper calls for a levy on electricity bills to fund a National Electrification Fund (NEF) that will manage the electrification of areas neglected under apartheid.

Proposals that could affect disadvantaged communities waiting to be switched on include one to step back from the ANC's pre-election promise to electrify 2,5 million homes in the first five years of democracy.

The white paper suggests that Eskom should not be obliged to provide electricity on uneconomical terms, but should be encouraged to develop alternative energy sources.

"Eskom will be able to lower its target if it does not have access to appropriate areas to electrify," the document proposes.

The document also proposes a R4 000 ceiling on the unit cost of rural connections, which would rule out new electricity supplies to farms or remote communities.

The proposed NEF would be the primary electrification planning agency with the objective "to arrest the unchecked, often inappropriate and inequitable subsidisation presently occurring, primarily by Eskom".

The department proposes that all available subsidy funds should be channelled through the NEF, which will allocate them in a transparent and equitable manner to promote RDP objectives.

Steyn said his draft would be reworked, probably extensively, after comments from other energy experts and would then be sent to the parliamentary portfolio committee on mineral and energy affairs for scrutiny and public comment.

Parliament is expected to receive a final Energy Bill in August, for passage during the current legislative year. — Reuter.

Inept tax system 'costing billions'

ET(BR) 15/2/96 (320)

BY JAMES LAMONT

Johannesburg — Auditor-general Henri Kluever has warned that South Africa's tax collection system is in danger of falling apart.

A performance audit of the inland revenue department that was tabled in parliament yesterday revealed that the run-down service was forfeiting billions of rand in state income each year and jeopardising the RDP.

The accounting officer reported there were staff shortages and inadequate procedures for collecting outstanding taxes.

He warned that the collection of tax, which was the "basis on which the RDP and the success of the new South Africa should be built, will fall apart if the personnel and funding position of the inland revenue is not addressed".

More than R5 billion in tax was outstanding on March 31 1994. Outstanding interest for value-added and income tax amounted to R1,7 billion. Since interest on outstanding interest was not charged, the state forfeited about R257 million a year, he said.

The Kluever report stated that measures to ensure the accurate submission of employees' tax certificates and returns were not instituted and that steps to ensure the accuracy of value-added tax returns or the timely submission of returns were deficient.

It said writing off irrecoverable employee's tax often took place without sufficient efforts being made to trace taxpayers.

Legal action to recover outstanding taxes sometimes began a year after assessment.

In Johannesburg, where 37 percent of the value-added tax debits of R1,3 billion was outstanding, only 19 cases were referred to the state attorney and 67 percent of the debits were outstanding for more than nine months.

The report covered 18 performance audits at 11 departments. It stated that a revising policy did not "take place systematically", but maintained that new computer systems and a strategic management plan for inland revenue were expected to improve the service.

Bertie Loots, the deputy auditor-general, said the inability to collect debts was a common thread throughout the audit, which was designed to encourage increased efficiency and proper use of taxpayers' money.

Talks held over 'pensions tax'

(320) BD 19/2/96

Samantha Sharpe

CAPE TOWN — Fears that the Katz commission's controversial pension tax proposals would be introduced in the 1996/97 Budget had prompted a special meeting between inland revenue and the finance ministry to try to resolve the administrative implications of the new taxes, industry sources said at the weekend.

While Finance Minister Chris Liebenberg last week expressed reservations about the new taxes on pensions mooted in the Katz report, the parliamentary standing committee on finance has come out in support of the tax proposals.

However, sources said the current state of inland revenue, which is being merged with customs and excise to create a more effective tax administration, could make it difficult to implement the Katz proposals.

These included the introduction of a 30% tax on pension funds' interest, rental and other trading income.

Inland Revenue Commissioner Trevor van Heerden confirmed at the weekend that he had met with Finance Minister Chris Liebenberg, the Financial Services Board, Katz commission chairman Michael Katz and industry members on Friday to discuss possible legislative amendments arising from the 1996/7 Budget.

However, while these included administrative details linked to the Katz proposals, "it was one of only a number of issues under the spotlight", Van Heerden said.

He said the commission's call for a 30% tax on pension funds' interest, rental and other trading income would not provide administrative difficulties for the revenue department if implemented in the Budget this year.

"There are only 14 000 funds that have to be taxed at a flat 30%, which is no more administratively difficult than other taxes we have to administer," Van Heerden said.

Liebenberg has hinted that the merger of inland revenue with customs and excise is a bigger task than originally anticipated.

Speaking at the 1996 Pension Lawyers Association conference, Katz commission member Dennis Davis said there could be no real tax reform without a more effective system of tax administration.

"We will never be able to deal with any of the issues, which are compelling matters for tax reform, without a change in inland revenue."

He said the Katz commission pension fund tax proposals were an "honest attempt to make the tax system more neutral".

Any "parochial lobbying" by the life industry to discourage government from implementing the Katz recommendations could sound an end to tax reform in SA, Davis said.

Pension tax proposals expected to be shelved

Levy on life industry's assets mooted

BD 21/2/96

(320) (300)

Samantha Sharpe

FINANCE Minister Chris Liebenberg is expected to shelve the Katz commission's controversial pension tax proposals for the 1996/97 Budget in favour of a one-off 1% levy on the life industry's estimated R500bn assets.

The move, which would raise about R5bn, would obviate the need for a politically unpalatable increase in the VAT rate.

The ministry refused to comment, but sources said Finance Minister Chris Liebenberg had asked life companies to submit proposals on practical aspects of the levy by noon today. A task force had also been appointed within inland revenue to facilitate implementation of the tax.

They said the finance ministry had mooted a tax of between 0,75% and 1% on all life industry assets, which could add between R4bn and R5bn to state coffers in financial 1996/97.

The proposed levy followed in the wake of a meeting late last week between inland revenue, the finance ministry, the Financial Services Board and industry players to discuss the practical implications of the Katz commission recommendations, they said.

Labour was absent from the talks, but the issue is likely to be raised when labour and government meet for Budget negotiations over the next couple of weeks. Speculation is that Liebenberg will seek labour's support for a tax on pensions in return for holding off on a higher VAT rate.

The sources said fears that the commission's recommended 30% tax on pension funds' interest, rental and other trading income would be impossible to implement speedily had spurred government to come up with a substitute tax.

Liebenberg has expressed concerns about the new taxes on pensions mooted in the Katz report, although the parliamentary standing committee on finance has given full support to the commission's proposals.

Sources said the one-off levy would allow government a "revenue stopgap", while providing an opportunity for additional discussion and debate on Katz's call for a pension fund tax.

It would also give inland revenue some time to put its house in order, with improved tax administration still a crucial element to efficient revenue collection, they said.

Liebenberg has hinted that the merger of inland revenue and customs and excise is a far bigger task than initially anticipated.

Life industry sources said that while they were averse to any ad hoc tax, "the one-off levy might be more favourable than a hasty implemention of the Katz proposals".

Katz gives robust defence of pensions tax

CT(BR) 21/2/96 (320)

STAFF REPORTER

Johannesburg — South Africa's retirement industry could not expect to remain the sole recipient of favourable tax treatment while the state gave no tax concessions to housing, health and education, Michael Katz, the chairman of the Katz commission, said yesterday.

At a Business Report and Southern Life breakfast, Katz defended the proposals to limit tax breaks to retirement funds. Breaks given to retirement funds were allowing about R11 billion to escape the tax net, he said. Part of the problem was companies making use of arbitrage opportunities between themselves and their pension funds.

Katz said the commission's objective was to broaden the country's tax to lower the rate of taxation.

☐ Katz is due to speak at a second Business Report briefing in Cape Town on February 27. Call Deborah on 011 803-8461 for details.

BACKGROUND&ANALYSIS

Katz proposals 'will burden poor'

(320) CT (BR) 21/2/96

BY JOHN SPIRA

Johannesburg — Low-income earners would be more severely affected than high-income earners should the Katz commission's retirement fund recommendations be given the nod by the minister of finance.

So concluded the Life Offices' Association in its submission to the parliamentary standing committee on finance.

The submission was released to Business Report for the first time yesterday. It noted that the reduction in net benefit levels as a result of the recommendations "is very significant".

The association found the recommendations would reduce benefits by about 20 percent to 25 percent for long periods of pensionable service.

"These reductions will be seen as penal and will lead to a reduction in the willingness to save for retirement."

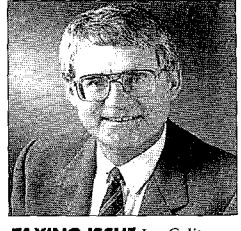
The submission drew particular attention to the 30 percent tax proposed on interest, rental and trading income "as we believe it is inappropriate".

It said that the reduction in net benefit levels made the incentive to save through a retirement vehicle too narrow compared with after-tax avenues of saving.

"In fact, for very low-income earners (R20 000 a year), a better benefit is now achieved through a personal after-tax investment.

"This will also discourage retirement provision through approved arrangements and hence lead to less provision being made overall."

The pension would be commuted and taxed as a lump sum at the point of retirement according to the scale recommended in the report. Thereafter it would be paid out as a net after-tax benefit by the fund.



TAXING ISSUE *Jan Calitz, — Southern Life managing director*

On the problems involved in changing the basis of taxing the end benefit, the association highlighted these complications:

☐ It would reinforce the perception among retirees that a lump sum payout was a better option, because all the future tax on their pension benefit was seen to be levied before they might even survive to receive the benefit.

This applied to all levels of payment and defeated one of the key objectives of encouraging retirees to take their benefits in the form of an income.

For capital amounts above R540 000 (equivalent to a pension of about R4 500 a month), there was a disincentive to take a pension rather than a lump sum.

☐ To maintain integrity in the future, it would be essential for the limits in the tax scales set out in the report to be revised regularly each year in line with inflation. If this were not done, the recommendations would produce worse results than saving from after-tax income.

☐ The recommendations removed the tax incentives that existed for people to start contributing to retirement funds as early as possible in their working lives.

"An examination of the lump sums paid on withdrawal from a fund shows that the taxes levied, in terms of the recommendations of the Katz commission, on withdrawal after short service and higher income, are far more lenient than those under the current dispensation."



SUBMISSION *Chris Liddle, Southern Life's executive director of the life division*

The association was concerned, too, about the administrative complexities that follow from the recommendations.

It urged a "holistic" approach: that the Katz recommendation should not be implemented until further debate had taken place.

Chris Liddle, Southern Life's executive director of the life division, who was partly responsible for the association's submission, said it was not possible to use historic data to extrapolate future effects. This was what the Katz commission had done.

"If you change the rules of the game, the impact in the future will be vastly different from what occurred in the past," he said.

Jan Calitz, Southern Life's managing director, said that while a tax-free pension was superficially desirable, it would be progressively less attractive should, as seemed likely over time, personal tax rates be reduced and indirect taxes increased.

Katz calls for levy on pensions

(320)(866)

BY JON BEVERLEY

CT(BR)21/2/96

Durban — The Katz commission has proposed that a levy of between 0,75 percent and 1 percent be included in next month's Budget on the estimated R500 billion in assets held by the retirement fund industry — a move that would raise about R5 billion for the government.

The industry has been asked to comment on the proposal that, if implemented, could remove the need for the government to reintroduce prescribed asset requirements.

It is understood that the Katz commission has realised its proposals for the taxation of the industry are too complex to be introduced in the Budget on March 13 and that the levy proposal is aimed at raising immediate revenue.

The Katz commission recently proposed a 30 percent tax on interest and other income, plus changes to the individual tax on lump sums and on retirement benefits. Soon after this, the Smith commission took the opposite view, saying no changes should be made to the retirement funding system.

Jurie Wessels, the executive director of the Life Offices Association, could not confirm whether the life offices had been asked to comment on the proposed levy.

But Linton Beckett, the Durban representative of actuaries Ginsburg Malan & Carsons, confirmed assurance companies had been asked to comment on the levy. He said the levy met the government's urgent need to raise funds for the RDP and was seen as a temporary measure. Durban broker, Patrick Anderton, said a 1 percent levy was probably less harmful than the proposal to levy a 30 percent tax on investment income.

The 30 percent proposal would shave about 3 percent off investment returns of between 17 and 19 percent and the compounding effect would be considerable.

See Pages 18 and 24

Life industry slates levy on pensions

CT 22/2/96

By Llewellyn Jones

Johannesburg — The Life Offices Association was unhappy with the government's proposed 1 percent levy on the life industry's assets to raise R5 billion, Jurie Wessels, the executive director, said yesterday.

Wessels said it was unacceptable that any new tax on retirement funds was considered before proper consideration was given to the Smith committee recommendations on the retirement fund industry.

"The South African retirement funding industry has served the country's people and economy well. It should not be tampered with without a very convincing reason.

"Yet the decision to fill the shortfall in the national Budget from the retirement funds appears to have been based on nothing more than a subjective perception that the retirement funds industry does not produce its fair share of tax.

"It does not make sense to call the proposed levy an interim measure so that discussions on the Katz proposals can continue. The Katz commission argued that their proposals were based on a desire to combat arbitrage. This is not an interim measure to combat arbitrage, this is an interim measure to raise a very large amount of money," he said.

The row follows a meeting between the finance department and representatives of the life industry last Friday, where a finance department representative said it would take at least a year before the Receiver of Revenue was in a position to collect the taxes mooted by the Katz commission.

Alternatives were therefore needed to meet projected revenue shortfalls.

The one-off levy was proposed and submissions on the proposal were called for by noon yesterday.

Michael Katz, the head of the Katz commission, was present at the meeting, but declined to comment yesterday.

"The meeting and the discussions were confidential, and I must respect that," Katz said.

Informed sources, however, said Katz "vehemently opposed" the proposed levy because it did not take a holistic view of the industry and taxation in to account.

The department of finance also refused to comment.

Sentrachem and Bayer in R500m chrome venture

CT(BR) 22/2/96

By Ann Crotty

Johannesburg — Bayer, the German chemical company, and South Africa's Sentrachem will form a R500 million joint venture to produce chrome chemicals, the companies announced yesterday.

Construction of a South African plant in Newcastle, KwaZulu Natal will begin in June or July if the outcome of an environmental impact assessment is favourable. The new facility is expected to come on stream in early 1998.

Both parties will commit R250 million in cash to the venture, which will be one of the world's largest facilities to make chrome chemicals.

It will manufacture 70 000 tons a year of sodium dichromate which is used in the leather and metal treatment industries. A second plant will produce 10 000 tons of chromic acid a year. Close to 90 percent of the production is destined for export.

Bayer decided to relocate its chrome chemical production from Germany to South Africa because it will be closer to the raw materials. Chrome will come from Rustenburg and soda ash from Botswana. The venture will provide 100 jobs.

Workers plan mass protest march

eT(BR) 22/2/96

By Shirley Jones

Durban — The National Union of Leather Workers (NULW) and the South African Clothing and Textile Workers Union will take to the streets next week to protest against job losses, alleged customs fraud and the dumping of cheap shoes from the Far East.

The unions intend handing memorandums to both regional and national authorities decrying 9 000 job losses in the footwear and leather industries in the past five years.

According to the NULW spokesman, Roy Narsingamy, the union faces closures and retrenchments daily. Job losses in the Durban region had risen to 2 000 since November and more were expected. Where workers were not laid off, they were put on short time because of a lack of orders, he said.

Dave Berry, the president of the Footwear Institute of South Africa, said yesterday overall employment shrunk from 56 000 in 1989 to 28 000 last year. He said local production dropped from 87 million pairs of shoes in 1989 to 58 million pairs last year. Much of the blame for this reduction has been laid at the door of cheap imports. Berry said imports escalated to 63 million pairs last year from 12 million pairs in 1989.

He said growth in the South African shoe market has not kept pace, moving from 100 million pairs in 1989 to 121 million pairs last year. Local producers now have a 47,9 percent share in the market, from 87,36 percent in 1989.

Berry said KwaZulu Natal, where the budget end of the footwear industry was concentrated and where employment by the industry had been highest, had been hit the hardest by closures and retrenchments.

The head of the Footwear Federation, Dennis Linde, said the industry could not afford the disruptions associated with [illegible] action at present. He said the industry's fate was in the government's hands.

WS

20 000 applications for tax amnesty

CT(BR) 23/2/96 (320)

By Roy Cokayne

Pretoria — A last-minute rush to beat the tax amnesty deadline pushed the number of non-registered taxpayers applying for amnesty to almost 20 000.

The amnesty expired at the end of last month, with 4 000 applications received in the last week.

Syd Pope, the chief public relations officer for the Commissioner of Inland Revenue, said 19 773 applications for amnesty had been received. However, he could not say how many applications were declined or how many still had to be processed.

He said applications processed and approved so far included 9 980 for income tax, 918 for VAT, 733 for PAYE and 770 for sales tax.

Pope said there might be minor adjustments to these figures because of amnesty documents "floating between offices". There were 44 revenue offices countrywide, all of them involved in processing amnesty applications.

The tax amnesty was introduced on July 19 last year and was initially intended to expire at the end of October last year. But Finance Minister Chris Liebenberg extended it until the end of January when he announced the restructuring of revenue collection at the end of October last year.

The number of amnesty applications increased sharply shortly before the initial deadline and again before the final deadline.

Black business, however, had not supported the amnesty, claiming it was too narrowly based.

More staff needed to cope with work

(320)

Adrienne Giliomee

BD 26/2/96

THE inland revenue department has just nine chartered accountants left to scrutinise the tax returns of SA's 640 listed companies.

Poor salaries were cited as a reason for it being unable to retain staff.

The department's Sandton office — where all listed company accounts are checked — has just 16 assessors, 43 fewer than the required complement. Three chartered accountants deal with banks and six cover the other listed companies. The remaining seven assessors are not chartered accountants.

The Johannesburg office — the largest revenue collection office in SA — has just two chartered accountants. One handles VAT returns while the other works in the audit section. The office has 1 200 staff members, 200 fewer than its planned complement.

The inland revenue department said it had offered chartered accountants packages ranging between R130 000 and R175 000. But private sector rates were closer to R250 000.

The situation was likely to improve once the department was merged with customs and excise on April 1.

Katz rejects govt's plans for retirement fund levy

Samantha Sharpe

BD 28/2/96

(320)

CAPE TOWN — Katz commission chairman Michael Katz yesterday broke his silence on finance ministry plans for a one-off levy on retirement fund assets, calling the plan an ad hoc tax that went against the commission's principles.

Sources expect the 1% levy to be introduced in the 1996/97 Budget as an alternative to the commission's call for a 30% tax on pension fund income.

The levy could raise around R5bn, and allow government to avoid the politically damaging alternative of raising VAT.

But Katz told a Southern Life briefing that the levy directly opposed the commission's ideal of a holistic approach to tax reform in SA.

The commission's recommendations on retirement fund taxation were the only effective means of removing arbitrage from the system, he said.

SA would never be able to have an effective corporate tax system while SA's major institutions, which administered about R500bn in assets, were outside the tax net.

Katz favours holistic tax reform

(320) BT(BR) 28/2/96

By Audrey d'Angelo

Cape Town — The Katz commission did not favour tinkering with the tax structure but preferred holistic reform, chairman Michael Katz said yesterday.

He was speaking at a breakfast organised by Business Report and Southern Life.

Katz said his committee had not suggested that a levy of between 0,75 percent and 1 percent on the R500 billion in assets held by the retirement fund industry, be included in next month's Budget.

Its recommendations aimed at providing certainty and neutrality, with no ad hoc or retrospective tax measures. It aimed at a fairer system, which would broaden the tax base and enable rates to be reduced.

Katz said that only when sectors outside an orderly structure were fairly taxed would they be safe from raiding to raise special one-off sums of money.

Katz and fellow commissioner Dennis Davis came under attack from representatives of the pensions and insurance industry.

Ben van Rensburg, the director of economic affairs for the South African Chamber of Business, said it was not the insurance industry but individuals who would be hit by proposals to tax retirement funds 30 percent.

Van Rensburg said: "Your proposal is not to tax the insurance business but the specific savings of individuals administered by pension funds.

"When you tax the pension fund you reduce the individual's ability to provide for himself after retirement. You are taking savings from the private sector and putting it in the hands of government to use for current expenditure.

"You are going to change the pattern of behaviour of people who make provision for their retirement."

Jurie Wessels, the executive director of the Life Offices Association, criticised the commission's proposals, particularly those aimed at stopping tax avoidance through arbitrage.

This was different from the four-fund approach proposed earlier by Katz, which distinguished between insurance company's corporate funds and assets managed on behalf of policy holders.

Wessels accused the commission of "recommending that violence be committed against millions of little people saving through retirement funds".



DEFENSIVE *Michael Katz, the chairman of the Katz commission (right) defended his proposals, which will 'affect everyone in this country beneficially'. With him is Dennis Davis, a commission member* PHOTO: BENNY GOOI

Katz now looks at overseas profit

Cape Town — The Katz commission would soon turn its attention to profit made outside this country, the chairman Michael Katz said at a Business Report and Southern Life breakfast yesterday.

He said South Africa only taxed income sourced in this country, but with the relaxation of exchange controls and the globalisation of business, this was being questioned.

Katz said one difficulty was that "we want foreign companies to set up here, using South Africa as a springboard into the rest of Africa. Worldwide taxation of South African companies would discourage that". — Audrey d'Angelo

Fraud alleged over export rebates

Govt claims millions from motor industry

BD 29/2/96

Edward West

GOVERNMENT has issued claims against the motor industry running to at least R100m for what it terms "fraudulent use" of a now-defunct export tax rebate scheme.

Industry sources said yesterday the trade and industry and inland revenue departments had lodged claims with most of the car manufacturers and many component manufacturers.

Government officials were unable to comment yesterday, but the claims stem from tax rebates claimed by manufacturers under the Phase VI local content programme, which was phased out last year.

Nissan SA's listed holding company faced claims for R30m, while Delta Motor Corporation and Toyota SA said they were each facing claims running to "tens of millions".

Other companies were tightlipped yesterday. Volkswagen SA issued a brisk "no comment".

Under the Phase VI local content programme, the only avenue for exporters of component manufacturers to claim tax rebates was through the excise accounts of the motor manufacturers. Toyota SA manufacturing director Dave Wiltshire said the company had taken the export claims of component manufacturers in good faith.

"We felt we were the innocent party on this issue. We took a decision to dispute the claims and we are waiting for the trade and industry department to take us to court."

Automakers finance GM Gavin Stewart said although the R30m had been provided for and would not affect earnings, Automakers, the holding company for Nissan SA, intended defending the action and affidavits were being prepared for a court hearing.

He added that a number of vehicle assemblers and component manufacturers had been issued with summonses by trade and industry.

Delta Motor Corporation acting finance director Evan Dold said the company would decide at a board meeting next week whether the department's claim worth "tens of millions of rands" should be paid, or fought — either individually as a company or on an industry wide basis. In the meantime, Delta had lodged an appeal with inland revenue against the claim.

He said the claims involved tax rebates between 1990 and 1995. Back in 1992 then trade and industry minister Derek Keys warned that "very material frauds" had been committed through false claims against government and manufacturers.

The National Association of Automobile Component and Allied Manufacturers said at the time small time component exporters/importers had committed fraud which could run into hundreds of millions of rands.

A taxing challenge ahead for provincial government

ARG 1/3/96 (320)

Raising their own taxes will give the provinces a measure of independence. But care will have to be taken not to overburden taxpayers, many of whom already feel they are paying too much. ROGER FRIEDMAN reports

There are three tiers of government and each costs a fortune.

But while the top (central) and bottom (local) tiers generate required funds through taxation, the middle tier - provincial government - is a somewhat poorer relation.

This year the Western Cape government generated less than five percent of its total budget, with central government contributing 95,3 percent through the Fiscal and Financial Commission.

This reliance on central government leads to the perception that provincial governments are toothless beasts, lacking independence and unable to exercise control over their regional destinies.

It also, perhaps conveniently, allows the provinces to pass the buck to central government over issues such as teacher retrenchments, recruiting extra police or cutting back on health services.

It nurtures the "there's nothing we can do about it if central government refuses to give us money" argument.

Although the situation is similar for all the provinces, the Western Cape and KwaZulu-Natal are perhaps a little more uneasy with the status quo than others because they are not dominated by the African National Congress which dominates central goverinment.

In the Western Cape, the National Party holds sway. Premier Hernus Kriel announced in his opening address to the legislature earlier this month that the writing of a provincial constitution was a priority.

Naturally, the issue of the province raising its own money through taxation is a key element in the proposed constitution.

The (central government) Financial and Fiscal Commission has already recommended that provinces be given the powers to raise their own taxes - the question is how they will go about it?

And how can the province avoid placing an extra financial burden on the relatively small proportion of the population - about 10 percent - who actually pay their taxes?

Western Cape Finance Minister Kobus Meiring (NP) believes shrinking allocations from central government leave the province no alternative but to levy taxes.

"It basically boils down to a straight choice between drastically reducing the standard of services or raising money through taxation," he said.

But the problem was that South Africans already paid high taxes, and further burdens could impact negatively on productivity and economic growth.

Mr Meiring said the Financial and Fiscal Commission had suggested provinces levy add-on taxes on income tax and VAT.

The NP welcomed this provision but proposed that central government lower its taxes to allow the provinces to levy theirs at no extra cost to the taxpayer.

Mr Meiring said central government should prescribe maximum levels. So, for example, central government could reduce VAT from 14 to 12 percent to allow the province to add a maximum of two percent.

"This would allow the provinces the necessary space to determine their own priorities and standards."

Western Cape Economic Affairs Minister Chris Nissen (ANC) said the ANC was "extremely concerned" about the implications of raising provincial taxes on the people and economy of the province.

The province had to be careful not to place further strain on middle-income earners who already bore the brunt of the country's tax burden, he said.

"In fact, we need to look seriously at tax relief for the poor- and middle-income earners instead of raising further taxes."

The province's solution lay in expanding the tax base.

"We need to move away from relying too much on individual income tax. It is time that companies contribute more to the fiscus, not by increasing the tax rate, but by encouraging and promoting the creation of small business."

The present pool of small businesses contributing to revenue was too small.

Mr Nissen said if provinces were allowed to raise revenues independently, the ANC recommended a set national-provincial tax rate to prevent migration of businesses and individuals to provinces with lower taxes.

"The challenge we face now is how to find suitable, developmental-oriented options that will generate the required revenues and not exacerbate the present tax position of individuals and companies," said Mr Nissen.

Western Cape leader of the Democratic Party Hennie Bester said ducking taxes was already a national sport and "it may become compulsory".

Mr Bester said the DP believed the provinces should be able to raise taxes: "If you call this a government, you must treat it like a government - that includes giving it taxing powers.

"The essence of having three levels of government is that each is responsible and accountable to its own tax-paying electorate and not to another level of government.

"For provinces to exercise their government prerogative, national government will have to vacate some percentage points on personal income tax."

The taxes should not only be "fair", but perceived to be fair.

"It will then be up to the provinces to show their metal," said Mr Bester.

TAXMAN'S HOUSE OF HORRORS

(320) FM 1/3/96

We knew things were bad at Inland Revenue — hence the ambitious plan to overhaul tax collection by establishing an independent revenue-collecting agency, the SA Revenue Service.

Just how catastrophic has now been revealed by the performance audit of the office of the Auditor-General, between July 1994 and June 1995. Even a summary of it makes horrifying reading.

In Johannesburg, at the end of that period, nearly 37% of the total Vat debits of R1,3bn were outstanding, but only 19 cases had been handed over to the State Attorney's office.

The failure, nationwide, to charge interest on unpaid interest (of R1,7bn on March 31 1994), would have cost R257m if this situation were to run for a full year. At that point, outstanding credits for Vat were about R1,2bn, but the information was not disclosed in the revenue department's annual statements.

Management of the department was unsystematic and unco-ordinated and taxes were ineffectively collected. Legal steps to recover outstanding taxes were not always taken in good time. Even the disclosure in the department's income statements, of outstanding tax debits and credits, was deficient.

Behind these problems lies a serious shortage of computer terminals at various divisions.

There was unequal distribution of work between offices. The approved establishment for certain sections was exceeded by as much as 336% by some, while others were overloaded. Thus, the number of cases to be handled, per official in the Employees' Tax Registration section at Johannesburg, exceeded the proposed norm of 1 400 a person by 75%. The necessary number of inspections of employers for Paye could not be made.

There was a failure to co-ordinate between Receiver's offices and the State Attorney, so record-keeping was inadequate and the number of uncompleted cases for tax collection has been increasing annually.

There were grave weaknesses in procedures for checking on Vat collection. And the writing-off procedures for irrecoverable Paye were also deficient. In some cases, the write-off of Paye took place only five years after the liquidation of the employer.

The same applied to tracing procedures for taxpayers who had left recorded addresses and cases where taxpayers had not met their undertaking to pay tax in instalments.

There were even cases where a scale of instalments was conceded to taxpayers which was not enough to cover the interest on the outstanding capital amounts. Nor was interest charged on the outstanding interest.

Incredibly, there are still significant amounts of general sales tax outstanding, dating back to 1991.

Calculations relating to Paye, which represented almost two-thirds of total income tax for the year 1993-1994, were still being done manually, though there were computer programs in place for calculating penalties for late Paye payments.

And there was no proper system for following up outstanding Paye. Some amounts were left unreconciled for 13 years and had to be written off. The arrangements to ensure the collection of outstanding taxes by emigrants were inadequate.



Extensions for the submission of returns were granted, even though the taxpayer's returns for previous years were still outstanding.

In contrast, legal steps for the collection of outstanding tax were taken, sometimes only 12 months after the assessment date.

Equally serious, the number of officials for the collection of income tax from companies had remained unchanged since 1986, though the number of cases had increased by as much as 80% in Johannesburg, Cape Town and Durban.

KATZ COMMISSION CONFERENCE

TIME FOR RADICAL RETHINK?

Controversial UK tax reformer James Robertson joins a powerful panel of speakers at next month's Katz Commission Conference, organised by the *FM*.

Roberston, who strongly opposes taxing pensions because he believes it suggests that spending and consuming might be more profitable than saving, stands for a radical revision of the international tax system. He has written several books on the subject.

Hear Sanlam's Desmond Smith and Fedsure's Arnold Basserabie debate the taxing of pensions with commission chairman Michael Katz and fellow commissioner Pierre du Toit at our conference at Johannesburg's Carlton Hotel on March 6.

Also on the podium will be Anthony Asher, from Wits University's department of actuarial science, Ravi Naidoo of Naledi, Rob Davies of the ANC and Maurice Harding of the Institute of Retirement Funds.

To reserve your seat, please telephone Lisa-Jayne Campbell on (011) 784-3810 or by fax (011) 784-3814.

VAT a tax which 'can be raised substantially'

(320) BD 12/3/96

Business Day Reporters

VAT is the only source of tax that government can raise substantially, the SA Foundation says.

The VAT rate could be raised by a "couple of percent", but this would be politically unpopular.

The tax take in SA was high by world standards and should be cut 0,5 percentage points a year to help SA compete with other developing economies.

It said inefficient tax collection was one of the key blights of SA's tax system. It said the cost of revamping the tax system would probably be far exceeded by increases in tax revenues.

The foundation said SA's tax take stood at about 28% of GDP — a 4% jump from the mid-'80s, which made SA one of the world's most taxed countries. It was behind only Zimbabwe and Portugal, which were in "even more disastrous fiscal situations".

The foundation said corporate taxes should be wound down to be in line with international trends and it recommended that STC be scrapped soon.

It also advised that tax incentives for investment be seriously considered, but cautioned that more research on the issue was needed.

"The writing is on the wall. The government deficit is currently excessive, but one condition for economic growth is that the tax rates be eased — which would put yet more pressure on the budget deficit. So spending will have to be doubly curbed."

The foundation said that without an improvement in the efficiency of the public service, tax collections might fall further. This would rob government of revenue, undermining its credibility in managing the economy and forcing it to overtax those companies and individuals that did not escape the net.

"The danger is that a destructive cycle of ever rising taxes could lead to ever lower collections and more elaborate means of avoidance."

The main problem at the collection stage was the public service's inability to attract adequately trained and qualified staff. In response, government had moved to partly privatise the departments concerned. However, such proposals did not confront the question of how to make the entire public service more effective.

PETROL LEVY

FUELLING STATE POWER WITH PRIVATE-SECTOR EFFICIENCY

FM 1/3/96 (320)

Debate over actuarial insolvency

Industrial countries generally recognise the need to provide compensation for individuals injured in road accidents. The SA mechanism for providing protection has gone through many changes over the years but has never proved effective.

The original system was run by the short-term insurers applying the common law. The obligation to take out cover was later made compulsory, though the obligation was often flouted. Several insurance company failures, which left motorists uncovered, brought about a change to a semi-State system which still operates under the style of the Multilateral Motor Vehicle Accidents Fund, financed by a dedicated levy on fuel.

But the fund also malfunctioned; so the Melamet Commission advanced comprehensive proposals for reform in 1992. These, says fund CE Willem Swanepoel, have now been implemented.

The latest crisis has resulted from a sharp rise in the amount of claims since 1988 (see charts). Swanepoel says the fund is actuarially insolvent, taking into account provision for outstanding claims, and the levies, now 9c/l on petrol and 5,8c/l on diesel, should be raised.

The need to place the fund on a full actuarial basis, as though it were a private-sector insurer, has been sharply challenged by the AA, which contends that a public corporation with an assured source of revenue, backed by the State's taxing powers, can prudently operate on a pay-as-you-go cash basis.

AA public affairs GM Robin Scholtz calculates the average "insurance" premium paid at the petrol pump by motorists as already R350 a year — a calculation based on the 9c/l levy and the use of a medium-sized car travelling 30 000 km a year. This is 20 times what motorists paid 10 years ago under a State-determined premium structure.

Now, the Department of Transport, according to director-general Ketso Gordhan, plans to publish a discussion document setting out its plans for more reforms. The most important proposal would cap the compensation for actual or future loss of income — to a maximum of R4 000 a month.

This ceiling would cover the 76% of all South Africans who earn less than this amount. The 24% who earn more would have to take out their own accident insurance to meet the shortfall in the case of an accident causing loss of earnings.

Other important legal changes would bar so-called general damages for pain and suffering. But the present requirement for apportionment of damages — where the person injured is also at fault — would be changed to one of full no-fault compensation without regard to negligence. There could also be benefits for nonfee-paying passengers, whose claims are now limited to R25 000. An injured party would presumably still have recourse to common law to sue a motorist who injured him. And, naturally, he could take out accident insurance to protect himself and his family against road injuries.

Swanepoel also argues that tourists should be subject to the same requirements as residents but should get benefits in rand and be treated in SA.

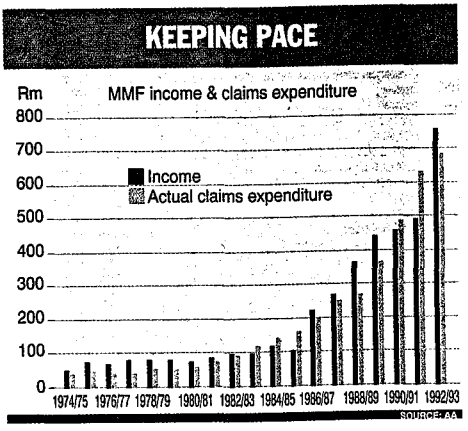
The debate could take a year or longer. Gordhan hopes the proposals could cut expenditure by 20%-25% and — coupled with a gradual increase in the levies — eliminate the actuarial deficit within eight or 10 years.

Should these proposals be supported? UCT economist Brian Kantor says SA should revert to a private-sector arrangement, even though the problem of uninsured motorists and hit-and-run drivers would still require special plans. But the profit motive would be reintroduced to ensure that claims were processed effectively and excessive or even fraudulent claims blocked.

Accident claims historically attract the attention of ambulance chasers and other exploiters of the woes of the injured. The only defence is the commercial interest of a private-sector insurer familiar with the techniques involved and prepared to resist them.

But there is widespread feeling that so-called third party insurance is anomalous and not suitable for private-sector treatment alone. Swanepoel argues that, in insurance, there is a voluntary contract between the insured and the underwriter, whereas a road user signs no proposal and receives no policy from the fund. A true insurer can reject a proposal for insurance.

The fund or private insurers under a new system must underwrite accidents caused by any road user, however costly the claims experience. SA's accident rate is about 10 times Europe's and worsening. The sharp increase in costs started after the former TBVC countries were al-



Provinces 'will be able to impose own fuel levies'

BD 4/3/96 (320)

Greta Steyn

PROVINCES would be free to impose a fuel levy in terms of the latest draft of the final constitution, Financial and Fiscal Commission chairman Antony Melck said yesterday.

"The fuel levy does not present the same problems as some other taxes as it is relatively easy to administer, and there is no reason to exclude it."

Provinces should take it slowly when they started collecting their own revenue. They should kick off with a surcharge on personal income tax — hopefully in the 1997/98 fiscal year. They should also arrange with the inland revenue department to do all the collections for them, he said.

The wording of the constitution's draft chapter on finance took account of the commission's views that some taxes should be excluded, such as corporate tax and VAT, because of the administrative difficulties at provincial level. The draft constitution was amended to allow provinces to charge a flat rate surcharge on personal income tax and a fuel levy.

Melck believed there should not be big disparities between tax rates charged by the different provinces and the same would apply to the fuel levy.

Provinces would not be able to begin levying their own taxes before national legislation was in place to allow that.

The commission has fought for the regional governments' right to raise their own income, arguing that it would make them more accountable. than in the present circumstances where they are only spending agencies of central government.

Melck said the commission would this year finalise a revised formula to determine central government's allocations to the provinces. Melck said the commission had not yet finalised its view on the phase-in period for the formula, but his own view was that a longer period than the original five years suggested might be necessary.

Backlash over levy on assets

Retirement fund income targeted for tax

BD 6/3/96

Greta Steyn

THE backlash over plans to tax the retirement industry's assets had prompted government to try to find ways to tax the industry's income instead, industry sources said yesterday.

Government had initially decided to charge a levy of up to 1% on the industry's R500bn in assets because a tax on income would cause too many administrative headaches to be implemented in the 1996/97 fiscal year. However, after an outcry government had discussed ways around the administrative problems with the industry, the sources said. Government had not given up on the idea of raising R3bn-R3,5bn from the industry.

Administrative problems in taxing income would be overcome by using the same base used for regional service council levies (now paid to metropolitan councils). The tax would be paid on pension funds' income flow, including dividends and realised capital gains.

Sources said a move to tax income would not be unlike the Katz proposal to tax pension funds' trading income, although it would also include dividend income. The Katz proposal excluded dividends as these were not taxed in the hands of individuals, but included interest income.

One source said Finance Minister Chris Liebenberg hoped to present the tax as the first step of a phased introduction of the Katz proposals. It would be politically less sensitive than an asset tax, which carried "ominous left-wing overtones. But it is the same thing in disguise." The move would make a mockery of the reasoning behind the Katz proposals as it was obviously aimed at plugging a fiscal hole, not at holistic reform of the tax system.

It was not clear at what rate the levy was likely to be implemented, but government hoped to raise R3bn-R3,5bn from it.

Business believed government did not want to take on the unions over raising VAT and had opted for an ad hoc approach to the pensions industry instead. However, the unions have also not yet given their support for a tax on pension funds' income. Government and labour were to meet last night to discuss the Budget.

Business unanimously rejected the proposed asset tax as the thin edge of the wedge for wealth taxes. In a strongly worded statement, business told the National Economic, Development and Labour Council that the tax would be nothing short of confiscation. No credible economic theory supported a tax on assets rather than on income.

Retirement industry sources said yesterday the outcry had made government find an approach which would be more acceptable.

Katz plan 'will hit RDP'

(320) BD 6/3/96

Samantha Sharpe

CAPE TOWN — The Katz commission's call for a tax on pension fund rental, interest and other trading income could put severe pressure on RDP funding, Metropolitan Life chairman Nthato Motlana said yesterday at Metropolitan's annual meeting.

Motlana said the recommendations would lead to an increase in the cost of government borrowing by raising the investment return required by investors on government stock.

This in turn would have a negative effect on the financing of the RDP.

Motlana said the commission's recommendations were likely also to prompt a large number of low income earners to opt out of personal retirement provision, increasing the burden on the state.

"To penalise those who pay their taxes and make provision for themselves does not make sense," Motlana said.

The commission's proposals would further harm those wishing to make housing loans against the withdrawal benefits in their retirement fund, he said, a facility made available for people who previously were unable to obtain housing loans from financial institutions.

The life group posted a 22% rise in earnings to 156c a share in the year to September on a 32% rise in total income to R2,2bn.

The government should launch a widespread campaign of tax education

CT(BE) 8/3/96 (320)

TAXING QUESTIONS



Information is becoming as important to the man in the street as actual tax policy

BY MATSHERU MATSHERU

Our leaders must change their fiscal habit of introducing new taxes and rates during the Budget, but ignoring the education of taxpayers.

The spirit of tax education has overtaken the people on the ground as they display unprecedented hunger for knowledge. People resent paying tax to the greedy tax gatherer without understanding why they are taxed.

A far-sighted government will forestall this by embarking on a post-Budget tax information programme that cuts across all sectors of society.

This will give the tax system much-needed credibility and make taxpayers part of the checks and balances that keep tabs on the various tax systems and thereby help to ensure reasonable efficiency.

Innovation and creativity should also be part of good government. This means that a sensible government should seek ways to make tax information accessible to all people.

I think every public library should carry a complete set of tax forms and instructions so that people can help themselves without having to go to the traditional tax offices except for tax queries, submissions, advice or payments.

This is critical because our tax offices are situated in cities that are far from townships and other suburbs where there are often libraries.

For how long must the electorate live in a sea of tax ignorance and how long is it supposed to take us to reach fiscal development?

People want to know whether the taxes they pay are invested wisely by the state.

One wise way of using taxpayers money will be to introduce tax education at school level. Children should learn to identify with the tax system from an early age. This will enable them to accept tax as part of their civic responsibility.

People resent paying tax without understanding why they are being taxed

This will also prepare students to be future tax lawyers, tax consultants, tax administrators. Above all they will hopefully become tax obedient.

Transformation of education does not only mean giving everyone the opportunity to learn, but it also means giving them the opportunity to learn contemporary skills.

Children should be exposed to the free-market system, because the free-market system is the driving force in a modern economy.

In Venda we would say: "Tuwa tuwa i tuwa kale, mulisa wa kholomo u bva nadzo dangani." This can be translated to mean that (good) behaviour must be nurtured at an early stage.

My suggestion may be in bad taste to some people. But facts are stubborn, they cannot be silenced like a person.

In parting, I want to remind the government to analyse the reality on the ground. Authority without vision is useless. ☐ *Matsheru Matsheru is an independent tax consultant*

(320)

New tax regime will scare investors – BSA

Sowetan 8/3/96

By Mzimkhulu Malunga

TAXATION of retirement funds will send wrong signals to potential investors, warns Business South Africa.

BSA said the proposed move to tax pension and provident funds was contrary to the Government's declared commitment to "an efficient, equitable and internationally competitive tax structure" for this country.

The organisation said South Africa needed a holistic approach to the issue of tax reform rather than introducing "ad hoc" changes.

"It is therefore ironic that the targeting of retirement funds should lead to exactly the kind of changes which Government has sought to avoid," said BSA.

Moreover, said the organisation, the proposed levy was perceived as being an alternative to the widely recognised need for a 1% increase in VAT to make a greater contribution to overall tax collection so that individual and company tax rates could be reduced.

An increase in VAT would have no impact on South Africa's global competitiveness and the immediate regressive effects of such an increase would be more than offset by increased Government spending on poverty alleviation, argued BSA.

"Yet Government, apparently fearful of confronting the trade unions on this issue, is seeking to avoid doing what is necessary and economically desirable," said BSA.

BSA said taxing retirement funds would become an additional tax burden on business, equivalent to raising company tax rate from 35% to 40%. The organisation favours an indirect form of taxation like VAT rather than direct taxation like income tax.

State got 36% of fuel price

THE state received R6,673,992,199 from the sale of petrol last year and R3,168,378,835 from the sale of diesel, Mineral and Energy Affairs Minister Pik Botha said.

This was 36,36 percent of petrol's retail price, and 32,28 percent of diesel's, he said in a written reply to a question from Kobus Jordaan (DP). — The money came from tax and excise duty. — Sapa ARG 9/3/96

Companies pay almost R12-bn in tax

(320)

South African companies paid R11,961-billion in tax in the 1994-95 financial year, while individual tax amounted to R44,973-billion, Finance Minister Chris Liebenberg said yesterday. Most company tax was collected in Gauteng – about R7,884-billion or 65,9% of the national total, Liebenberg said in a written reply to questions from Ken Andrews (DP). The Western Cape was the next biggest contributor, with R2,676-billion (22,4%) followed by KwaZulu Natal with nearly R824-million (6,9%), and the Eastern Cape with R300-million (2,5%). Less than R114-million, or 1%, of total company taxes came from the remaining provinces. Distribution would not be strictly according to provincial boundaries, as companies paid taxes where their head offices were.

Katz tax hits low earners

(320)
Star 9/3/96

Help urged for worst affected

BRUCE CAMERON

GOVERNMENT will have to move quickly to prop up pensions for low income groups if it goes ahead with its plans in next week's budget to take more than R3 billion out of retirement funds.

The warning came from Reg Munro, secretary to the Smith committee of inquiry on retirement funding, following confirmation that low income groups could, over the long term, take the brunt of the Katz Commission recommendations for the taxation of income on retirement funds.

Munro, who is an Old Mutual general manager, told Personal Finance this week that calculations undertaken by Old Mutual showed that low-income taxpayers could become unwilling retirement fund participants if the Katz recommendations are accepted by government.

HOW THE KATZ RETIREMENT PROPOSALS AFFECT YOU PAGE 15

The Katz proposal is aimed at taxing the interest and rent income earned by pension funds. Until now only the benefits paid to pensioners have been taxable.

Everyone is hit by the proposed new tax, but lower income groups and high income groups will be particularly affected.

Munro said it was imperative that pension incentives recommended by the Smith committee be introduced soon to counter any negative effects of a new tax on retirement funding.

The Old Mutual calculations show that people earning less than R30 000 a year could improve their after-tax retirement benefits by staying outside a fund.

The Old Mutual calculations have shown that on a suggested 30 percent tax rate on the income (interest and rent) of retirement funds, anyone earning less than R40 000 a year (70 percent of taxpayers), who intends to take their retirement benefits as a lump sum would receive no tax incentive to provide for a pension through a retirement fund.

And for anyone earning less than R30 000 (56 percent of taxpayers), who wants their retirement benefits as a monthly pension, would get no tax incentive in building up their retirement capital .

In both cases this applies after 35 years of working.

Munro said :"No regime that taxes the build up of retirement funds leaves incentives for lower earners to belong to retirement funds."

This was why the Smith committee had recommended the "pension enhancement" idea, where people with a pension of less than R1 000 a month would be given incentives by the state.

If government proceeded with Katz, without soon implementing the Smith pension enhancements it would create "an unsustainable situation.

"This is especially so if the cost of old-age assistance is to be successfully managed by encouraging personal provision by low-income individuals."

Munro said even a 15 percent tax rate may be seen to be too high for fund members.

"Provided that the Smith proposals for pension enhancements to low-level pensions is accepted, a tax of about 15 percent on the income of retirement funds should not impact too much on the industry's ability to persuade people to provide for their old age.

"Once the rate exceeds 10 percent I suspect that this ability begins to be compromised,"Munro said.

❒ This week a number of top level meetings were held by government, the retirement industry and the trade union movement.

It is now virtually certain that the intended stop-gap measure of placing a interim one percent "wealth tax" on retirement funds is to be dropped but an interim tax on retirement fund income will be imposed.

Government dithers over new taxes as Budget nears

(320)

ST(BT) 10/3/96

By SVEN LUNSCHE

WITH four days to the Budget, the government is still hedging its bets on how to raise over R3-billion in new taxes in order to provide some tax relief to individuals and companies.

Extensive consultations with both business and trade unions have come to naught, according to sources close to the talks. While the government has given no guarantees to either party, it is very keen to establish consensus with its partners in Nedlac.

Until earlier this month the government favoured a hike in VAT from 14% to 15%, but relented after the trade unions warned of mass action. "Sam Shilowa (Cosatu's general secretary) was given the option of a hike in VAT or taxing retirement income. He opted for the latter," says a source close to the talks.

Finance Minister Chris Liebenberg's path of least resistance is likely to be a levy on the investment income of pension and provident funds, including dividends and realised capital gains.

The proposal will raise just over R3-billion a year, slightly less than the recommendation by the Katz Commission to tax investment income, excluding dividends, at 30%. Higher excise duties and an increase in the estate duty could add a further R300-million to R400-million to revenue in the 1996/97 fiscal year.

The proposed income levy is easy to administer as it would simply be a multiple on the current Regional Services Council levies paid by the industry. It could also be disguised as the first step in implementing the Katz proposals.

The life insurance industry views the levy as an ad-hoc decision. The Life Offices Association's Jurie Wessels says the industry could not support it: "We are in principle opposed to ad-hoc policy measures which lead to undisciplined budgets."

Industry executives were also annoyed when members of both the Katz and Smith commissions were asked to leave a government Budget briefing this week after Cosatu objected to their presence.

"It appears that the unions are setting fiscal policy," one executive said.

Mr Liebenberg needs the additional revenue to bring down the deficit before borrowing and make some tax concessions. These include lifting the threshold at which personal tax becomes effective at a cost of about R500-million and reducing the Secondary Tax on Companies from 25% to 15% at a loss of revenue of about R400-million, says Louis Geldenhuys, an economist at SMK Securities.

On average, economists expect expenditure in 1996/97 to rise by 8,2% from R157,4-billion in the current year to R170,3-billion. Revenue is forecast at R141,9-billion, an 11,5% increase on this year's R127,3-billion.

The resulting deficit of R28,4-billion is the equivalent of 5,2% of gross domestic product (6% in 1995/6) on the assumption that the economy will grow by 3,5%. If achieved, it will be a step towards the 4,5% deficit target set by Mr Liebenberg for fiscal 1998/99.

All but R2-billion of the deficit is likely to be financed on local capital markets.

BUDGET

	95/96	96/97 Forecast
	R-bn	R-bn
Expenditure	157,4	170,3
Income	127,3	141,9
Deficit	30,1	28,4
Deficit as % of GDP	6,0%	5,2%

Graphic: FIONA KRISCH

ANC rejects report on the economy

Sowetan 11/3/96

Business South Africa slams the Govt's plans to tax retirement funds

RECENT BUSINESS PROPOSALS on economic reform threatened the country's progress, the African National Congress national executive committee said at the weekend.

The party was reacting to an SA Foundation document advocating dramatic reforms to push economic growth above five percent – the level required to cut unemployment.

The ANC said a suggestion to substantially increase VAT while reducing direct taxes and "slashing the deficit" would lead to major social dislocation.

"While there is clearly a need to avoid a debt trap, the proposal to slash the deficit to two percent or less seems to be based on blind ideology rather than seriously seeking to contribute meaningfully to the challenges of development we face as a country."

The foundation's argument for a flexible two-tiered labour market was ridiculous, the ANC said.

People employed under such conditions would not have basic human rights. This was an affront to democracy and a fundamental departure from any principles of justice.

The proposed privatisation programme also contradicted current restructuring plans, it added.

Two weeks ago big business called for massive privatisation of state assets, a reduction in company tax, slashing of Government's spending and a move towards more indirect taxation like VAT rather than income tax.

A week later Business South Africa, once again criticised Government plans to tax retirement funds in order to raise an estimated R5 billion. – *Sapa.*

Plan for a tax to benefit youth

THE National Youth Commission could be funded by a special tax, a parliamentary committee on the Youth Commission Bill heard at the start of its two-day hearing in Cape Town today.

This would ensure a sustainable income for the commission, said Shawn Johnston, director of the Future Links South Africa education trust.

The revenue could be generated by a tax on the tobacco and liquor industries, on all foreign companies trading in the country, or on all foreign nationals living in South Africa.

Other possibilities included a tax on all government ministers and parliamentarians, an annual corporate youth tax on South African companies, and cutting the defence force budget and allotting the money to the commission instead, he said. The commission is expected to design a national youth policy framework. — Sapa.

The less you earn, the more you pay

320

THE ECONOMY

Any relief that middle-income earners may derive from the Budget's intentions to adjust the tax table to take fiscal drag into account is more apparent than real, write IRAJ ABEDIAN and MICHAEL BIGGS.

TAXPAYERS IN SOUTH AFRICA

Income bracket	% of taxpayers
Less than R20 000	9,6%
R20 001 to R50 000	64,6%
More than R50 000	25,8%

Graphic: FIONA KRISCH Source: IDASA

MOVEMENTS IN AVERAGE TAX RATES

1995/96			1996/97		
Taxable income	Tax (Rand)	Average tax rate	Taxable income	Tax (Rand)	Average tax rate
20 000	1 075	5,4%	21 500	1 155	5,4%
40 000	6 275	15,7%	43 000	7 170	16,7%
60 000	14 775	24,6%	64 500	16 075	24,9%
80 000	23 475	29,3%	86 000	25 380	29,5%
100 000	32 475	32,5%	107 500	34 915	32,5%
200 000	77 475	38,7%	215 000	83 290	38,7%

Graphic: FIONA KRISCH Source: IDASA

CONTRARY to the government's claims, the new Budget offers no relief for most payers of income tax. Changes in the tax structure hurt the lower middle-income earner and are particularly severe on those earning between R30 000 and R50 000 taxable income a year. As shown in the left-hand table, most income earners are in these brackets.

Claims made by the government of a reduced overall income burden are generally based on calculations for various hypothetical individuals, keeping their nominal incomes constant.

For example, the tax burden of an individual earning R20 000 in 1996 is compared with the tax burden of an individual earning R20 000 in 1997. This is incorrect and misleading. While equal in nominal terms, in an inflationary environment their real incomes are not.

Meaningful comparisons of the tax burden from one year to the next must be made considering individuals with equal real incomes. If inflation is 7,5%, then the tax burden on R20 000 in 1996 should be compared with R21 500 in 1997. Any change in the average tax rate from 1996 to 1997 shows the true change in the tax burden brought about by the new tax structure.

Furthermore, taxes for 1996 were calculated without taking into account the transitional levy and its removal should not be seen as an easing of the income tax burden.

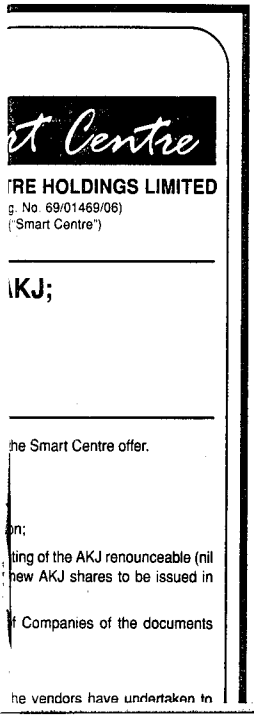
For taxpayers at every level of income, with the exception of those earning R20 000 in 1996, the average tax rate has increased. In particular, those earning R40 000 in 1996 face an increase of one percentage point, from 15,7% to 16,7%. Those earning between R30 000 and R50 000 also face steep increases in the average tax rate, but for those earning over R60 000, the increase is minimal.

In terms of the relative changes in the tax burden at each income level, the hardest hit are those earning an annual taxable income of R40 000. More generally, the bracket adjustments favour the bottom 9,6% of wage earners, and leave the top 25,8% unaffected. Most of the burden, however, falls squarely on those earning between R20 000 and R50 000. This is a recipe for gradual impoverishment of the bulk of lower middle income groups and has a serious impact on savings.

Despite the rhetoric and barrage of misleading calculations, it is clear that the personal income tax burden has not been eased. While it has remained constant for many income groups, those earning between R30 000 and R50 000 will be worse off under the new tax structure.

Such changes reduce the progressivity of the tax structure, call into question its equity and mitigate against its use as an efficient tool for redistribution.

This is an edited extract of an article which appeared in Idasa's Budget Watch.



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Strike likely, warns union

(320)

Renee Grawitzky

BD 12/3/96

THE new municipal union, the Independent Municipal and Allied Trade Unions, launched last week, warned Finance Minister Chris Liebenberg and other ministers yesterday of impending industrial action if pension funds were taxed.

Spokesman Jan Bezuidenhout said yesterday that the union's launching congress had resolved to oppose a move by government to tax municipal pension funds in the 1996/7 Budget. If it did embark on this route, it could lead to industrial action.

The Federation of Labour Unions-aligned union was formed out of a merger of five unions and claims a membership of 80 000, making it the second largest municipal union after Cosatu-aligned SA Municipal Workers' Union — which claims a membership of about 100 000.

This union, now Fedsal's largest affiliate, has brought in an additional 15 000 members to the federation, increasing its membership to 230 000.

Gambling tax should generate R150m

(320)

Linda Ensor

BD 14/3/96

CAPE TOWN — Gambling operations in the former TBVC states would be subject to the standard rate of VAT as from October 1, Finance Minister Chris Liebenberg said yesterday.

Liebenberg said he expected the tax to generate an additional R150m in revenue. He said an implementation date of October 1 would give provincial authorities time to make adjustments.

Government had accepted the Katz commission's recommendations on taxation of gambling, namely that present income tax rules should apply to all gambling other than the envisaged national lottery; that the present policy of imposing VAT on gambling, excluding the lottery, be continued; and provinces could also impose betting or other taxes for their own accounts.

Amanda Vermeulen reports Kessel Feinstein Consulting CE Delano Caras said aspirant casino players would be in an uncertain position as they could not finalise plans until they knew the extent of the tax burden.

Call to bring informal sector into tax net

CT (BR) 14/3/96 (320)

By Françoise Botha

Cape Town — Existing taxpayers will ultimately pay more tax unless the Katz commission draws the informal sector into the tax net, Michael Smythe, the director and tax specialist of Southern Charter Financial Services, told Business Report yesterday.

"While the Katz commission is doing a commendable job addressing some of the important issues, it is failing to get those who generate income from the informal sector to pay tax," he said.

The majority of informal traders do not pay tax, which means that even at the minimum rate, which applies to an annual income of R50 000, their incomes are boosted by 17 percent compared with those who do pay tax.

"The Katz commission advocates a just and equitable tax system. If anything, it will further promote the culture of non-payment. Taxpayers, particularly among the middle-income group, were aware that they would to have to bear most of the burden of redeveloping the country.

"The money is not going to come from the informal sector. So, it stands to reason that the middle-income taxpayer is going to do everything to avoid paying tax. That is not an efficient tax system," he said.

The informal sector has provided jobs for thousands of people with some hawkers earning more than R5 000 a month.

Questioning the Katz commission's recommendation that the number of tax inspectors should be increased to widen the net, Smythe said that this was not viable.

'Commissioner should be considering other options, such as a flat tax rate'

"How can a tax inspector assess the earnings of an informal cash for service or goods industry?" he asked.

Smythe said the system was not encouraging foreign investment or promoting the growth of the informal sector.

"A revised version of the current tax system will not adequately address the concerns raised by business and foreign investors. The Katz commission should be looking at other tax options, such as a flat-rate or end-user tax options so that everyone has to contribute to the economy," he said.

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(320) BD 14/3/96

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Government signals more provincial fiscal autonomy

BD 14/3/96

(320)

Tim Cohen and Drew Forrest

CAPE TOWN — Government signalled yesterday that a more federal system of financial management would kick in this year.

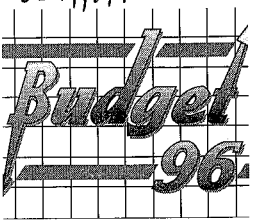
In his Budget speech, Finance Minister Chris Liebenberg insisted that the greater autonomy of the provinces would entail greater managerial responsibility. "We must take leave of the notion that sub-national governments can rely on the national government to stand in for poor financial management and budgeting," he said.

The current Budget was the last in which "function committees" organised by the State Expenditure department set provincial allocations in areas such as health, education and welfare.

Global allocations in the 1997/8 budget would be determined according to a formula aimed at reallocating resources among the provinces, which would set their own spending priorities within broad national parameters.

In the absence of legislation for the financing of provinces, it is not possible to determine accurately from yesterday's Budget the total expenditure on a range of government functions, including health and education.

However, government did provide figures for overall allocations to the provinces for the 1996/7 financial year, which totalled R75,2bn, an increase of R2,727bn (3,8%) over last year's revised figure. The breakdown by "function" will be finalised by provincial legislatures and reflected in the forthcoming provincial budgets.



The provincial allocation is 43,4% of total estimated expenditure and 54,1% of projected non-interest expenditure. The modest increase over last year's figure compares with a 9,2% rise in overall government expenditure, but significantly excludes public service salary adjustments. These will boost the province's allocations substantially.

The provincial allocations were not based on the formula recommended to Parliament in September last year by the Financial and Fiscal Commission (FFC).

The FFC suggested that national government's portion should remain static in real terms and that allocations to the provinces increase by 3,78% in real terms in the 1996 fiscal year.

Mpumalanga and the Eastern Cape registered the largest increases over last year and the only increases in real terms, with the former receiving R4,6bn (a rise of 11,3%) and the latter R13,9bn (a rise of 9,4%). The worst endowed province was the Western Cape, whose allocation rose 0,2% from R8,36bn to R8,37bn — a real decline of more than 7%.

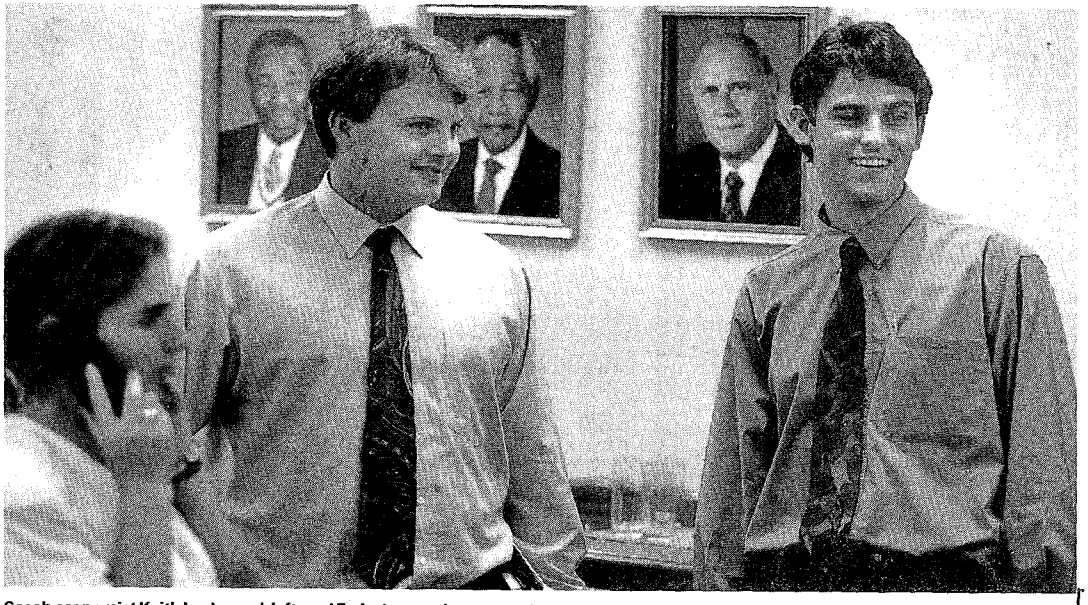
Other allocations were: Gauteng R11,1bn (compared to the revised 1995/6 figure of R10,7bn, a 4,2% increase), Northwest R6,45bn (R5,99bn; a 7,6% increase), KwaZulu-Natal R14,56bn (R14,04bn last year, a 3,7% increase), Free State R5,19bn (R4,94bn; a 5,06% increase), Northern Province R9,32bn (R9,04bn; a 3,17% increase) and Northern Cape R1,76bn (R1,67bn last year, a 5,8% rise).

The increases suggested by government loosely approximate the allocations calculated according to the FFC's formula, except that the latter proposes smaller real increases this year only for the Western and Northern Cape.

The Eastern Cape, the poorest of the regions, received the largest portion of the overall increase. Its percentage share rose from 17,5% of the total to 18,4%.

The Western Cape government, caught in the double bind of the tightest budget squeeze because of its formerly privileged position and its contractual obligations to teachers and others, warned that its allocation would mean staff cuts in education and health services.

The FFC recommended a five-year phasing-in period for its allocation regime.



Sacob economist Keith Lockwood, left, and Fedsal general secretary Dannhauser van der Merwe at the SA Communications Service offices in central Johannesburg, where a detailed preview of the Budget was given yesterday ahead of the 2pm embargo. Picture: ROBERT BOTHA

Govt looks at tax incentives

CAPE TOWN — Finance Minister Chris Liebenberg said yesterday the government was investigating the possible introduction of well-targeted tax incentives.

"Although the general pattern of the last few years has been to limit the number of tax incentives, the finance and trade and industry departments are investigating the flexibility of well-targeted tax incentives," he said in his Budget speech.

Various tax restructuring measures had been taken in the past two years and more would be considered to add impetus, he said.

Government's task was to effect strategic restructuring actions, increase investment and introduce more focused strategies to improve competitiveness.

Liebenberg gave no details of what measures were being considered on incentives. — Reuter.

New revenue system should raise R1,5bn

Linda Ensor and Wyndham Hartley

(320)
BD 14/3/96

CAPE TOWN — Government aims to raise an extra R1,5bn in taxes this year with the creation of the new SA Revenue Services.

Finance Minister Chris Liebenberg said the additional cash would come in through improved collection and chasing arrears. "Collection of this amount represents the first challenge to the SARS — one they accept enthusiastically".

The R1,5bn comprised R550m in personal income tax, R500m in tax from non-mining companies, R150m in interest on overdue income tax and R300m owed for value-added tax. The higher collections would contribute to an increase in tax revenue as a percentage of GDP to 25,1% (24,6%).

The dire state of SA's tax collection system has long been a major drag on government revenue, prompting government to merge the Inland Revenue and Customs & Excise departments as the SA Revenue Service.

Inland Revenue's budget has been lifted almost 40% to R956m, mainly to help create the new operation with more staff, computers and technology.

Government also proposed a string of measures to clamp down on tax dodgers. These included amending the abnormality test along the lines proposed by the Katz commission.

The Budget review said Katz had identified problems with the "abnormality test" and the fact that there was no disadvantage for taxpayers who entered into an anti-avoidance scheme, even if successfully challenged by the Commissioner of Inland Revenue.

The taxpayer enjoyed the advantage of not having to pay the tax until the correct assessment had been issued. These periods could be greatly extended owing to the non-disclosure of facts.

"The present provisions for imposition of interest can easily be circumvented," it said.

Samantha Sharpe reports that Deloitte and Touche Tax said the move to a more efficient revenue collection service was crucial to cutting individual tax rates, with ad hoc taxes likely to continue until the new revenue service was running efficiently.

"It's absolutely essential that government maintains the political will to force through whatever legislative changes are needed to make the new revenue service effective," tax partner Brian Bayne warned.

Secondary tax on companies halved

BD 14/3/96 (320)

Linda Ensor

CAPE TOWN — Secondary tax on companies (STC) will be reduced to 12,5% from 25% for all dividends declared after March 13, while marketable securities tax (MST) and stamp duty on the sale of shares are to be cut to 0,5% from 1% from April 1.

Finance Minister Chris Liebenberg said tax rates for gold mines, all of which chose to be outside the dual tax system after STC was introduced, would be amended. The tax rate on non-mining income would fall to 42% from 48% and a new tax rate formula would be introduced from April 1.

A final 40% tax on the SA-sourced profits of branches of foreign companies and the abolition of STC on their dividends was proposed to achieve tax equality with their SA competitors and with the SA-incorporated subsidiaries of foreign companies.

The measure would apply to financial years ending on or after April 1 this year.

A 40% rate was a bit lower than a combined corporate tax rate of 35% and a 12,5% STC rate on dividends, but the Budget review said this would give some relief for the cash flow disadvantages suffered by foreign companies which had to pay tax before distribution of the SA branch profits.

In a separate move which would generate about R15m, the tax exemption on the interest earned by branches of foreign companies was removed.

Liebenberg said the cuts were "further measures aimed at establishing SA as an investor-friendly country and improving our international competitiveness".

Government believed the cut in STC would be tax-neutral because at 25% it was too onerous on companies which sought to avoid the tax by not declaring dividends. Government hoped that a rate of 12,5% would generate R1bn.

The cut in MST and stamp duties was motivated by the need to bring SA's duties more in line with international levels, but would result in revenue losses of R200m and R150m respectively this year.

Liebenberg said consideration would be given also to an amendment to the Marketable Securities Act to include transactions where the broker acted as principal.

Enhanced activity on the JSE would see collections from MST grow by a projected 2,5% in 1996/97, the Budget review said.

Edward West reports JSE president Roy Andersen said the halving of STC and MST would help attract foreign investment into SA and demonstrated a commitment to budgetary discipline.

Describing the budget as "good news" for the JSE, he said the lower STC would not only reduce the effective tax on foreign investors, but would make investment in JSE stocks more attractive because of the expected higher number of cash dividends likely to be paid out.

Andersen said the halving of MST would improve market liquidity. Previously, large institutional investors were reluctant to adjust their portfolios because of the tax. The move would also bring the JSE in line with the London Stock Exchange, where MST was 0,5%.

Amanda Vermeulen reports Deloitte & Touche senior tax partner Mark Crisp said the drop in STC was significant, and possibly the first stage in the elimination of the tax. An increase in the basic tax rate applicable to companies was not likely if government wanted SA to remain internationally competitive, but it could introduce some other form of revenue-raising tax.

The drop in MST was part of government's plan to do away with these charges altogether, but it was a pity that it could not be finally eliminated in this Budget. The next step would presumably be the final abolition of the tax.

Tax on pension funds, rental income slammed

BD 14/3/96 (320)

Samantha Sharpe and Linda Ensor

CAPE TOWN — The retirement industry slammed the introduction of a 17% tax on pension fund investment and rental income yesterday as short-sighted.

The tax followed the Katz commission's proposal that the income pension funds earn on interest, rental and other trading income be taxed 30%, and is expected to add about R2.75bn to state coffers.

Sources said they were relieved the tax excluded trading profits, but it was a poorly disguised cry for funds and outside a holistic approach to retirement fund tax.

Life Offices Association executive director Jurie Wessels said the association was happy that while government had accepted some of the Katz commission's principles, the proposals would be referred for further discussion with all the stakeholders.

"As far as the 17% tax on rental and interest income is concerned, we believe it is an ad hoc revenue collecting exercise, rather than the first phase of a phased introduction of the Katz proposals."

Liebenberg said the following Katz commission principles were accepted: taxation of income as it arises rather than when paid out; consistent tax treatment of private and public sector funds; tax neutrality between forms of retirement provision; ministration of opportunities for arbitrage in as far as this tax related; and incentive in favour of a lifetime annuity.

Other proposals — such as land tax, taxes on small and micro enterprises, the consideration of capital taxes and regional service council levies — required more investigation. Elements such as group income taxation, capital gains tax and taxpayer education would wait until the SA Revenue Services was fully operational.

"The one major outstanding issue ... is a holistic review of the tax system and recommendations in this regard. This issue will form the centrepiece of the final report which the commission will be asked to submit early in October 1996," Liebenberg said.

He sought to allay uncertainty about retirement fund taxation and to prevent employees taking early retirement to avoid having to pay extra tax on their lump sum payments. Benefits payable by retirement funds to members would be taxed only on the basis of the new method as from the year of assessment, commencing on March 1 1997 at the earliest.

The legally established, vested rights of members of public sector funds to lump sum retirement, retrenchment or resignation payments would be protected. Reference would be made to the number of years' service up to the date the changes were introduced as well as the final salary applied in the determination of benefits.

A guarantee was made for private sector fund members who became entitled to lump sum benefits after the implementation of the new provisions and were entitled to a deduction from their lump sum payment on retirement or retrenchment. If they received a smaller deduction under any new formula, the deduction under the previous dispensation would be phased out over five years.

VAT still at 14%, but financial services lose their exemption

(320) BD 14/3/96

Linda Ensor

CAPE TOWN — Value-added tax would remain at 14% but would be charged on all fee-based financial services currently exempt from the tax from October 1, Finance Minister Chris Liebenberg announced yesterday.

Government accepted that VAT was an efficient tax and that zero-rating and exemptions should be kept to a minimum to enhance this efficiency. It also caused few economic distortions.

However, it was a regressive tax that had more of an effect on the poor, creating the need for compensatory measures on the expenditure side.

"The government has decided to retain the present VAT dispensation in this Budget, a decision that has been facilitated by the expected benefits flowing from improved cash management and improved tax collections," he said.

Liebenberg said premiums paid on life policies and contributions to pension, provident, retirement annuity and medical aid funds, as well as the charges built into the selling price of unit trusts, would be exempt from VAT.

In view of the fact that the majority of financial services rendered by the banking industry would now be subject to VAT, it was proposed that this industry be exempt from the financial services levy, which had been introduced as a "proxy" for VAT.

The insurance and "superannuation" fund industries would continue paying the levy.

The accrual basis for taxing interest on financial instruments would be extended to cover those instruments issued on or before March 15 1995 which were not yet within the scope of the system.

The difference between all amounts which had accrued for tax purposes and the amount which would have accrued until March 13, had the proposals been in force, would for tax purposes be accounted for on the date of the instrument's transfer or maturity, whichever was the earlier. By extending this accrual system government hoped to collect an additional R140m in revenue.

Meanwhile, Liebenberg has provided some relief for hard-pressed taxpayers, increasing the level of income at which the maximum marginal rate kicks in to R100 000 from R80 000.

The total cost of the relief, together with the alleviation provided for lower and middle income earners, would be R2bn. Liebenberg said fiscal constraints prevented government from doing more to reduce the overall burden of personal income tax.

Measures introduced included a cut in the number of income brackets from 10 to eight, an increase in the primary rebate, a rise in the minimum tax threshold and an increase in the minimum tax threshold for people over 65, who were also granted an additional rebate of R2 500.

The Budget said about three-quarters of the benefit of these adjustments to taxpayers would be felt with those whose taxable incomes fell below R80 000.

Along with the proposed increase in the primary rebate to R2 660 from R2 625, the minimum tax threshold for individuals under the age of 65 was increased 6,7% to R15 580 from R14 600.

Using the example of a taxpayer under the age of 65, with a normal taxable income of R25 000, Liebenberg noted that last year his/her tax liability would have been R2 125. After the amendments, the liability would be R1 890, a tax saving of R235.

Liebenberg also provided relief for people older than 65 years by raising the threshold of taxable income from salary, interest and rental below which they are exempt from provisional tax to R50 000 from R35 000.

On another front, estate planners are expected to be critical of the increase in estate duty and donations taxes to 25% from 15%.

The increases take effect from today and would apply to deceased estates and to the value of any property disposed of through donations. The donations tax exemption threshold would be increased from R20 000 to R25 000 from the 1997 year of assessment. This was the first adjustment since 1988.

The Budget Review said compared internationally, SA's rates of estate duty and donations tax were relatively low. However, Old Mutual's Abri Meiring described the increase as a "crude" attempt to revise an imperfect system.

Making drinkers choke, smokers fume

Star 14/3/96 (320)

THYS DULLAART



Last call ... regulars at a Johannesburg bar make a toast before the taxman takes a gulp out their glasses with the increased duty on beer and spirits.

By Trove Lund

Reaction from consumer bodies to the Budget is diverse, but none believes the consumer will be better off. All agree low income earners will suffer most.

The most vehement opposition has come from the tobacco and liquor industries which qualified for massive "sin taxes".

"The highest discrimination which is going to lead to lawlessness," was the reaction of these industries to news of the increases in excise duties on cigarettes and alcohol, which are expected to add R500-million to state coffers in the new financial year.

Smokers' contributions will take the form of a tax increase of 18%, double last year's inflation rate. For every ten cigarettes smokers buy they will pay 8 cents more.

Economists sympathised with the fact that this is the third year running that tobacco – enjoyed by 7 million adults – has been hit by such punitive tariffs. But they agreed that these increases were "predictable" and in line with the Ministry of Health's objectives.

Minister of Finance Chris Liebenberg explained the increases in excise duties on tobacco products as a continuation of the phasing in of higher duties on these products to achieve an effective duty of 50% of the retail price, excluding tax, as recommended by health authorities.

Increases in the excise duties on cigarettes and tobacco will earn the state an expected R220-million. A further R185-million will be tapped from an increase in excise duty of two cents on a can of beer.

Tipplers will fork out 64 cents more for a bottle of wine spirits; 67 cents more for cane spirits; 69 cents more for grain spirits.

Chris Mhlongo, a spokesman for South African Liquor Stores, and also a liquor store owner in Soweto, said the consumer would bear these increases directly as retailers were "already operating on minute margins".

"As long as the Government continues to give out more licences – thereby making the cake smaller – and taxing more, the consumer will bear the brunt directly because retailers have no more benefits to pass on to them.

"The Government is making business harder and harder. I have already halved my staff complement once this year and will have to review it again," he said.

The result, according to Mhlongo: "Massive increases in law-

Tobacco and liquor industries condemn the increase in excise duties and predict a rise in lawlessness and illegal trading to circumvent them

less informal trading."

South Africa's Tobacco Institute echoed these words of warning, saying that the industry, a major contributor to the national economy and employment level, would have to cut jobs to survive.

"This is in direct contradiction to the Government's stated aim of job creation," said a spokesman for the institute, who emphasised that the greatest burden fell on those in the lower income bracket.

The Consumer Council (CC) described the Budget as the Government taking with one hand and giving with the other.

"Surely the Government knows by now that increasing the petrol price has a ripple effect causing all consumer goods to skyrocket? We are back to square one; the price of fuel has not in any way been reduced as they said it would," stated CC spokesman Eric Mathabathe, reacting too the 3c/l petrol price rise from April 3.

He said consumers would definitely not be able to bear the brunt of any further fuel price rises in the next 12 months.

As the reduction in personal tax is below the inflation rate, Mathabathe said he disregarded it as "not amounting to much".

The consumer, who in hard pressed financial times is known to opt for credit, has been warned by the CC of the rise in stamp duties.

"People must learn to save up and pay cash. They can no longer resort to buying on credit," added Mathabathe.

What made the "hard times virtually intolerable," Mathabathe said, was the reality that one can no longer "afford to forget the burden for a while with a bottle of whisky".

Mathabathe said the 6% increase in civil pensions was positive, but still below inflation. He said that while the Government was trying to protect the poorer people by not increasing VAT "what they have actually done is to hit the poor man very hard, to the point of not being able to adjust, like the middle income earners will be able to do".

Johannesburg's 17 000 hawkers who earn and average of R800 a month are exempt from income tax. But Association of Hawkers in Business spokesman Freddy Monyemangene's reaction was: "This gets us well and truly. Increased transport costs are going to cripple some. Petrol increases will naturally also increase the price of buying goods at the same time as allowing the man in the street less to spend."

The Small Business Development Corporation (SBDC) reiterated these sentiments and highlighted fuel price rises as "another nail in the coffin" which "deterred entrepreneurial initiative".

Mathabathe said the budget was positive for a country that was not in South Africa's jobless and unstable economic situation.

"This Budget will do nothing until the economic crisis and disastrous unemployment levels have been sorted out," he said.

Economists, however, are more positive, and claim the Budget holds "predictable good and bad news for the consumer".

Gauteng Association of Chambers of Commerce and Industries spokesman Frank Cauldwell welcomed the fact that a person must now earn R100 000 a year to be hit by the highest tax of 45%. The income level at which one qualifies to pay income tax has also been raised to R15 000 a year.

"This will provide more disposable income," said Cauldwell, who is concerned that the Government has continued to tax income rather than expenditure.

The Housewives League sees

> **"One can no longer afford to forget the burden with a bottle of whisky"**

nothing positive about Liebenberg's announcements. The organisation's president, Pauline Kellet, challenged the Government to issue breakdowns detailing each government departments expenditure.

"Then we will see who is benefiting, who is financing them, and who is it is exactly that is really strapped for cash. It is the consumer that always has to go without," said Kellet.

Gambling tax should generate R150m

Linda Ensor

(320)

BD 14/3/96

CAPE TOWN — Gambling operations in the former TBVC states would be subject to the standard rate of VAT as from October 1, Finance Minister Chris Liebenberg said yesterday.

Liebenberg said he expected the tax to generate an additional R150m in revenue. He said an implementation date of October 1 would give provincial authorities time to make adjustments.

Government had accepted the Katz commission's recommendations on taxation of gambling, namely that present income tax rules should apply to all gambling other than the envisaged national lottery; that the present policy of imposing VAT on gambling, excluding the lottery, be continued; and provinces could also impose betting or other taxes for their own accounts.

Amanda Vermeulen reports Kessel Feinstein Consulting CE Delano Caras said aspirant casino players would be in an uncertain position as they could not finalise plans until they knew the extent of the tax burden.

Tax: How your pocket will be affected

CT 14/3/96 (E20)

PETER DENNEHY

EVERYONE who pays personal income tax will be better off, to varying degrees, through paying less tax in the forthcoming year, says Mr Colin Wolfsohn, a partner in the chartered accountants firm Kessel Feinstein.

But the problem with the latest Budget, for the ordinary working person who is slowly accumulating a pension fund, is that not even tax experts can easily work out if you will lose more on your pension fund than you gain from lower personal tax.

● Let's take the example of a man earning R250 000 a year, with a wife who is not working, though nowadays all are taxed in their own right.

In the new tax tables presented yesterday, he will be liable to pay tax of R99 040 a year. This is because he is in the top bracket, of R100 000 and more a year. Tax in this bracket is R34 200 plus 45% of whatever is earned above R100 000. Now 45% of R150 000 is R67 500, so his total tax is R34 200 plus R67 500, which comes to R101 700, minus the primary rebate of R2 660, which leaves you with an annual tax bill of R99 040.

Wolfsohn said that in the tax year to the end of February 1996, a person earning that same income of R250 000 would have had a tax bill of R105 315, which is over R6 000 a year or R500 a month higher. So in effect, yesterday's budget makes him R500 a month richer in personal tax which he no longer has to pay.

● Another example would be that of a couple earning R100 000 a year between them. One spouse earns R70 000 and the other R30 000, for this example.

Their tax liabilities would have been R19 075 and R3 175, respectively, which comes to R22 250 collectively, last year. But this year it is a bit lower, at R21 380. The difference is that they are R870 a year better off, or R72,50 a month better off, through paying lower personal income tax.

● The third example is that of a single person earning R50 000 a year. Last year the tax on that would have been R10 475; this year it will be R10 040, which means a saving of R435 a year, or R36,25 a month.

A complicating factor is that most people's incomes do not stay the same from one year to the next, but rise in some sort of relation to the inflation rate.

In the same Budget, financial institutions which manage pension funds have had a 17% tax imposed on them for the net rentals or gross interest they get from pension funds which they invest.

Both Wolfsohn and Martin Walbeck of Ernst and Young said there was no easy answer to the question of how an individual could tell whether he or she was gaining more from the drop in personal tax than losing through the loss of pension fund growth.

Pietermaritzburg business support VAT decision

CT(BR) 15/3/96 (320)

By SHIRLEY JONES

Durban — Peter Warmington, the president of the Pietermaritzburg chamber of commerce and industries, welcomed the lack of increase in VAT in the Budget and supported the scrapping of the zero rating as it provided a loophole in tax collection.

He said targeted relief or support programmes in this area would be far more advantageous.

"The drop in the secondary tax on companies and the reduction in marketable securities tax is a good step forward in attracting future foreign investment," he said.

Warmington said proposals to deliver a leaner public service would be well received if they were instituted.

"The need for an expenditure evaluation unit presupposes that departments are not being held accountable for their expenditure and while the local mayor advocates a zero-based budget for the Pietermaritzburg city, maybe a zero Budget for the state is also advisable," he said.

Warmington applauded moves towards greater efficiency, especially with regard to the formation of the South African Revenue Services. He said it had been calculated that the breakdown in customs and excise had cost 9 000 jobs in Pietermaritzburg.

"However, we also question whether this new service will lead to improved collections of R1,5 billion in the first year," he said.

Warmington said increased excise duties on liquor and tobacco were a given, but the increased fuel levy hit an easy target and would prove inflationary.

"Katz seems to have become the norm, but the application of some creative thinking could have helped," he said.

The chamber was pleased with the reduction of personal tax which would be supplemented by the termination of the transition levy.

"The reduction of the government deficit as a percentage of GDP is a move in the right direction, but government borrowing and debt is still too high.

"Finally, we are concerned about future taxation implications on the retirement industry. We believe that citizens use this as a vehicle for the majority of their savings.

"This taxation will create a disincentive for saving whereas a major concern of the government should be to ensure that as many people as possible are able to provide for their retirement and do not become dependent on social pensions," he said.

Accountants like the Budget

CT(BR) 15/3/96 (320)

By Audrey d'Angelo

Cape Town — Wednesday's Budget was "very well thought out and well planned," Colin Wolfsohn, a tax partner at Kessel Feinstein's Cape Town office, said yesterday.

He said it had left South Africans among the most highly taxed people in the world, but they would feel better because they had been given some relief.

Tax reductions

This was the first Budget in many years to give a tax reduction to high-income earners. But the greatest relief has been given to lower-income earners, said Wolfsohn. "Someone earning R16 000 a year is getting a tax reduction of almost 71 percent."

Though tax bands have been widened, he said fiscal drag would take a substantial bite out of the average 10 percent pay increase this year.

"Anyone earning R50 000 a year will save R435, or 4,15 percent, on tax on an unchanged salary this year and be left with a disposable income of R39 525."

But if the person got a 10 percent rise, bringing the salary up to R55 000, the tax bill would rise to R12 090, which meant that disposable income would rise by only R282 a month to R42 910, he said.

Debbie Tickle, a senior tax manager at KPMG, said the new structure was likely to encourage higher tax morality because more funds would be spent on services such as education, the police and health.

South Africans are among the most highly taxed, but now they feel better about it

"Tax morality declined drastically last year because so much was being taken out of taxpayers' pockets and they did not think they were getting value for money. They were angered by corruption and waste."

Martin Walbeck, of Ernst and Young's Cape Town office, said he did not think the Budget had benefited the man in the street very much.

All three accountants said the cut in secondary tax on companies (STC) would encourage foreign investment.

They considered it a clever move to introduce a 17 percent tax on retirement-fund income rather than a temporary levy this year. The industry had feared a 30 percent tax, but it could be raised in the future.

Political

Wolfsohn said this was "a politically motivated Budget, because the easiest way to raise the money the government needs would be to raise VAT by 1 percent. It has not been done because Cosatu objected".

He said that the new VAT for financial services "on top of already high bank charges" would be expensive for the individual. Companies registered for VAT would be able to claim it back as an input.

Wolfsohn said it would increase the cost of using ATM and credit cards from 15c to 20c a transaction.

Taxman took with one hand, gives with other

(320)

MELANIE GOSLING
STAFF WRITER

CT 15/3/96

DON'T thank the taxman too much for easing your personal tax burden — up to 72% of your new tax rebate is because the transition levy has expired.

Tax expert Mr Colin Wolfsohn of Kessel Feinstein said yesterday: "The medium- and upper-income groups mustn't say the minister has given them such wonderful tax relief. In effect a portion of the tax relief is attributable to the fact that taxpayers will no longer be paying the transitional levy that was imposed for two years.

"So, yes, you've got more money in your pocket from this month, but not all is a dispensation by the minister to the wealthy. In fact, there is very limited relief to the upper-income bracket."

Some examples of "real" tax savings are:

- An individual whose annual income is R200 000, paid R79 980 in personal income tax last year and will pay R76 540 this year — a total saving of R3 440. But R2 505 (or 72%) of this R3 440 saving is attributable to the transitional levy of 1,67% having expired. The real saving therefore is only R935 a year.
- On an annual income of R85 000, last year's tax was R26 310 and this year's tax is R24 940 — a total saving of R1 370, of which R585 (42%) is attributable to the transitional levy, giving a real saving of R785.
- On an annual income of R70 000, last year's tax was R19 409 and this year's tax is R18 440 — a total saving of R969, of which R340 (35%) is attributable to the levy, giving a real saving of R635.
- On an annual income of R60 000, last year's tax was R14 942, this year's tax is R14 140 — a total reduction of R802; of which R167 (20,8%) is attributable to the levy, giving a real saving of R635.

Robbing Peter to pay Paul

(49) (320)

ARG 16/3/96

A medley of taxes: Tougher times ahead for the rich and a better deal for lower income earners

LEIGH ROBERTS

TO many people, this week's budget is mainly a reshuffle of money from one pocket to another, as tax on income comes down marginally, but taxes on banking charges, credit and debit cards, wine and other consumer goods go up.

Wealthier taxpayers have been hit by an increase in estate duty and donations tax, but they could score a little – as will all investors in unit trusts and equities – from the reduction in marketable securities tax.

While there is an overall lowering in personal income tax rates, the most significant relief has gone to taxpayers at the bottom end of the income scale.

> *Lower income group scores most from tax relief measures*

Middle income taxpayers have also been targeted for relief and any person with a taxable income of less than R90 000 will pay at least three percent less tax than they did last year.

A restructure of the tax table allows for the maximum marginal tax rate of 45 percent (no change) to kick in at a higher income level of R100 000, previously R80 000.

Significantly, the revamp of the tax table will partially address – for the first time in decades – the harsh effect of fiscal drag (where inflation-adjusted salary increases knock you into a higher tax bracket and you pay more tax) by reducing the tax table into fewer income brackets.

The primary rebate, which is granted to all taxpayers, has risen from R2 625 to R2 660, but there is no change in the additional rebate of R2 500 to taxpayers over the age of 65.

The package of tax relief measures raises the tax threshold (the income level after which individuals have to start paying tax) to R15 580 from R14 600, and for a person over 65 to R27 905 from R26 785.

Taxpayers will be relieved that the VAT rate did not go up, and that finance minister Chris Liebenberg did not dream up a new levy to replace the transition levy which ended last year.

But the minister will nevertheless take more money from individuals through two new measures.

First, imposing VAT on fee-based banking services like ATM withdrawals; and second, broadening the web of stamp duty to impose a 20 cents charge on every purchase transaction you make on store cards like Edgars and Stuttafords.

Taxpayers who contribute to pension and other retirement funds will lose out as the minister has imposed a 17 percent tax on the income received by these previously tax-exempt funds. This will cause a reduction in the overall investment return of a fund and result in a lower pension payout when you retire.

But retirees who are already on a pension will not suffer double taxation (with income being taxed both in the fund and the monthly pension taxed in their hands) as the new tax does not apply to them.

Taxing retirement funds is the first step in the planned phasing in of the the Katz Commission proposals.

In his budget speech, Liebenberg endorsed the principles put forward by the Katz Commission, but said more time was needed to refine the details before they could be implemented.

No changes were made in this budget to the existing tax rules on contributions to pension, provident and retirement funds.

Liebenberg had a special word of advice for those people contemplating early retirement ahead of higher taxes on their lump sum payouts from retirement funds: there's no need to fear, he said, and "such a step may not be in your (or the country's) best interests".

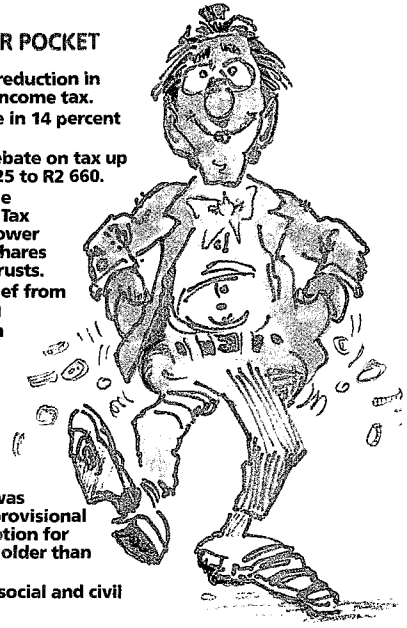
He gave the assurance that if the new tax measures on lump sums prove to be harsher than the existing ones, retirees can use the old tax measures which will be phased out over the next five years.

Overall, it's a light relief budget and South African taxpayers still live in one of the most heavily taxed societies in the world.

But there again, we can hang on to that age-old promise – renewed by Liebenberg in his speech – of government's commitment to reducing the overall personal tax burden.

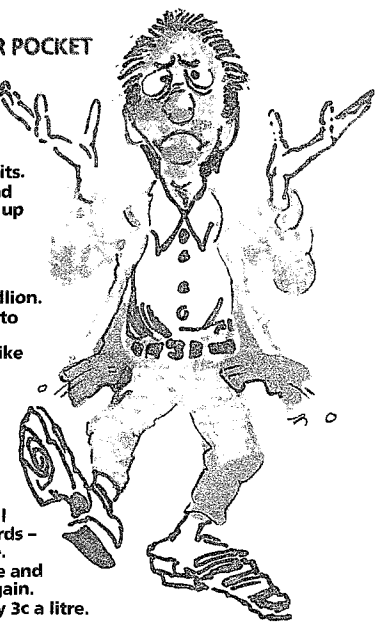
INTO YOUR POCKET

- Marginal reduction in personal income tax.
- No change in 14 percent VAT rate.
- Primary rebate on tax up from R2 625 to R2 660.
- Marketable Securities Tax halved – lower costs for shares and unit trusts.
- Partial relief from fiscal drag
- Increase in annual exemption for donations tax from R20 000 to R25000.
- R50 000 (was R35 000) provisional tax exemption for taxpayers older than 65.
- Increased social and civil pensions.



OUT OF YOUR POCKET

- A 17 percent tax on retirement fund income – lower future pension benefits.
- Estate duty and donations tax up from 15 to 25 percent. Threshold on death duties remains R1 million.
- VAT extended to financial transactions, like bank charges.
- Higher stamp duties on financial transactions, including hire purchase.
- Stamp duties extended to all store credit cards – 20c a purchase.
- Taxes on booze and smoking up again.
- Fuel levy up by 3c a litre.



candidly Cameron



A budget to surprise and soothe cynics

AS budgets go this one was not too bad – but then it was not as pleasant as finance minister Chris Liebenberg would have us think.

Most of us will be paying a bit more into the seemingly always empty government coffers.

The main gift was the adjustment to the personal tax tables. Compared to last year, many people, and particularly those at the lower end of the scales should be paying a little less tax.

The number crunchers will tell us soon the extent of the gift, taking into account the effect of fiscal drag, i.e. inflation pushing people into ever higher marginal tax rates.

The concessions surprised many cynics, including myself, who have heard the empty promises to lower the tax burden on individuals from a long list of previous finance ministers.

Liebenberg has been at pains to say that this was not a standstill budget; not a trade off with labour; and not an opportunist raid on the easiest treasure chest (namely pension funds).

It was a budget based on principles and the need to move towards a new fairer tax regime based primarily on the recommendations of the Katz Committee.

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16/3/96.

pg

Liebenberg's task was no easy one. In any other country 50 percent unemployment would signal imminent revolution. To correct the position South Africa's high tax regime should be seen as a loaded-premium insurance policy because of the still sickly nature of the insured, namely transitional South Africa.

The important thing about this budget was that the intent shown last year by Liebenberg is now starting to translate into action. The key intentions are reduction of overspending and improved efficiency; reduction of personal income tax, making the tax system fairer; and to attack poverty.

Government is still failing on overspending. It was only the windfall of a much-better-than-government-expected growth in the economy last year that saved Liebenberg from a red face.

Proposal to levy tax on parastatals

~~26~~ (320) ARG 16/3/96

JOHANNESBURG. — Restructuring of the civil service and parastatals will not only reduce government expenditure, but will increase revenue by means of dividends from public enterprises, deputy Finance Minister Alec Erwin has said. Speaking in Johannesburg yesterday, Mr Erwin said the R1,88-billion received from the sale of strategic oil supplies would in future be offset by similar amounts received in dividends from public enterprises.

Finance Minister Chris Liebenberg announced a reduction in the country's budget deficit from 6 percent to 5,1 percent in his 1996/97 budget speech on Wednesday.

However, if the proceeds from the sale of oil supplies were excluded, the deficit would stand at 5,5 percent.

The Finance Department has been critised for not sufficiently addressing the problem of reducing the country's budget deficit, as the oil sales were a "one-off" event and ultimately meant a reduction in deficit of only 0,5 percent.

Mr Erwin told businessmen, at a South African Chamber of Business budget seminar, that the government was proposing parastatals pay the state a dividend each year, which would offset the loss of the R1,88-billion received in the current budget.

He said the funds should not be seen as a one-off payment, as they would become a "permanent income-stream over time".

Mr Erwin said all organisations should be within the tax net and the state would negotiate with each enterprise to determine the level of dividend.

The type of tax paid would depend on the mandate of the organisation.

He said it had become clear to the government that there were substantial variations between the financial positions of the various state corporations and that no financial objectives had been laid out by either the state or the enterprises.

Once the government had restructured the parastatals, it would be in a position to table an appropriate domestic debt management process, he said.

Mr Erwin added that to have privatised the organisations, before evaluating them in detail, would have been "selling off the family silver".

The restructuring and downsizing of the civil service was essential — to streamline the government and reduce expenditure.

He said that to play a positive role, the government required a leaner and better skilled service. This entailed downsizing and a massive improvement in wages. — Sapa.

Reward offered for info on missing ...

Liebenberg's tax leaves pensions a narrowing edge

ST 17/3/96 (300) (320)

By TERRY BETTY

FINANCE Minister Chris Liebenberg's tax on the retirement industry has thrown South Africa's traditional investment haven into turmoil.

By taxing the industry's income on rentals and investments at 17 percent, Mr Liebenberg has cast a shadow over the favoured savings route of most South Africans.

Their monthly retirement income could be reduced by up to 20 percent as a result of Mr Liebenberg's proposals, which industry sources fear could be the beginning of a broader attack on the R500-billion retirement industry.

While Mr Liebenberg has hinted that the tax may stay at 17 percent, the retirement industry fears he will lift the rate gradually until it hits the 30 percent rate recommended by the Katz Commission.

The income from investments held by existing pensioners will not be taxed. But, if you are saving for your retirement, it is important to consider the impact of the proposals.

The tax hike has made a number of other investment opportunities more attractive, particularly if the rate is to be raised again.

But Andrew Bradley of investment consultants Fincorp says that, even with the new tax, a pension is still one of the best investments.

As the table illustrates, pensions still show a return about 10 percent ahead of the next best alternative — deferred compensation.

Retirement funds would also outperform other investment alternatives even if they were taxed at 30 percent, but the impact would vary according to the amount saved every month for retirement.

The table shows that, if you invest R1 000 a month for 30 years, your pension fund would be worth about R2-million and your deferred compensation worth R1,8-million.

A R1 000 investment in unit trusts invested in shares is not tax deductible and would attract 45 percent tax at source. The remaining R550 a month into the unit trust would be worth R1,7-million after 30 years — 18 percent less than the pension fund. It is important to note that this assumes a steady 12 percent investment performance by the unit trust. Many perform better.

The same R1 000 invested in a more conservative managed portfolio would be worth R1,4-million — a third less than the pension fund.

The main reason that the pension and deferred compensation options fare best is that they are bought out of pre-tax money. The biggest downside of endowment policies and unit trusts is that they have to be bought out of post-tax income.

There are some common assumptions underlying the assessment in the table. It assumes all assets are earning a 12 percent return. All instruments, other than the equity unit trust are invested 75 percent in equities and 25 percent in cash, property and gilts. The equity unit trust is invested 95 percent in equities and five percent in cash.

Interest and rental income is taxed at 17 percent in the retirement funds, at 35 percent in the deferred compensation, 30 percent in the endowment policy and 45 percent in the unit trusts.

Mr Bradley says that, in the example, payouts of retirement funds and deferred compensation on the day of retirement are taxed at an average rate of 30 percent.

The exception to the rule that retirement funds are the best option at 17 percent tax is if your salary is taxed at below 17 percent, in which case you would be better off buying a unit trust, says Mr Bradley.

Similarly, if the tax rate is lifted to 30 percent, anyone with an average tax rate below 30 percent would be advised to look at unit trusts.

A number of commentators believe that the rate may still reach 30 percent since the Budget has adopted the essence of Mr Katz's proposals. One industry source comments: "We started off with GST at four percent — now look where we are!"

Martin Kourie of Momentum Life says that, if the rate was raised to 30 percent, the lower earners would be better off buying a unit trust. "Even better, they could put the money into their bond if they have one."

He says: "The problem is not the 30 percent tax on the pre-retirement build-up — the real pain is felt after retirement, when the individual wants to draw a pension.

"Wealthier guys can afford not to draw a pension and so they structure it to be invested mostly in equities, which are tax-free.

"But the poorer person needs to draw maximum income and, to be able to pay this, the fund has to invest in interest-earning investments, which are then taxed at 30 percent."

Mr Kourie says that, if the Katz proposals are implemented, a pension worth up to about R820 000 will be taxed at a fair rate for a wealthier person. So people will need to calculate how much they should be saving in their pension each month to yield R820 000, in today's rand terms, on retirement.

Thereafter, they should rather pay tax on the income and invest the money themselves.

INVESTMENT COMPARISON

Year	Pension/provident: Untaxed	Pension/provident: Taxed at 17%	Pension/provident: Taxed at 30%	Deferred compensation	Endowment policy	Unit trust: Managed	Unit trust: Equity
0	12 000	12 000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	68 168	67 295	66 636	66 384	52 357	51 765	53 196
10	173 498	168 748	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15	359 128	343 507	332 062	327 772	[illegible]	[illegible]	275 600
20	686 289	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25	1 262 805	1 163 105	1 092 537	1 068 627	858 422	[illegible]	949 879
30	2 278 858	2 056 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Graphic: FIONA KRISCH Source: FINCORP

Tax on pensions enough for now, says Liebenberg

ST (BT) 17/3/96 (320)

By SVEN LUNSCHE and TERRY BETTY

FINANCE Minister Chris Liebenberg said on Friday he did not envisage a further increase in the 17% tax on investment income in the retirement industry.

In his Budget this week Mr Liebenberg announced a 17% tax on gross interest and net rental income of the R500-billion retirement industry. Dividend income was exempted and the tax will not be levied on the income of existing pensioners.

The industry had feared that this salvo presented the first raid on their R500-billion in assets in line with the proposals of the Katz Commission. The next step, the industry feared, would be a hike in the tax rate to 30%, in line with the recommendations of the commission.

However, Mr Liebenberg's statement will go some way in allaying these fears. He told *Business Times*: "A 30% rate on investment income is too high. But 17% is a fair rate and I do not envisage an increase next year."

Michael Katz, chairman of the commission, said on Friday the 30% rate was proposed in order to avoid arbitrage between pension/provident funds and endowment policies, which are taxed at that rate.

Instead, Mr Liebenberg said he would enter discussions with the industry to find other ways of alleviating arbitrage (the swapping of funds to investments which are taxed at a lower rate).

The tax, budgeted to raise R2,75-billion in the 1996/97 fiscal year, has caused an outcry among life assurers, who have warned of major disruption to an industry which has served as one of the few bulwarks against inflation. However, Mr Liebenberg countered that the local retirement industry "is the second most successful retirement industry in the world. Their incentives are out of line with those offered to the rest of the savings industry. Their slice of the cake has simply become too large."

Despite Mr Liebenberg's concession, the 17% tax on income will have a significant impact on the retirement income of future policyholders.

Liberty Life chairman Donald Gordon warned that the tax could cause a lot of disruption.

"The same tax levied at 30% would have meant the total demise of the industry," he said.

Calculations by Old Mutual show that up to 20% could be lopped off the value of pensions at retirement if people began investing 35 years before retirement.

Some provident fund members could take a slightly larger cut, says Old Mutual.

The impact of the tax hike will be felt both by low income and high income earners, as the calculations listed in the accompanying table show.

The exact cost to individuals depends on how long they have been members of the pension fund, the nature of the fund, its size and the extent to which the fund is invested in property and interest-bearing investments.

For example, a smaller and newer fund will feel the impact less than a larger, older fund. The longer a person has been a member of a pension fund under this dispensation, the greater the cost.

The table assumes that the income tax brackets and rebates are escalated at 12% a year as are the tax-free limits on withdrawal and the R2 000 tax-free interest income limit.

The tax has also drawn criticism that the government is endangering the country's savings when they are required to finance economic growth.

"People think it is wonderful — they are getting a few extra hundred rand a month through personal tax alleviation, but they forget that at retirement they will have a whole lot less," says Willem van Ryswyck of Deloitte & Touche.

The SA Chamber of Business describes the tax as a raid on the nation's savings. It says that if read in conjunction with the decision not to increase VAT, it encourages consumption and discourages savings.

BUDGET'S IMPACT ON PENSION INCOME (OVER 35 YEARS)

Income R	Retirement capital (pre-budget)	Retirement capital (post-budget)	Difference	% decline
12 000	41 644	34 562	-7 082	17
20 000	69 406	57 603	-11 803	17
40 000	138 813	112 784	-26 029	18,75
60 000	199 547	166 068	-33 479	16,78
120 000	342 457	297 388	-45 069	13,16
240 000	588 556	495 503	-93 053	15,80

ASSUMPTIONS: Salary levels stay constant in rand terms; 15% of salary contributed to pension fund

Graphic: FIONA KRISCH Source: OLD MUTUAL

Paul Robson of the Institute of Life and Pension Advisers says that whether the extra tax comes out of the pocket of the company or the individual depends on the type of fund.

For example, in a defined benefit pension fund the employer guarantees the pension and pays in the difference if a shortfall occurs in the fund. The employee's pension is based on final salary and the number of years' membership of the fund.

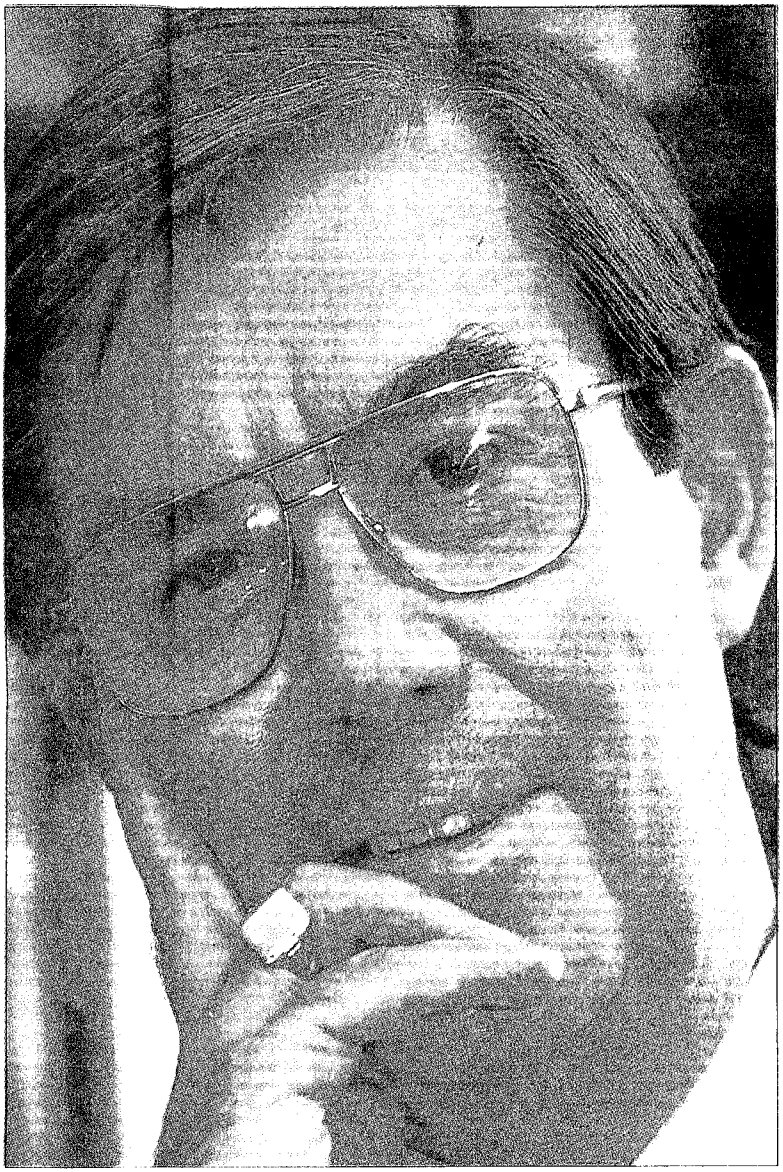
Mr Robson says in a defined benefit fund the extra cost is financed by the company. Although companies are not able to change the benefits already accrued to members, they will be able to reduce future benefits to compensate for the extra cost.

He says the extra cost will average about 0,7% a year. "For a new fund with not much asset build-up, it will not have a huge effect on the company, and might cost around half a year's payroll. But for a large fund worth billions of rand the extra 0,7% could be worth four to five times the annual payroll."

Mr Robson says although companies are barred from reducing existing benefits, they can trim future accruals to maintain the same cost input. "This will push the companies from defined benefit pension funds to defined contribution provident funds." In a defined contribution provident fund members bear the brunt of extra tax.

Mr Robson says the 0,7% reduction in the annual growth of the fund will result in the pension being worth around 10% less in 10 years' time.

He says this has been exacerbated by the announcement made in the Budget that VAT will be levied on financial service fees, which include administration charges for running a pension fund.



IN SEARCH OF BILLIONS: George Lindeque, who believes the new revenue service will be able to collect enough to fund a second RDP Fund Picture: JULANI VAN DER WESTHUIZEN

Taxman's big squeeze gets new muscles

(320) ST (BT) 17/3/96

By SVEN LUNSCHE

THE much-delayed launch of the SA Revenue Service next month comes not a moment too soon.

The backlog in uncollected taxes, previously estimated at R9-billion is now well above R10-billion, says Trevor van Heerden, the Commissioner for Inland Revenue.

Finance Minister Chris Liebenberg expects the new service to retrieve about R1,5-billion of the backlog in its first year of operation but many economists believe that this will prove to be an impossible task. Nevertheless, Mr Liebenberg says his estimates are on the conservative side.

Of the R1,5-billion the SARS is expected to raise, R1-billion will come from overdue payments by individuals and companies, R300-million from VAT and the remainder (R200-million) from interest on overdue taxes.

How realistic is Mr Liebenberg's target?

One man who thinks it can be achieved is George Lindeque, former chairman of Eskom's pension fund, who has been appointed to merge the Departments of Inland Revenue and Customs and Excise into the SARS.

It is a mission he feels strongly about.

"This is at the heart of improving the performance of the government. If we can recover some of the amounts outstanding and generally improve collection, a couple of billions of rand extra will be at the disposal of the government to improve social delivery. With an extra R5-billion we could have a second RDP fund," he says.

Mr Lindeque's biggest challenge is to set up a business-oriented body run by professional managers within the state's bureaucratic structure.

As a first step the SARS will employ 600 staff next month, which should have an immediate impact on the collection of taxes and customs.

The chief executive of the SARS will be appointed later this month or early in April. Mr Lindeque says he has not applied for the post.

The salaries for the service's members will remain subject to the ultimate control of the Public Service Commission.

Mr Lindeque, however, does not see this as a major constraint.

"While we will remain within the broad parameters of the PSC we will have significant autonomy and flexibility."

Furthermore, the wage structure will include strong incentives for tax and customs collection, he adds. It is therefore likely that the SARS will be financed by a fixed percentage of the funds it raises.

"With the right policies we should be able to achieve the desired results."

Critical to the success of the programme is "that the public understands and backs our mission.

"In effect, we need an accord with the public which gives us time to restructure the SARS while they comply with their tax payments," he says.

Liebenberg's 'gift' less than it seems

ST(BT) 17/3/96 (320)

By TERRY BETTY

TWELVE years after fiscal drag first began eroding take-home pay, a finance minister has finally decided it's time to start doing something about it.

"Credit should be given to Chris Liebenberg, Minister of Finance, for making a start where his predecessors didn't bother," says Willem van Ryswyck of accountants Deloitte & Touche.

The table shows a cut of 21,86% in tax payable by people earning less than R20 000 a year. Higher income earners will see a cut in their tax bill of between 3,86% and 5%.

The effects of fiscal drag have been slightly alleviated by reducing the number of tax brackets to eight from 10, raising the level at which the marginal tax rate kicks in to R100 000 (previously R80 000), lifting the primary rebate by R35 to R2 660 and lifting the minimum tax threshold for people under 65 to R14 600 (R15 580 for those older than 65).

But the matter is complicated by the transitional levy. If one takes out of the picture the improved position resulting from the levy's promised disappearance, it becomes clear that the tax savings are "not as significant as originally thought", says Mr van Ryswyck. People earning less than R50 000 a year did not pay the transitional levy and will gain from the Budget's benefits. But for someone earning R75 000 a year the saving is only 3,22% and at R100 000 it is 2,88% as opposed to the 5,31% shown in the table. Someone earning R250 000 a year will see a decline of less than 1% in tax payable.

This means the effective tax rate of people earning R50 000 a year will fall from 20,95% to 20,08%. At R100 000 tax drops from 32,47% to 31,54%. At R250 000 tax drops from 39,99% to 39,62%.

Mr van Ryswyck says government has countered charges of high individual tax by arguing that 15% is a low capital transfer tax.

"However, estate duty and donations tax have now been pushed up to 25%, but there has been no commensurate lowering of personal taxes.

"The government must be careful not to squeeze the balloon too tightly at both ends. When you have such high tax rates combined with increasing capital transfer taxes in a risky environment, individuals may lose the incentive to accumulate wealth within the country. They may well start looking to move funds offshore as exchange controls are relaxed."

Estate duty and donations tax have been raised to 25% from 15%. This applies to donations made on or after March 14 1996 and to the estates of those who die on or after that date.

The level at which the tax kicks in has been lifted from R20 000 to R25 000 for donations tax while the first R1-million of an estate remains tax-free.

Another little fillip is for provisional taxpayers over the age of 65.

Until now they have been exempt from provisional tax if income is below R35 000 and consists exclusively of remuneration, interest, or rent from fixed property. The limit has been lifted to R50 000. David French of Ernst & Young says the value of this to the individual depends on individual circumstances.

He gives the example of someone earning R49 000 who until now had to register as a provisional taxpayer. Such a person would have been obliged to make provisional payments of R3 500 in August and February and a top-up payment the following August. Now only a R7 000 tax bill will apply a month after assessment (usually about three months after returns are submitted).

TAX TABLE

INCOME	1995/96	1996/97	DIFFERENCE	% OF 1996 TAX
20 000	1 075	840	-235	21,86
30 000	3 175	2 940	-235	7,40
40 000	6 275	5 940	-335	5,34
50 000	10 475	10 040	-435	4,15
60 000	14 942	14 140	-802	5,37
70 000	19 409	18 440	-969	4,99
80 000	23 976	22 740	-1 236	5,16
90 000	28 643	27 140	-1 503	5,25
100 000	33 310	31 540	-1 770	5,31
110 000	37 977	36 040	-1 937	5,10
120 000	42 644	40 540	-2 104	4,93
140 000	51 978	49 540	-2 438	4,69
160 000	61 312	58 540	-2 772	4,52
180 000	70 646	67 540	-3 106	4,40
200 000	79 980	76 540	-3 440	4,30
250 000	103 315	99 040	-4 275	4,14
300 000	126 650	121 540	-5 110	4,03
350 000	149 985	144 040	-5 945	3,96
400 000	173 320	166 540	-6 780	3,91
450 000	196 655	189 040	-7 615	3,87

This table is for persons under 65 and includes the transition levy at 1,67% for 1996.

Graphic: FIONA KRISCH Source: ERNST & YOUNG

Receiver's net closes in on tax dodgers

(320)

ARG 18/3/96

The Argus Correspondent

JOHANNESBURG. – The taxman is closing the net on tax dodgers in a get-tough campaign to rake in a whopping R9 billion missing from years of non-payment.

And a 37 percent increase granted to Inland Revenue in last week's budget means that services will be jacked up to ensure a more efficient means of tracing taxpayers – and to keep them paying.

Inland Revenue has warned that little mercy will be shown as it strives to replenish its dwindling kitty.

"We realise we are in crisis," Trevor van Heerden, the Commissioner for Inland Revenue, told an Old Mutual budget forum last week.

Special measures are being taken to try to recover the money, some of which has been outstanding for 36 months and longer.

"Sections are being set up at the Receiver of Revenue in order to contact people who owe," Inland Revenue spokesman Kosie Louw said.

"These are people who did not qualify to apply for the tax amnesty – people who are registered, but who simply have not submitted returns.

"And unless it is absolutely impossible to trace someone or a person has gone bankrupt, everybody who owes has got to pay up.

"The situation is worrying – we simply cannot write off R9bn."

People who were granted amnesty – those who had not registered as taxpayers or those who the Receiver had lost contact with – can enter the tax-paying period of their lives with a clean slate.

Others – and there are plenty of them – have substantial scribblings on their slates.

Not only do they owe money in straight taxes, but interest has been building up for as long as they have remained unpaid.

In a scary scenario, some people could end up paying off the money they owe the taxman for the rest of their lives.

Pension fund benefits could be hit by new tax

BD 19/3/96 (320)

Samantha Sharpe

CAPE TOWN — Pension fund members could bear the brunt of government's new pension fund interest and rental tax through far lower pension fund benefits, spokesmen for the industry warned yesterday.

Finance Minister Chris Liebenberg announced the controversial new tax — a milder version of the Katz commission's call for a 30% tax on pension fund interest, rental and other trading income — in last week's Budget.

Industry spokesmen said the tax would ultimately lower funds' investment returns and reduce fund benefits by 10%-20%.

Sanlam chief consultant group benefits Chris Bösenberg said the effect would depend on each fund's asset mix, relative returns on the various sectors and possible effects of the proposals on the pattern of interest rates. But estimates showed the new tax would reduce the investment return on most funds by about 0,8% a year, Bösenberg said.

"This will reduce the level of benefits — or increase the cost of future benefits — by about 10% excluding those of existing and future pensioners who are assumed to fall outside the net."

RMB Asset Management legal consultant Janine Descoins said that while much would depend on the type of fund, retirement fund members would probably end up paying for most of the tax albeit indirectly through reduced benefits. For defined contribution funds payment would be through a reduction in the value of the members' individual accounts in the pension fund, she said.

However, with defined benefit funds, where the employer bore the "risk", contributions would need to be increased by 10%-15%.

It was difficult to calculate the potential reduction in benefits because many fund managers might reshape portfolios with a view to reducing their tax exposure, Descoins said.

UCT professor criticises tax proposals

CT(BR) 26/3/96(320)

BY AUDREY D'ANGELO

Cape Town — Economic growth would be higher if taxation were based more on consumption and less on income and if the government pressed ahead with privatisation, Brian Kantor, a professor of economics at the University of Cape Town, told the Graduate School of Business Association yesterday.

He said that the influence of trade unions was limiting the country's economic growth and would have to be reduced.

Kantor said the leading indicators suggested the economy had slowed after a great year, but he believed it would pick up again. Unfortunately, the bonus of a strong rand had reversed itself in February. This was not because of rumours that President Nelson Mandela's health was poor, but rather because higher interest rates in the United States had reduced demand for South African bonds and the rand had consequently weakened.

He said he had not, however, "given up on interest rates in the US declining". He pointed out that US investors in SA shares had done "amazingly" well.

"The US investor is now getting 20 percent on his SA investment."

Kantor said this month's budget would have little effect on the economy. Growth could still be maintained at 4 or 5 percent but it was unlikely to rise to 7 percent because the influence of the unions had prevented VAT from being raised, and the emphasis was still on taxing income rather than consumption.

"The tax proposals mean a still greater reliance on personal income as the basis for taxation and a most unfortunate grab at the income of retirement funds.

"It is quite clear that the trade unions, their interests and state of mind, have had a strong influence on economic policy. . . .

"It is this influence that stands in the way of South Africa achieving the economic greatness of which we are capable."

Increase in postal rates delayed

BD 26/3/96

Theo Rawana

DOMESTIC postal tariffs would increase only in July, when an improvement to acceptable service levels was evident, Post Office MD Frank Touwen said yesterday in Pretoria.

However, he said international and speed services tariffs would increase about 10% on April 1. Domestic rates would not be increased on April 1 as service levels were unacceptable.

"Postal delivery performance continues to improve and projections indicate that the Post Office will be providing a good service by mid-year. Customers could therefore expect a rate increase on July 1," he said.

Touwen said domestic tariffs could at that date increase 10c to 70c.

International rates would increase next month by an average of 10% and speed services by more than 10%, he said.

He said delivery performance standards statistics indicated that services were improving. "Five postal regions covering eight provinces are now providing a good service. The only remaining problem is Witwatersrand in Gauteng. Forty percent of SA mail passes through this region and it therefore also continues to affect other regions," Touwen said.

The Post Office was also increasing the accuracy of letter deliveries, but was hampered by incorrect addresses on envelopes.

"The Post Office handles some 8-million mail items a day, and even with 99% accurate deliveries, 1% of mail represents 80 000 letters a day which cannot be delivered."

He said 14% of the mail had incorrect post codes or no post codes at all, and this further delayed delivery.

Liebenberg compares tax systems

CAPE TOWN — The SA tax system did not generally have a negative effect on the country as an investment destination, Finance Minister Chris Liebenberg said in Parliament.

He presented an analysis of tax rates in 17 countries which showed the average to be 31%. While SA's company tax rates began at 35%, inter-country comparisons were not always meaningful since many factors had to be considered, Liebenberg said in a written reply to a question from Johannes Niemann (NP).

Taxes varied in importance in various stages of a country's development, and concepts such as source and residence, the taxation of accruals rather than profits and the combination of company tax and other taxes had to be considered, he said.

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Of the countries compared, Singapore had the lowest corporate rates (27%, and a concessionary rate of 10%), while Iran levied corporate taxes of between 12% and 54%.

Rates for some of the other countries analysed were: Australia 33%; Egypt 42%; Israel 36%; Malaysia 34%; Thailand 30%; and the US between 15% and 35%.

Only three countries made use of tax holidays whereby companies were granted a partial or absolute exemption from corporate tax over a predetermined period, he said. — Sapa.

BD 26/3/96

M-CANN ERICKSON 808141

Manuel committed to policy of fiscal discipline despite the rumblings

of prophets of doom (Star) 30/3/96

By CLIVE SAWYER

Unfortunately for the new South Africa, prophets of doom have become a rapidly growing sector. On occasion, one might wonder whether jitters in the market are fuelled maliciously, as evidenced by earlier persistent speculation about President Nelson Mandela's health and subsequent rumours that he would quit at the end of this year.

Whoever spreads these rumours does the country a disservice, and if the dissemination is done in innocence, it betrays a profound failure to understand the dynamics of the Government of National Unity and its commitment to what Chris Liebenberg has called the mantra of fiscal discipline.

Swiftly following this week's announcement of Liebenberg's return to private life were predictions that the rand would slide further, and that international bond investors would be cautious about South Africa because of the rate at which it has gone through finance ministers – two since the 1994 election.

Minority parties were also quick to express alarm at the appointment of a finance minister from ANC ranks, apparently purposely unaware of the respect Trevor Manuel has earned for his handling of the trade and industry portfolio.

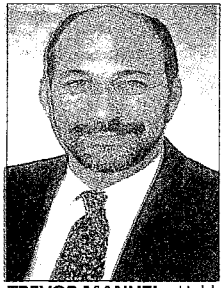
Negative reaction to Manuel's appointment displays a wilful denial of the initiatives he has taken towards leading South Africa towards its rightful place in world trade, and the rapid learning curve which will be to his benefit in his new job.

In a sense, it was a surprise to some that Manuel was not appointed finance minister immediately after the 1994 election, because it had seemed that his role as head of ANC economic affairs meant Mandela was grooming him to take over the national Budget. Informed economists have welcomed Manuel as "market friendly" and eager to abandon the country's remaining exchange controls.

It would be cause for worry if, two years after the election, there was a continuing failure to understand the role of a finance minister in the context of the Government of National Unity.

This is not to paint the National Party, or even the Inkatha Freedom Party, as the voice of sanity in the GNU, as no doubt both of these minority parties like to be seen.

But it is worthwhile pointing out that the GNU's commitment to fiscal discipline and responsible economic policy is closely linked to a broad national consensus on the issue. The ANC added to the debate with its statement that in other democracies the finance portfolio was under the direction of the majority party. With supreme confidence, the ANC said Manuel's appointment should strengthen investor confidence at home and abroad.



TREVOR MANUEL: Holds the nation's purse-strings

Manuel himself was at pains to assure markets that he stood for continuity, and acknowledged that he and his new deputy, Gill Marcus, would have to work hard in the face of criticism by sceptics.

Also prone to misinterpretation was Mandela's announcement of changes to the handling of the Reconstruction and Development Programme portfolio. Jay Naidoo is to relinquish the RDP office to take over ousted Pallo Jordan's job as minister of posts, telecommunications and broadcasting. Superficial analysis was to see this as a vote of no confidence in Naidoo, who has been subjected to criticism for producing screeds of RDP-speak documents rather than houses, jobs and running water.

This misunderstanding is born partly of a failure to grasp the complexities of the RDP process, and that this week's shift of duties to the finance ministry and Deputy President Thabo Mbeki signals a new phase towards implementation.

While the National Party was quick to label the change as the abandonment of the RDP, the change is in line with the programme's developing linkage to all government functions. It has been clear from the outset that Naidoo's role was a short-term one, pending a more pervasive approach to reconstruction and development among all ministries.

There is further significance in the allocation of RDP programmes to Mbeki, who earlier this year was given the job of unveiling the Growth and Development Strategy, the companion programme to the RDP.

For the rest, the other changes and appointments announced by Mandela are a manifestation of the normalisation of politics. Cabinet reshuffles are the norm in all countries, and Liebenberg's departure gave Mandela the opportunity to reward merit and potential, while furthering his government's commitment to a strong role for women in government.

Gill Marcus, the new deputy finance minister, matches both criteria, having gained respect for her role as chairman of the joint standing committee on finance.

Other appointments this week were unionist Susan Shabangu as deputy minister of mineral and energy affairs and Phumzile Mlambo-Ngcuka as deputy minister of trade and industry.

New finance boss Manuel vows to tax SA 'smarter, not harder'

By RAY HARTLEY
Political Correspondent

ST 31/3/96

TREVOR MANUEL, South Africa's new Finance Minister, says he will live up to the ANC's promise that government should "tax smarter, not harder" and broaden the pool of taxpayers.

Mr Manuel told the Sunday Times he supported the "general thrust" of the Katz commission on taxation, including increasing the number of taxpayers, simplifying the tax structure and getting tougher enforcement.

"The reward would be a higher yield, which gives you the manoeuvrability that does not exist at the moment," he said.

Mr Manuel takes over political responsibility for tax collection, including the customs service, of which he has been highly critical in the past.

"I've not spared the customs service public criticism, but for a very good reason — no industrial policy can have any integrity until such time as we have efficient customs enforcement," said the country's first black finance minister.

The establishment of the new Revenue Service, which amalgamates Inland Revenue and Customs and Excise, was "exceedingly important" as it would improve revenue collection.

Mr Manuel said business would have to adapt to the fact that they now had a finance minister who did not come from their "inner circle".

"It's about proving the cynics wrong, and saying decisions are taken on a range of factors, carefully considered, that extend way beyond the sometimes capricious basis on which markets move."

Mr Manuel said he fully supported changes to the way the country ran its finances, outlined by his predecessor Chris Liebenberg in his Budget speech.

These included:

- The establishment of an expenditure evaluation unit to make sure government money was used properly;
- Better management of South Africa's massive foreign debt; and
- The use of the Medium Term Expenditure Framework, which would lead to better long-term budgeting.

"We need to check not only that no one is stealing money, but that the money and resources are being utilised in a way that is entirely compatible with policy," he said.

Although South Africa spent a greater portion of its gross domestic product on education than most countries, it still had a "lousy education system" because the money was not being used properly.

"The answer can't be just allocating more resources," he said.

On the management of provincial finances, which was described as cause for "grave concern" by the auditor general this week, Mr Manuel said: "The finance ministry is not unhappy about what happened. The auditor general takes another view. I think the jury is still out.

"I would like to see us strengthening the hand of the provinces, increasing the capacity of provinces to implement that part of the fiscal arrangement."

New tax department

(320)

JOHANNESBURG. - Retiring Finance Minister Chris Liebenberg opened the government's new revenue collection department, the South African Revenue Service, in Pretoria today.

The cabinet approved the formation of the service in October last year to combine the former customs and excise and inland revenue departments and to modernise the country's revenue collection.

"The launch of the new South African Revenue Service provides a unique opportunity for revenue collection in South Africa to shake off its past and move towards a new era of efficient and effective tax collection," said Mr Liebenberg. - Sapa. ARG 1/4/96

The brass turns out at revenue service launch

(320) BD 2/4/96

Greta Steyn

BALLOONS, a brass band and blue outfits characterised the launch in Pretoria yesterday of the SA Revenue Services — which government hopes will hunt down billions of rands in uncollected taxes.

Staff were kitted out in blue and white, the corporate colours of the revamped tax collection unit. Outgoing Finance Minister Chris Liebenberg told employees: "The blue and white is really significant. I appreciate it."

The launch took place on the square outside the finance department's offices at 240 Vermeulen Street. The SAAF brass band played the theme from The Sting as guests were given service keyholders and hostesses in blue pinned ribbons to lapels. The band struck up a more serious tune as finance minister designate Trevor Manuel came down the red carpet.

He was obviously not amused by the spelling of his name on the programme: "Manual".

Commissioner for customs and excise, Daan Colesky proudly hoisted the new service flag. He told staff discussions were being held with the SANDF to enlist help in preventing the illegal removal of containers at customs posts. It would be just one step to combat massive evasion of import duties.

At the end of the ceremony blue and white balloons drifted down from the top floor of the finance building as staff applauded hesitantly.

Government is budgeting for an extra R1,5bn in revenue as a result of beefed-up collection. It said it had appointed 34 new chartered accountants to SARS's ranks,and had strengthened its Sandton office, which was being built up as a specialised corporate office. A computer system had been developed for PAYE as part of a general upgrading of computer services.

Picture: Page 3



Pictures: BRENTON GEACH, The Argus.

TOASTING THE FUTURE: Cape Town's new Receiver of Revenue, Stan Shrosbree ,left, and Ray Tennant, deputy controller of Customs and Excise, toast the combination of customs and excise and the inland

Taxing you with a smile

ARG 2/4/96 (320)

Staff Reporter

THE new South African Revenue Service (SARS) plans to fleece you, the "client", in the friendliest and most efficient manner.

Gone are the days when taxpayers had to deal with impersonal revenue staff and inefficient service.

People will no longer be referred to as taxpayers, but as clients.

The new Sars is the result of the merging of the Customs and Excise and the Inland Revenue departments.

The transformation aims to run the revenue department along business lines to addressclients' needs.

According to the new Receiver of Revenue, Stan Shrosbree, the transformation will have immediate effects.

People still waiting for their tax assessments are promised them soon.

A new paperless computer system for Pay As You Earn (PAYE) has been brought into operation and will provide a more efficient administrative system.

Previously the system relied on a time-consuming manual and paper-based method.

Other short-term and long-term reforms will be in the areas of communication, financial management, human resources development, corporate image and business management.

The cabinet approved the establishment of the new revenue service.

Retiring Finance Minister Chris Liebenberg opened the new revenue collection department at a ceremony in Johannesburg yesterday.

Inland Revenue and Customs and Excise merge

(320) Star 2/4/96

Inland Revenue and Customs and Excise are no more. They were officially merged yesterday into a single revenue-collecting body – the South African Revenue Services (SARS) – in line with a cabinet decision taken in October last year.

SARS will be managed according to modern business principles under a chief executive officer and a board of directors, the Ministry of Finance said in a statement.

The revenue services' systems and structures, which have not kept abreast of changing circumstances, are to be overhauled. Reforms being finalised were communication, financial management, human resources, corporate image, business management and information technology.

SARS will be run by a management committee until newly appointed chief executive officer Piet Liebenberg assumes office on June 1 and the board is appointed. Former Escom director Dr George Lindeque will co-ordinate the committee.

"Judging by other countries' experience of reforming their revenue services, changes would take several years to implement," the department said.

"The challenges are immense," outgoing Finance Minister Chris Liebenberg said, "but I am confident the new SARS will succeed." – Sapa.

Forum to thrash out tax indemnity issues

BD 17/4/96 (320)

Theo Rawana

THE finance ministry was lending a sympathetic ear to appeals for tax indemnity for small business, Nafcoc president Joe Hlongwane said yesterday.

Nafcoc was a leading partner in a tax indemnity forum working to help the ministry find a solution, he said.

The forum, which comprised business groupings involved in the development of small, medium and micro enterprises, was to produce a report which would be submitted to the ministry.

"We have asked for a moratorium on the taxation of small business while the question is being thrashed out," said Hlongwane.

Tax consultants from KwaZulu Natal and a group of professionals from the Eastern Cape had been brought in by the forum to help seek a solution to the problem.

Nafcoc has been calling on government to extend the tax indemnity, saying black entrepreneurs had been forced out of business because of interest on outstanding tax.

The organisation has been seeking, among other aspects, that small businessmen should be taxed on a cash flow basis.

Receiver of Revenue law application chief director Kosie Louw confirmed that his office had been conducting talks with a working group consisting of several business associations on the issue of taxation of small business.

They had been looking at a number of options and submissions, but there were problems ranging from complications in the calculation of cash flow to the definition of small business.

Hlongwane said Nafcoc had been pushing ahead to unite black business. "Our aim is to unify not only black business, but all business in SA. Our mission is to have one business organisation for SA."

The Nafcoc Investment Holding Company set up last year was an important aspect of black economic empowerment. "Warehousing is needed for all businesses, so the company has not been set up for Nafcoc members only," Hlongwane said.

He said evidence of black business coming together was the joint shareholding Nafcoc had with Fabcos and German truck manufacturer MAN, in a new truck retailing company called African Truck and Bus.

"We call on big business to sit down and talk with us on strategies of building the economy. With the involvement of government we will be able to work out policies that will favour all," Hlongwane said.

Hlongwane said Nafcoc had made its mark in Nedlac and, although it held a third representation in the business caucus, it was not a junior partner. Nafcoc is a co-convenor and was equally involved in discussions with government. It also had veto powers.

SAA 'not yet in talks on privatisation'

BD 11/4/96

Stephane Bothma

A NUMBER of foreign airlines and investors had expressed interest in entering a strategic partnership with SAA, the airline confirmed yesterday.

However, SAA deputy CE John Hare said the airline was not yet in discussion with any party concerning privatisation. His comment followed a report in a German newspaper which incorrectly claimed that German airline Lufthansa was considering buying 24% of SAA at an estimated cost of $333m.

A spokesman for Lufthansa in Johannesburg said it was not the airline's policy to exchange equity with partner airlines. She said a report published in the Boersen Zeitung was incorrectly translated, which resulted in the misunderstanding of Lufthansa's intentions.

SAA and Lufthansa entered into a co-operation agreement late last year, which included a code-share agreement and frequent flyer benefits for passengers on the two airlines.

SAA said the announcement by the SA government that SAA was a candidate for further privatisation was made in December last year. "SAA has not initiated discussions with any partner concerning future foreign airlines and investors," a spokesman said.

She said the initiation of any such discussions could not occur until an accord was reached between parties on the national framework agreement.

New pension rules let you take the lot — after tax

(320) (ST (BT) 14/4/96

MANY people are going to benefit from changes to the way their pension is taxed when they retire, writes TERRY BETTY.

The changes, which are expected to come into play in March 1997, will alter completely the way your pension is taxed at retirement.

Gone will be the one-third cash payout as opposed to a two-thirds pension. Instead, it will be possible to draw the full amount in cash.

Derek Sumption of Brantam Financial Services says the changes will completely rewrite the rules of the game:

You can withdraw the full cash value from your pension fund, retirement annuity, provident funds and deferred compensation schemes at retirement or even earlier;

The capital value of all retirement funds will be taxed as a lump sum at the point of retirement;

If you choose to take a monthly pension instead of the cash withdrawal, it will be tax-free;

The tax table used to calculate tax on your lump sum is new and has no relation to your income.

The tax deductibility of the contributions is identical whether you have a pension, provident fund or a retirement annuity.

The rules remove any differences between pension funds, provident funds and retirement annuities from a tax point of view. There is still a tax incentive to take a monthly pension rather than the cash.

In the new system the amount of income you earn in the years of retirement or in previous years has no effect on the tax rate levied on the value of your pension. From a tax point of view, this will be irrelevant when you retire.

The value of all your retirement funds will be added together at retirement. A portion of it will be tax-free and the balance will be taxed on a sliding scale.

The value of the tax-free portion will be at least R50 000. It can be increased to a maximum of R380 000, but only if you purchase R540 000 worth of annuities. Thereafter the balance is taxed as follows. R1 to R150 000 at 15%; R151 000 to R450 000 at 25%; R451 000 to R750 000 at 35%; and above at 45%.

Task team to recoup R3,3-billion in lost tax

(320) Star 17/4/96

By Nikki Whitfield

In a bid to rake in the R3,3-billion in outstanding taxes in the Johannesburg and Sandton revenue offices, an 83-man task team has been set up to tackle the backlog in assessments and collections.

This is the start of the drive announced shortly after the March budget by the newly formed South African Revenue Service (SARS) to recover the R9,9-billion in missing taxes nationwide.

"We are committed to recovering the R3,3-billion," said Sydney Pope, public relations officer for the Commissioner for Inland Revenue.

"Obviously, there are many people who haven't settled their taxes because they haven't been able to afford to, but we simply cannot allow the situation to continue."

The task team, comprising staff from around the country, will also help staff in the Sandton and Johannesburg offices with the mammoth job of dealing with outstanding objections and appeals.

Pope said an unacceptable number of objections, 8 000 in all, were outstanding and 70 appeals needed to be sorted out.

About 80% of the Sandton office jobs were vacant. "Staff turnover is unacceptably high, which makes the job extremely difficult. But the task team has been pulled together to address the problem – and there's no financial incentive for them to be here, they're doing it out of commitment to inland revenue," said Pope.

He said a recruitment drive was currently under way to fill the vacant posts, and up to 600 positions were expected to be filled by the end of next month.

"Salaries (which) Inland Revenue offer are something of a stumbling block," he said.

His comment was supported by the head of SARS, Piet Liebenberg, in a recent article in a financial magazine. Although his office has a high degree of autonomy, which means it can decide what salaries to offer applicants, Inland Revenue has always operated under the Public Service Commission which dictated salary scales.

Salaries for Inland Revenue staff lag behind those offered at the Auditor-General's office, and fall way behind wages paid by large private audit firms.

For example, a chartered accountant with three years' experience earns between R85 000 to R90 000 a year working for Inland Revenue, while the Auditor-General's office pays between R145 000 and R160 000 and private audit firms offer between R160 000 and R200 000.

But Pope said the Cabinet was committed to making SARS work. Outdated technology was to be improved to make SARS more service-orientated and efficient.

"We are going to become more professional and that will involve a bit of a mind-set change. We are and always have been a Government department but our intention is to become more business-minded."

Maharaj proposes 14c/l levy on petrol

BD 26/4/96

Linda Ensor

CAPE TOWN — Transport Minister Mac Maharaj has proposed doubling vehicle licence fees and slapping a 14c/l levy on petrol to raise about R4,4bn a year to revive SA's run-down roads.

Maharaj told the annual congress of the SA Institution of Civil Engineers yesterday that the Cabinet had endorsed a plan to create an independent agency to manage and maintain primary roads and mobilise private sector funding. Current funds allocated to SA's roads were sufficient to fund only 60% of maintenance needs, let alone improvements and expansion, he said.

SA would need to spend R7,9bn a year for the next 10 years to address the backlog and maintain the network.

The treasury collected more than R8bn a year in licence fees and fuel taxes, but just R3,2bn was allocated each year for rural roads, he said.

The higher licence fees would generate R2bn of the R5,5bn needed yearly to fund provincial roads, with the rest coming from the exchequer.

There was wide public support for a dedicated national road fund sourced by a fuel levy, and loan funds redeemed through toll charges. Loan financing could raise R400m with the dedicated fuel levy pulling in another R2,4bn. This would set the fuel levy for primary roads at about 14c/l.

"While this might ... be an onerous additional burden on the motorist, it should be noted that the exchequer already collects some 60c/l from the motorist as a tax, and that a portion of this 14c/l could be provided from this tax."

See Page 3

REVENUE COLLECTION

CRISES OF STAFF SHORTAGES AND TAX BACKLOGS

FM 26/4/96 (320)

Piet Liebenberg's tough task

Do you know the name of Johannesburg's Receiver of Revenue? The chances are that you don't — but you most likely did in past years when Percy Drake, Robert Vice and Anthony Chemaly were all but household names.

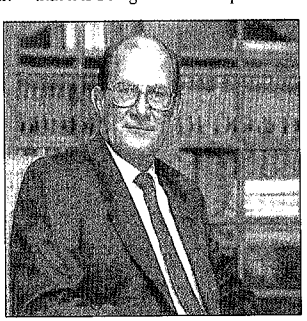
The reason you don't know now is that, for the past nine months, Johannesburg, the largest and most important revenue office in the country, has not had a Receiver. This is, moreover, the most important Revenue post after that of the Commissioner of Inland Revenue. And the gaps in its top management are so large that it is unlikely a commercial enterprise would be able to operate in similar circumstances.

Tax collection in SA is a complex task, often requiring rapid interpretation and guidance. This process is unlikely to have much utility without the authority of a senior tax official.

The Johannesburg vacancy is the most important symptom of the general staffing crisis facing Inland Revenue and Customs & Excise, where the position is much worse.

So bad is the state of customs supervision at SA's most important point of entry for goods — Durban — that it is being described (and not just by cynics) as a "free port."

The understaffing and lack of direction at the Johannesburg and Sandton revenue offices has become so serious that Commissioner for Inland Revenue Trevor van Heerden has drafted an emergency 80-man team of revenue collectors to shore up these two premier sources of tax revenue. Jointly, they harvest 42% of total inland revenue.



***Trevor van Heerden** . . . not responsible for the morbid situation*

The team has three months to attack the backlog in assessments, audits, inspections and collections. It will also help deal with outstanding objections to and appeals against assessments, which, not surprisingly, are badly in arrears.

This move to prop up the Johannesburg and Sandton offices is long overdue, but it will deplete other centres.

Another mark of the decay of tax collection is that nobody knows exactly how much arrear tax is uncollected. Some estimates are as high as R10bn. These include large amounts of Vat and even larger residual amounts of GST.

The situation gives an idea of the enormity of the task facing Piet Liebenberg, the former banker who has been charged with clearing up the mess and running a new administration.

We suspect that this morbid situation is not the fault of Van Heerden or of Commissioner of Customs & Excise Daan Colesky.

Both are public officials of integrity and dedication. But, for too long, they have been starved of resources.

Van Heerden says 11 000 public service posts at Inland Revenue were advertised in 1994, for which a multitude of applications was received. In the case of Inland Revenue, there were 25 000 applications for about 600 jobs.



***Piet Liebenberg** . . . trouble-shooting on the tax collection front*

It has taken time to evaluate this mass. But by the end of this month, Van Heerden expects to have filled all 600 vacancies on the basis of the latest public service salary scale.

In line with government policy, Van Heerden says the goal is a Revenue service fully representative of the population.

He emphasises that it is not true that posts are being held vacant until blacks are available to fill them. There has, however, been a noticeable absence of applications of stature, regardless of race.

So, though jobs may be filled, appropriate skills may still be short and the long-standing problem of inadequate remuneration will remain.

For many years, there has been a clear case for the radical reorganisation of Inland Revenue and Customs & Excise, shackled by the constraints on salary and working conditions imposed by the Public Service Commission (formerly the Commission for Administration).

The new post-apartheid government has shown considerable fluidity in some administrative areas. Not the least of these has been tax collection.

The formal decision to break with the rigidities of the past was taken months ago to create a new and preferably autonomous revenue collection service — the SA Revenue Service.

The need to spend much more money on collection under the new arrangement was recognised in the Budget, in the form of a R950m allocation.

The first major step towards beefing up

CONSTITUTION BILL

FEDERAL DOCUMENT WITH DUBIOUS PROPERTY CLAUSE

The Constitution of the Republic of South Africa Bill, 1996, was tabled this week. An explanatory memorandum states it is the outcome of a two-year process involving "the largest public participation programme ever carried out in SA." This is disingenuous.

It was the participating parties in the Constitutional Assembly (CA) which mapped out the details of the legal framework of the future. As at Kempton Park, where "sufficient consensus" was the watchword, the CA — for all the publicity — has produced a document substantially hatched in secret deals and political trade-offs.

This is not a bad development. Politicians are, after all, elected to manage the political processes that most voters find tedious or incomprehensible. What one now has is a document that has been described, justly, as the most progressive constitution in the world; but it is also one that contains lacunae.

The Bill remains subject to amendments. There would seem to be an incontestable need to reformulate the property clause (see *Current Affairs*) and for greater equity in the labour clause which appears, at first sight, to be inequitable in its bias towards workers.

That said, the real danger of a resurgence of rightwing Afrikaner resistance to majority rule has been defused by a proposed "Commission for the Promotion & Protection of the Rights of Cultural, Religious and Linguistic Communities."

Customary law, meaning "the institution, status and role of traditional leadership," is entrenched — subject only to its constitutionality in terms of the Bill of Rights, which is the heart of the new constitution. But the horizontal application of those rights is also entrenched — opening the door to a legal minefield whereby anyone with a grievance against a company, for example, might seek constitutional redress for an alleged violation.

However, it should not be denied that the cruel distortions of the apartheid era have been removed. Broadly, it is a federal constitution, delegating sufficient regional powers to allow for a traditional monarch in KwaZulu-Natal, and, in the proposed new commission for minorities, an avenue of redress for those who feel marginalised.



The socio-economic clauses in the Bill of Rights have emerged as promises rather than entitlements. In other words, you will not automatically get fine things like free food, water, health care and housing. The State is merely required to take "reasonable and other legislative measures" to bring about Utopia.

The ANC has learnt rapidly about the limits of any government's resources.

All the rights are limited where such a curtailment is considered "reasonable and justifiable in an open and democratic society based on human dignity." In the freedom of expression clause, freedom of the press is weakly supported subject to the ANC's nebulous proviso that there should be no "advocacy of hatred that is based on race, ethnicity, gender or religion and which constitutes incitement to cause harm."

How this will be interpreted by the courts is unclear. The next generation of ANC leaders may be less concerned with reconciliation than the current one.

The final constitution is scheduled to be adopted on May 8. Once, and if, it has been certified by the Constitutional Court — which has set aside June for this purpose — it will be signed into law.

The Government of National Unity will continue until 1999. After that, the President will be able to choose his Cabinet from the National Assembly — elected by proportional representation — irrespective of party allegiances, if he wants to.

Though the clause which prohibits MPs from crossing the floor has been quietly dropped, the ANC, according to the DP's Colin Eglin, appears determined to maintain the rule throughout the final years of the transition. Given recent departures from its parliamentary ranks — most notably Cyril Ramaphosa's — the ANC probably wants the security of its fixed majority until the next general election.

The ANC clearly set out to write a basic law catering to its constituency. Other parties have curtailed its excesses. Only a few working days remain to moderate its residual antigrowth, populist tendencies. ■

revenue collection was taken more than a year ago when tax consultant Charles Stride was appointed a special adviser to then Finance Minister Chris Liebenberg. His brief was to tackle the revenue-collection problem.

Then Eskom Pension Fund chairman George Lindeque was appointed to head a transitional task force to spearhead the establishment of the new Revenue Service.

Now Piet Liebenberg, the first CEO, is in place. He will formally take office on June 1. He has been appointed for three years — not only to establish a new collection service but also to find and induct his successor.

Liebenberg is by no means the conventional executive, though his career includes the co-founding and executive chairmanship (for 17 years) of Finansbank.



***Daan Colesky** . . . a dedicated man of integrity*

When Finansbank was taken over by the Nedcor group in 1987, he became Nedcor's group chief. He was subsequently executive chairman of Bankorp and then, briefly, deputy chief of Absa until his retirement in 1992.

Soon after that, he was appointed chief of The Council of SA Bankers. He also chairs Munich Reinsurance of Africa and Business Against Crime.

He describes himself as "an outspoken advocate of uncompromising business ethics based on Christian principles." In the present climate of rising corruption and inefficiency, he faces a formidable task: turning the former Departments of Inland Revenue and Customs & Excise into effective revenue-collecting institutions, while simultaneously trouble-shooting and problem-solving.

The job is not to be underestimated, as the latest crises at Johannesburg and Sandton make only too evident.

In the new structure, the duties of the two present Commissioners will be redefined. While subordinate to the new CEO of the SA Revenue Service, both will be able to spend more time analysing, evaluating and, where necessary, amending the relevant laws.

The establishment of an autonomous revenue collection structure — along the lines of many advanced industrial countries such as the UK — was recommended in the first report of the Katz Commission, which stressed the urgency of the task.

The SA Revenue Service will be given freedom to set its own salary structure and conditions of service and, as important, allowed to retain between 1,5% and 2,25% of gross revenue collected to finance its own operations.

It is widely recognised that somewhere between 1,5%-2,5% is the necessary proportion of gross revenue that needs to be devoted to the revenue collection process.

Liebenberg sees himself as the manager of a quasi-business with a turnover of about R135bn. It is evident from the present state of revenue under-collection that those management systems which exist are inadequate. Liebenberg proposes to establish a new, complete and appropriate management structure. One vital component will be adequate access to contemporary information technology — in other words, an up-to-date computer system with sufficient processing capacity to meet expanding needs.

If all goes according to plan, within a few years the efficiency of the collection process should be restored, defaulters hunted down and the numerous members of the informal sector still escaping tax netted.

An operating Customs & Excise service should have social benefits beyond the collection of duties. The smuggling of drugs has become a grave law enforcement problem, but one which should also be amenable to more efficient detection at custom points.

Formal control of the restructured Public Service Commission remains under the ultimate authority of Public Service and Administration Minister Zola Skweyiya. To what extent he will allow the new tax collection service its envisaged autonomy is now a key question.

And if he should interfere, the extent of Liebenberg's resistance is also important. Our guess is that Liebenberg may have to display more steel than he imagines might be necessary, especially when it comes to the maintenance of market-related salaries for tax lawyers and accountants of proven ability.

Moreover, affirmative action objectives must give way to ability as the criterion for appointment.

Even the new salary scales have not attracted top-flight tax collectors. If other social objectives are allowed to intrude, the level of skills available will remain sadly inadequate.

Liebenberg assumes that neither will prevail while he is in the job. If he underestimates either the emotional appeal of aggressive affirmative action or the stubborn resistance of Nat public servants, his task could become impossible.

Of course, revenue collection is the ultimate responsibility of new Finance Minister Trevor Manuel, who now has the benefit of support from sensible Deputy Minister Gill Marcus.

They are aware that revenue collection is the base of the entire pyramid of government. And they have a responsibility to ensure that the priority for a revenue service must be efficiency and honesty.

This means there is a need to ward off political pressures to restrict the new department's autonomy over remuneration, working conditions and the application of affirmative action at the expense of efficiency.

There will be times when Liebenberg will need their support — in Cabinet and in public— in the equally onerous task of restoring moral integrity and encouraging a taxpayer-friendly culture at all levels of the collection process. For the application of the new taxpayers' charter will require their support.

Indeed, if these reforms are not driven through at the highest level of authority, government will be undermined. ■

STRIKE DELAYS

Though the *FM* is going to press a day early next week because of the public holiday on Wednesday, if the nationwide strike called by Cosatu for Tuesday materialises there could be unavoidable delays in the distribution of the issue dated May 3. We apologise in advance for any inconvenience this may cause. ■

Maharaj drops tax levy bombshell for 'reeling' motorists

(320) abc (433) Star 26/4/96.

OWN CORRESPONDENTS

Cape Town – Yet more shocks await motorists who will be reeling from the expected announcement of a 13c a litre petrol price increase.

Minister of Transport Mac Maharaj has drastic proposals to increase the fuel levy by 14c a litre, to double vehicle licence fees and possibly add more toll roads. He dropped the tax bombshell yesterday during a keynote address at the seventh annual congress of the SA Institution of Civil Engineers (SAICE) in Cape Town, saying years of underfunding meant "fundamental changes" were necessary in the management and funding of roads.

The proposed measures would form part of a drive to commercialise some of the country's roads to generate alternative funds for road maintenance and construction, he added.

The cost of redressing the maintenance backlog and catering for growing traffic needs was estimated at R7,9-billion a year while the fiscus provided only R3,2-billion a year for rural roads.

The proposed fuel levy increase plus loan funds, redeemed through toll charges, would be paid into a National Road Fund, which would be used to finance primary roads. Secondary and tertiary roads would be funded through vehicle licences and annual budget allocations.

Varying tax rates for the provinces proposed

BD 10/5/96 (320)

CAPE TOWN — Individuals could be taxed at different rates in different provinces, if the government accepts proposals released yesterday by the financial and fiscal commission.

Provinces should be allowed to impose a surcharge on individual income tax, the commission recommended in a report on the allocation of financial resources to national and provincial governments for the 1997/98 tax year.

Income tax surcharges did not have to result in an increase in the overall tax burden, although this "was technically possible," head of the commission's secretariat Punday Pillay said.

A new provincial grants formula was proposed under which provinces will receive allocations to address inequality in their tax bases (a T-grant) and an institutional grant to fund provincial legislatures.

The formula also includes three other grants previously recommended by the commission:

- ☐ A grant for school education and primary health care;
- ☐ A conditional grant for medical training in academic hospitals in certain provinces; and
- ☐ A basic grant to enable provinces to establish and maintain the institutions and functions required of them in terms of the constitution.

The institutional grant would see each province receiving R3,176m to meet recurrent expenditure. The grant was based on the minimum amount required by the smallest province, Pillay said.

Allowing provinces to place a surcharge on personal income tax would enable provinces to substantially increase the revenue they collect, the commission said.

It recommended the national tax rates on individuals be lowered in accordance with provincial tax. In this way a certain percentage of income which formerly accrued to government would accrue to the provinces.

The commission recommended this reallocation be phased in at one percent of personal income tax a year for seven years.

It was unlikely legislation for implementing a provincial surcharge on national tax could be passed in the first year the formula would be applied. So it was proposed provinces be assigned a transitional amount equal to what the reallocated tax would be.

Over and above the redistributed tax, it was recommended provinces be given the option of introducing an additional tax surcharge of up to five percent of personal income tax, but their decision would have to take into account the national revenue strategy.

The recommendations are to be referred to Parliament. — Sapa.

Zulu chiefs slam new constitution

BD 10/5/96 (225)

Farouk Chothia

DURBAN — Zulu chiefs yesterday vowed to resist the national constitution as it was an "illegitimate, autocratic and totalitarian" document which did not recognise the sovereign kingdom of KwaZulu-Natal.

The chiefs said in a resolution adopted at a meeting in Ulundi that a new constitutional process should begin in SA so that an all-inclusive settlement could be achieved. IFP leader Mangosuthu Buthelezi was present.

The chiefs called on Zulus to peacefully rise and resist the constitution, and to do so with the "same strength and impetus ... which characterised our struggle before the 1994 elections".

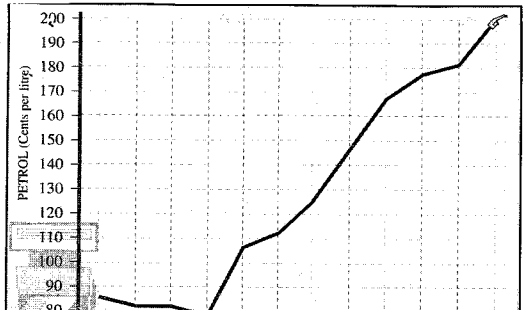
The chiefs said the constitution was aimed at crushing KwaZulu-Natal and did not make sufficient provision for traditional leaders and communities.

The constitution, unlike the interim one, does not provide for chiefs to be ex-officio members of local government. The constitution also provided for municipalities to replace traditional structures.

The constitution turned KwaZulu-Natal into a "puppet in the hands of Pretoria and Cape Town" and was crafted to destroy the provincial constitution adopted in March.

This was the first meeting of chiefs since the attack on the Zulu royal family, and they described the incident as "abhorrent, vile and unprecedented".

The chiefs said they were calling for unity among Zulus, and atonement.



UP AND UP: How the petrol price has increased over the past ten years.

Shell-shock! More increases ahead

ARG 11/5/96 (320)

WILLEM STEENKAMP

WHILE millions of rands of taxpayers' money is paid to subsidise cash-rich synfuel giant Sasol - a private company listed on the Johannesburg and other international stock exchanges - hard-pressed South African consumers are looking down the current fuel price in those countries, taking into account the sharp drop in the rand value against foreign currency in recent times.

It must also be remembered that these and other European countries boast excellent public transport systems which allow the masses to travel cheaply,

WILLEM STEENKAMP
Staff Reporter

ONE of the more bizarre anomalies of the government's current financial policy is the fact that the state is using millions of rands of taxpayers' money to subsidise a listed private company which made a pre-tax profit of nearly R3 billion last year.

And what is even more bizarre is that more than 500 000 shares in the company are held by foreign investors - which effectively means that South African taxpayers are subsidising foreign investors who in any event receive a substantial dividend from the company.

The company in question is Sasol, one of the wealthiest oil companies in the world, which was set up with taxpayers' money at a time when sanctions and the availability of crude oil made the establishment of a local synfuel industry vitally important.

But the sanctions have now fallen away, crude oil is readily available and Sasol has paid off the loans used to fund Sasol Three.

The South African Petroleum Industry Association (Sapia) believes that the playing field should now be levelled and the subsidy stopped.

In five months Sasol's share price has jumped from R27 in December last year to R41 this week. And because the company's subsidy from government is

Listed company aided by state

The hard pressed South African taxpayer is subsidising foreign shareholders in a local oil company. Foreign and many other local shareholders not only benefit because of government subsidies to the oil company, but also earn substantial dividents on their shares.

calculated on a dollar crude oil price, Sasol's subsidy has effectively increased by more than 20 percent in recent times because of the fall in the value of the rand.

The local petroleum industry buys petroleum from Sasol at a similar price to the landed cost of the international refined product.

But because Sasol is in Gauteng fuel companies which buy the fuel there have to pay a further 10 cents a litre for the Sasol product.

The 10 cents a litre represents what it would cost to pipe the refined product from the coast to Gauteng. However although Sasol is in any event based in that region and fuel does not have to be piped there, oil companies still have to pay 10 cents a litre more for Sasol fuel.

This gives the company a further major financial advantage.

Colin McClelland, director and spokesman for Sapia which represents all the major oil companies in South Africa (except Sasol), bluntly told SATURDAY Argus that Sasol had "somehow convinced" the government to continue subsidising it even though it was now a private company with private shareholders.

"In December last year the question of further subsidies to Sasol was discussed by the government. At that stage Sasol's loans had been paid and the company had a couple of billion rands in the bank. It was and is financially sound and there was no reason to extend the subsidy.

"But Sasol indicated it would have to close down if it did not receive the subsidy. This is simply not so. Furthermore they also indicated that they would support some downstream petroleum industries and the government then agreed to continue the subsidy, although it will phased out over a number of years.

"Much was also made of the fact that Sasol saves the country R6 billion in foreign exchange annually, but it must be remembered that they are a private company which made a before-tax profit of nearly R3 billion on a turnover of about R12 billion last year. Sasol would still make a substantial profit without a subsidy.

"Look, to be quite honest we realise Sasol is a tremendous asset to the country. If it were in dire financial straits and its very future was at stake, we would not oppose a subsidy, provided this was repaid to the taxpayer when its situation improved again.

"But at the moment Sasol is a private company with private shareholders - many thousands of shares held by foreigners.

"It is quite unfair that the taxpayers, including the poorest of the poor who are bulk users of paraffin have to subsidise a private company to the benefit of that company and its share-

holders," said Mr McClell

Sasol spokesman Alfons mand said Sasol found Sa comments in connection the subsidy "tedious" as cabinet had resolved the i in December last year aft long and transparent proc

Mr Niemand said the net's decision was based o independent study by A Andersen Consultants w found that tariff protectio synfuels was justified, but to be phased out over a pe of three years.

"We see their decisio harsh, but believe that the inet took a considered deci in the best interests of the c try. Sapia's criticism of the inet is most inappropriate

Mr Niemand added that tariff protection which S currently received was " modest" compared to the afforded to other local m facturing industries.

He said the benefits of country having a local m facturer of crude oil in the of high crude prices were ous.

"Sasol's synfuels under the rand by earning the cou R5,6 billion a year in for exchange. It also provi 59 000 jobs directly and i rectly.

"We fail to understand the foreign oil companies sist with their attacks on t protection when the issue been resolved."

Arg 11/5/96 320

barrel of a gun loaded with ever-rising fuel prices.

Only weeks ago the fuel price was hiked by 14 cents a litre from R1,86 per litre to R2 a per litre on the coast. But with the rand this week once again plummeting because of political power-play by the National Party, further increases in the fuel price cannot be ruled out.

Government sources have also indicated that a further tax of about14 cents per litre may be levied on fuel to pay for the maintenance and the building of new roads.

In the last 10 years the South African fuel price for 97 octane jumped from 90,1 cents a litre in 1985 to the current price of R2 a litre.

If the same conditions prevail over the next 10 years – which seems highly unlikely with the volatile position of the rand and the increasing strength of the dollar – consumers will be paying more than R4 a litre in 2005.

Ironically, government tax on fuel is one of the lowest in the world, with less than half of the fuel price paid at the pump going to the fiscus in taxes. But a substantial percentage goes towards Sasol to subsidise its synfuel operations. Ironically, the company last year posted a pre-tax profit of nearly R3bn.

In a country such as the Netherlands, where fuel cost more than R4 a litre two years ago, about R3 went to taxes.

In Switzerland, where consumers paid more than R3,50 a litre in 1994, about R2,50 went to taxes, while the French paid about R3,15 in taxes out of a pump price of about R4,00 a litre.

Obviously, these figures do not give a realistic picture of the safely and in relative comfort compared to the situation locally.

Colin McClelland, a spokesman for the South African Petroleum Industrial Association, said comparatively speaking, fuel was still relatively cheap in South Africa.

This, he said, was largely because of the low taxes levied on fuel.

This may all change when and if the government increases taxes in line with European countries in an effort to fund the maintenance of roads and other projects.

Mr McClelland said fuel tax was one of the most efficient taxes to raise and collect.

The people who would suffer most under an increasing fuel price and higher taxes were, ironically, both the very rich at the one end of the spectrum and the poor at the other end.

The rich, because they have more than one car, would pay more but would obviously be able to carry the increase in cost with comparative ease.

Meanwhile, the poor – who are dependent on minibus taxi transport to reach their places of work or public transport points – would feel the sting as taxi-operators are forced to put up their prices.

Ironically, the fact that taxpayers are subsidising Sasol, which is privately owned, means that Joe Soap – who for instance buys paraffin in the townships – is in effect paying part of the dividend paid out by Sasol to foreign and local share holders.

More than 500 000 Sasol shares are in foreign hands, while the bulk of shares are owned by individuals and large companies locally.

Court challenges delay tax collection

BD 13/5/96 (320)

Deborah Fine
and Kevin O'Grady

THE SA Revenue Service has been unable to collect taxes running into millions of rands because of several Constitutional Court challenges to provisions in the Income Tax Act.

As a result, inland revenue commissioner Trevor van Heerden has asked the court to pronounce on the validity of certain sections of the legislation.

In papers filed, Van Heerden said tax collection could be disrupted with a "disastrous effect" on state revenue because of widespread challenges to the Act's procedural provisions.

Van Heerden said on Friday that most of the five court challenges had been to the Act's search and seizure provision and included one case where R33m was owed. Another involved an alleged drug dealer who jumped bail, left the country and then challenged the seizure of his assets.

"Many more people have threatened us with court action on the grounds that certain provisions are unconstitutional," he said.

By its nature, the levying of tax was an invasion of citizen's rights but, on the other hand, the existence of the state and its institutions were dependent on funds obtained by way of taxes, Van Heerden said in court papers.

Tax had to be collected in accordance with the Constitution.

There was, however, uncertainty regarding the constitutionality of certain procedures contained in the Act. This had resulted in the suspension of collection and execution procedures in instances where a taxpayer had argued that one or more of his fundamental Chapter Three rights had been infringed. This had caused a severe curtailment of efforts to effectively administer the Act which in turn had led to an even lower "tax morality".

One of the goals of any tax system

Continued on Page 2

Tax collection

Continued from Page 1

was to create a high tax morality because tax morality was a valuable yet fragile national asset and a prerequisite for a tax system.

For these reasons it was important that clarity be obtained regarding the constitutionality of the Act's collection and enforcement procedures. Van Heerden said his application would seek to achieve this.

The court had the power to allow unconstitutional legislation that predated the Constitution to remain in force for a certain period and until the offending sections were amended. The court could also suggest ways in which the legislation could be amended to bring it in line with the Constitution.

Some of the contentious sections, such as the search and seizure provisions, could possibly be outdated and inconsistent with the Constitution, while others, in his view, were not.

The relief sought in his application would indicate which procedures were invalid, what defects existed and how they were to be remedied.

Gambling to receive no VAT favours, says Katz

CT (BR) 15/5/96 (Katz) (320)

By Ann Crotty

Johannesburg — The legalised gambling industry would receive no favourable VAT treatment even when it was being used to support tourism, Michael Katz, the chairman of the Katz commission, said yesterday.

He told a gambling conference in Johannesburg that the Katz commission's tax recommendations to the government included the need to protect the integrity of the VAT base.

"We are firm in the view that the VAT base should not be undermined. Apart from some very basic foodstuffs, we want to stick with the principle that no zero rating be allowed."

Other speakers pointed out that apart from major administrative difficulties, it would be politically unacceptable for the government to allow a zero rating on gambling when they had rejected a number of trade union approaches to reduce VAT on certain foodstuffs.

Delegates and speakers said the uncertainty concerning the tax situation was having a negative effect on investor sentiment.

Stan Matsebula, the chief director of finance in Gauteng, said it would not be possible to determine what the applicable gambling tax was until an agreement had been reached between the national government and the provinces.

In terms of the constitution, provinces have the right to generate revenue from gambling.

The national government would levy income tax on operators as well as collecting VAT.

Industry sources said provincial governments were concerned that there would be little additional scope to levy provincial taxes or licensing fees on top of the national taxes.

A number of provinces have approached the government about channelling VAT receipts back to the provinces.

Provincial executives have said the government would be unlikely to return more than 50 percent of the tax collected.

Renewed calls for Katz proposals to be put on hold

(320) CT(BR) 15/5/96

By Bruce Cameron

Cape Town — The Life Offices Association called again yesterday for the Katz commission recommendations on the taxation of retirement funds to be put on the back burner until a forum could be appointed to look into retirement funding.

The association made the plea on the first day of public hearings by the parliamentary committee on finance into the Smith committee report on retirement provision.

The association, along with the Actuarial Society of South Africa and the Smith committee, asked the parliamentary committee to endorse a national forum dealing specifically with retirement.

The groups want the forum to be preceded by a task force to deal with the differences between the Katz taxation commission and the Smith committee. The task force would also draw up a draft document to be put to the forum.

Guy Smith, the chairman of the Smith committee, said differences between his group and the Katz commission were inevitable: Katz had looked at broad tax issues, where his commission had looked only at retirement provision.

The proposal for a national forum was initially made by the Smith committee last year, when it recommended the partial restructuring of South Africa's retirement industry.

All the speakers at the hearings yesterday were concerned that the Katz commission recommendations would discourage people, particularly those on low incomes, from making provision for retirement, and that individuals would not keep pension benefits as they changed jobs.

Concern was also expressed that there was insufficient incentive in the Katz proposals to encourage retirement fund members to take a monthly pension rather than a cash lump sum payout on retirement.

Rand's recovery reduces immediate need for support measures

Checking glossies and swish cars can be taxing

(320) CT 21/5/96

EVER WONDERED how the taxman finally catches up with tax evaders? The city's chief revenue inspector, Mr Fred Garner, reveals all (or almost all) in an interview with Crime Writer **JACKIE CAMERON.**

HE sits in an office surrounded by piles of accounts, but spends much of his day thumbing through glossy lifestyle magazines. When he's on the road, he constantly jots down the registration plates of flashy cars driven by beautiful young women.

He's not a pervert, nor is he shirking work. He's doing his job — hunting down tax-dodgers.

Special Inland Revenue Investigators raked in about R194 million nationwide in unpaid taxes and fines in the last financial year. Another R627m is in the pipeline.

There are millions more that have gone undetected, which is why South African Revenue Services are recruiting more staff and upgrading their computer systems.

The changes have not yet filtered down to the Western Cape's investigation department — but this has not dampened the determination to root out "economic saboteurs", says Cape Town's chief revenue inspector, Mr Fred Garner.

"You need instinct for this job. Twenty files may come your way. You will feel nothing with 19 of them. One will make your hair stand on end.

"Something will feel fishy, even though you're not sure what it is. Your intuition is usually right."

Garner says his staff "love reading the glossies and newspapers" to ascertain who may be keeping up a lifestyle that does not correspond with income tax returns.

They also come across a large number of errant income-earners through the registration plates of luxury cars that have been donated to lovers and "hard-working" secretaries.

Investigations start off as laborious paper jobs, but once clues start popping up these investigators get a rush of adrenalin.

But Garner tells his investigators to curb their bloodhound instincts, and says: "We have to be cautious before we move in on someone. We do not want to rush in and find there's nothing wrong. We also do not want to walk away and say 'Sorry we troubled you'. Bad news travels fast. We do not want to embarrass anyone.

"We seldom have unsuccessful operations. When we pay a courtesy call, we are usually 100% sure we have a tax evader on our hands.

"Sometimes I have felt like a priest. Many people confess immediately. Others feign ignorance. Occasionally we have had guns pointed at us.

"We have also had people who, perhaps coincidentally, have suffered heart attacks and epileptic fits during our visits," Garner says.

The onus is on the taxpayer to prove that the taxman is wrong, but Garner is quick to emphasise that "it is not just a question of passing the buck — we must be able to justify our actions if a case ends up in court".

The Special Income Tax Court, like most of the taxman's activities, is shrouded in a veil of secrecy provided for by our law.

"We may not divulge anything about our clients. We cannot even say whether we have targeted a particular profession."

Garner says they have received tax returns from prostitutes for professional services and some drug-dealers, in their income tax forms,are open about their dubious trade , but his hands are tied when it comes to helping police with tip-offs.

"We cannot divulge this information to anyone. It is strictly against the law."

Currently, investigators are focusing on evasion involving large amounts — but do not turn a blind eye when a small-time offender comes to their attention.

They also have little time to pluck out income tax offenders from the mass of individuals outside the country.

South Africa has 4,6 million registered taxpayers.

For this, the taxman relies mostly on tip-offs from spiteful ex-spouses, angry neighbours and overworked and underpaid employees. In exchange, these people receive financial rewards — which of course are not tax-free.

Investigators also uncover tax evasion, after death, when estates are being wound up.

How does Garner feel being one of the most feared men in town? "No one is scared of us, unless he has something to hide. We're a nice bunch really ... very jovial," he says, before admitting that at dinner parties he seldom reveals how he earns his living.

National director of Inland Revenue Investigations Mr Hein Heydenrych believes it is his moral duty to net tax-dodgers.

"Ninety percent of tax evasion is greed. I do believe we have a high tax morality rate in this country. Tax evasion goes back to biblical times. In Luke, it says render unto Caesar what is his," Heydenrych recites, with more than a glimmer of warning in his eyes.



TAX-DODGERS BEWARE!: The city's chief Inland Revenue inspector, Mr Fred Garner (left), and national director of special investigations, Mr Hein Heydenrych, explain how they close the net on tax evaders.

PICTURE: NIC BOTHMA

10 THINGS YOU SHOULD KNOW ABOUT THE TAXMAN

- **A STRINGENT secrecy provision, in Section Four of the Income Tax Act, prohibits him from revealing the identities of tax evaders.**
- **He cannot tell the police about criminals who reveal their illicit sources of income to him.**
- **Once you've been caught, the taxman will always have his eye on you in case you do it again.**
- **Many tax evaders never learn: Investigators have fined a large number of people repeatedly .**
- **Once caught, you are expected to pay the taxes due — plus a penalty of up to 200% of the amount you hid.**
- **The taxman gleans much information about tax evaders when they boast about their lavish lifestyles in upmarket magazines — but tax returns reflect modest shacks financed by modest loans.**
- **The taxman believes he has an obligation to honest taxpayers as well as the state — which is why he hunts down tax-dodgers.**
- **When taxmen visit, you can be certain it will be virtually impossible to wriggle out of the situation. They prepare thoroughly because they don't want to make a mistake.**
- **If you come clean with the taxman before the investigation begins at best he is likely to impose the minimum penalty.**
- **If you are under 65 and earn more than R15 578, you have to pay tax. If you are older, you have to earn over R27 800 to pay tax.**

Land tax debate heats up

Commercial farmers 'facing catastrophe'

(320) CT(BR) 22/5/96

By Roy Cokayne

Pretoria — Dries Bruwer, the president of the Transvaal Agricultural Union, warned a land tax would have a catastrophic effect on commercial farmers and force a "total restructuring of commercial agriculture if it is to survive in South Africa". He was reacting to this week's announcement by the Katz commission that the viability of a land tax at either provincial or local government level is to be investigated further.

The commission said that the land tax sub-committee had reconvened for this purpose.

The sub-committee has called for submissions on the findings of the tax commission on land tax, as contained in the third interim report of the Katz commission, and on the viability of such a tax being imposed by provincial or local government. Bruwer said the further investigation of a land tax for South Africa had been expected and predicted the government would implement such a tax. Bruwer said at the time of Chris Liebenberg's resignation as finance minister that he had noted Liebenberg's desire to broaden the tax base by increasing VAT. He said that politically this had not suited the government.

He said that because the government's books now did not balance, they had to look for other sources of revenue.

"This is deadly tax, particularly in a country like South Africa, which is not an agriculture-friendly country," Bruwer said. "For example, the old northwestern Transvaal has had a drought for 14 years. What must these farmers pay taxes with if they don't have any income? Now there will be an unfriendly tax system as well." Bruwer said that a land tax could also force farmers off their land, and that this land could then be redistributed.

Jon Beverley reports from Durban that sugar farmers said they would be happy to pay a land tax if it replaced the existing Joint Services Board levies and other taxes. But they would be opposed to a new, additional tax, Brian Sugden, the director of agricultural economics at the South African Cane Growers' Association, said yesterday. He said he believed this was also the attitude of the Natal Agricultural Union.

How Katz report justified its land-tax proposals

By Roy Cokayne

Pretoria — The Katz commission said there was sufficient evidence to justify the implementation of a rural land tax at local government level, according to its third interim report.

It did not, however, recommend a national land tax in the short to medium term.

Several reasons were offered to support this view.

The tax had the potential to raise much-needed revenue for rural local authorities. A rural land tax at local government level would give greater fiscal autonomy to rural local authorities, and a local rural land tax would improve equity as urban dwellers paid tax on land.

The commission recommended further investigation to ascertain the merits of a local land tax. This would assess whether the implementation of the tax would have undesirable effects.

The commission said certain issues required further investigation. These included whether there would be the expected benefits of a local rural land tax; the definition of the roles of the national and provincial governments with regard to a local rural land tax; and the framework within which the proposed tax should be implemented.

It would include an assessment of the factors that should be taken into account to ensure that the envisaged tax system operated properly from an administrative point of view.

This included the definition of the tax base, the identification of the party liable for the tax, the assessment of taxable value and the tax rate. It would clarify the appropriate exemptions, tax relief, administration, collection and enforcement.

The relationship between the land tax and other revenues, including regional services councils' levies, as well as the relationship between the tax and fiscal transfers would be explained.

It would assess whether the envisaged tax should be regarded as a net addition to the tax burden, or whether it should replace existing revenues. The investigation would ascertain ways in which the tax could be linked to urban local tax systems.

This would include co-operation in implementing valuation methods and ways of using the tax to smooth the urban-rural

Katz commission to probe mine tax

(320) BD 23/5/96

Adrienne Giliomee

THE Katz commission is to investigate taxation across the mining industry — including the thorny issue of ring-fencing — and the tax status of funds such as medical aid schemes.

Commission chairman Michael Katz said yesterday the probe would focus on industry concerns about defects in existing tax legislation.

The mining industry has complained that ring-fencing — where development costs of one mine cannot be set off against the tax base of another — is a key obstacle to major new developments in SA. Mineral resources taxation has been mooted as a mechanism to encourage groups to free unused reserves for the small mining sector.

The tax status of all benefit funds, including friendly societies, medical aids and funds other than pension, provident or retirement annuity funds, would be probed. Katz would not disclose whether medical aids might face changes similar to those he mooted for pension funds. Industry players would be asked for submissions by July 15.

Figures show less than 3% of population is paying tax

(320) Star 28/5/96

Cape Town – Figures released by Finance Minister Trevor Manuel show that individuals falling into the income category of between R100 001 and R150 000 a year pay the largest slice of tax to the Receiver of Revenue.

Some 104 342 individuals in this category pay a total of R4,022-billion, or 19,15% of all individual tax paid to the state, while the richest of the rich – those 3 696 people earning above R500 001 – pay R1,2-billion to the state's coffers or 5,7% of the total.

In reply to a question from the Democratic Party's Ken Andrew, Manuel said 1 348 155 individuals paid R21, 005-billion in individual tax in the 1993-94 year – the latest year for which figures were available.

This means that less than 3% of individuals are paying tax – with the population running up to an estimated 50 million.

A considerable proportion of the tax burden falls on those earning between R60 001 and R70 000 a year. The 134 445 individuals in this category pay 10,48% of the tax – a total of R2,201-billion in that year.

Next in line are the R70 001 to R80 000-a-year category where 101 487 taxpayers pay 9,83% of the tax load, contributing R2,065-billion.

Not far behind are those earning between R50 001 and R60 000 a year. In this category 152 579 individuals pay 9,08% of the tax or R1,9-billion.

Those falling within the salary scale of R80 001 to R90 000 a year pay 8,54% of the individual taxes or R1,7 billion.

Less than 10% of the individual tax burden falls on those earning less than R50 000 a year.

Other interesting figures which arise from the reply are that there are 28 054 individuals earning between R150 001 and R200 000 a year and only 2 294 earning between R400 001 and R500 000. – Own Correspondent.

Cigarette levy 'should not subsidise sport'

(320) (BR) CT(BR) 29/5/96

By Roy Cokayne

Pretoria — A proposed cigarette levy for sport development would establish a spurious fiscal linkage between two unrelated activities, Mike Truu, of the University of Pretoria's economics department, said yesterday.

He said it would also distort the price system and lead to a misallocation of economic resources.

Steve Tshwete, the minister of sport, proposed the cigarette levy in the senate recently during discussion on his budget vote.

Truu said the proposed levy was in contrast to a tax on petrol, which subsidised road construction and maintenance and was paid by road users themselves. The new tax would thus represent a user charge.

He said a cigarette tax would distort all the basic linkages in the economy. People should pay tax on things they consumed, he said.

"Exceptions are made but this is getting out of hand. No other product is as discriminated against as tobacco," he said.

Truu said increasing the tax on tobacco also created the potential for smuggling, particularly as there were two other large tobacco producers in southern Africa.

He said the proposed levy or surcharge would also be a particularly harmful example of cross-subsidisation and establish a precedent politicians might use again.

The policy of robbing Peter to pay Paul would cause waste and might lead to corruption among sports administrators, he said.

There were many deserving causes in society. It would be impossible to finance them fully by taxing profitable economic activity.

A spokesman for the Tobacco Institute said the tobacco industry was one of the highest-taxed industries in the country. Last year it contributed more than R2,4 billion to the fiscus for the government to use for its national priorities.

The spokesman said the institute agreed with the government's reservations regarding the undesirable effects of dedicated taxes.

They could hamper the fiscal authorities in apportioning tax revenue to the most pressing national needs, he said.

Ruling may cut tax man's powers

(320)

By Helen Grange
Constitutional Court Correspondent

Star 29/5/96

The search and seizure powers of the Commissioner of Inland Revenue, Trevor van Heerden, are expected to be overruled by the Constitutional Court (CC) in the near future.

This follows a concession by Van Heerden that these powers are unconstitutional.

A challenge to section 74 (3) of the Income Tax Act, which gives Van Heerden's office the power to enter any premises and seize money, books, records, accounts or documents, was launched in the Supreme Court division by a private company, Glynn Rudolph & Co, and referred to the CC for resolution.

During a CC hearing yesterday, however, counsel for Van Heerden's office, Piet Henning, SC, made it clear that Van Heerden had "conceded" that section 74 (3) infringed the constitutional right to privacy.

In a separate application, Van Heerden has asked the CC to institute an urgent inquiry into the constitutionality of this section, together with several other sections of the Income Tax Act relating to his power to collect taxes.

He has suspended the collection of taxes in some cases, pending the CC's decision.

Income Tax Act is up for major rewrite

BD 7/6/96 (320)

CAPE TOWN — SA's 34-year-old and much-amended Income Tax Act is up for a substantial rewrite, Deputy Finance Minister Gill Marcus said yesterday.

Introducing three bills to give effect to tax changes announced in the Budget, Marcus told Parliament that a special team had been set up to redraft the Act.

The proposed amendments are contained with the Taxation Laws Amendment Bill, the Income Tax Bill and the Tax on Retirement Funds Bill.

Important provisions include the revision of income tax tables for individuals, the introduction of a tax on retirement fund income and the reduction of secondary tax on companies.

The special team would work closely with the newly formed SA revenue service, the tax commission and the tax advisory committee.

She also said that government planned to close the tax loophole allowing SA ships to be registered in the name of foreign companies.

On the planned introduction of a 17% tax on the income of pension funds, Marcus said that government was "acutely aware" of the importance of the pension fund industry to SA. The issue of taxing some portion of their income had been widely discussed and it had been agreed that this was a necessary step. Government had made certain adjustments to its original proposals to reduce the administrative burden on the pension funds, she said.

Reclaim VAT

Sapa reports that VAT legislation on fixed property deals is to be changed so that all purchasers will only be entitled to reclaim VAT on amounts they had paid out and not the full property value.

This also will amend the prevailing situation where an invoice-basis registered seller has to declare the full amount of VAT received although they had received only a small proportion of the invoice price, the revenue services said.

Under present legislation, when a vendor disposes of fixed property, the sale is liable for VAT on the full selling price as soon as an invoice is issued, or any portion of the money is received. — Sapa-Reuter.

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ARG 10/6/96

Taxman has a plan to take on the taximan

Political Staff

THE taxman is taking on the taximan.

Commissioner for Inland Revenue Trevor van Heerden has told parliament that taxi operators are among a burgeoning number of entrepreneurs who should be paying tax and aren't.

Briefing the joint standing committee on finance on the activities of the SA Revenue Service (SARS), Mr Van Heerden said the service had devised a plan to collect tax in the informal sector.

Closing in on the informal sector would be part of the revenue service's overall efforts to recover an outstanding R9 billion in unpaid revenue.

The SARS was expecting to employ 320 investigating officers during the next five years to net millions of rands a year which were currently lost and to ensure that local industries were protected.

Govt to rewrite Income Tax Act

BD 11/6/96 (320)

Tim Cohen

CAPE TOWN — Government had decided to rewrite the Income Tax Act in its entirety, Deputy Finance Minister Gill Marcus said yesterday.

Marcus said that although the first objective was not a revision of the Act's contents, substantive changes might well become necessary as it was revamped. The aim was clearly articulated tax policy, but this would not preclude revisions to the contents of the act.

Marcus said the Act, which is 32 years old, had become extremely unwieldy. The primary goal of revising it would be to ensure that it became more "user-friendly".

Introducing the SA Revenue Service debate in the Senate, Marcus said the rewrite would be a major undertaking, but would ensure that the legislation was in keeping with the new constitution, while also providing for easier access to its contents.

A team had been established for the purpose, which would work with the inland revenue commission, the Katz commission and the tax advisory committee. The job would probably take about a year. Addressing the recent changes to the SA Revenue Services, Marcus said a reprioritisation of functions in all offices around the country to concentrate on areas which would result in improved collections had been undertaken.

Collection of the estimated R9bn in outstanding tax and the assessment of unassessed returns were two key priorities.

A special programme to deal with the staff shortage, especially at the Johannesburg and Sandton offices, had been established, she said. About 90 people had been transferred.

Sapa reports government is set to tighten up legislation to restrict individuals from taking remuneration in the form of fringe benefits, inland revenue commissioner Trevor van Heerden told Parliament's finance committee. He was in favour of taxing fringe benefits at a higher rate than salaries to discourage this form of tax avoidance, he said.

Tax collectors hope to rake in R9bn arrears for state coffers

CT 11/6/96 (320)

POLITICAL STAFF

TAX COLLECTORS have as their target the R9 billion in unpaid taxes as they work to strengthen the collection of revenue by the South Africa Revenue Services (SARS).

Deputy Minister of Finance Ms Gill Marcus told the Senate yesterday that the SARS, established on April 1, would concentrate on collecting outstanding taxes, assessing returns, following up overdue returns and implementing tighter controls to prevent the movement of illegal goods.

The SARS would also be responsible for collecting the extra R1,5bn targeted during the Budget in March.

The SARS is an amalgamation of the Receiver of Revenue, Customs and Excise and the tax administration.

It is headed by Mr Piet Liebenberg, a former chief executive of the Council of Southern African Banks.

Marcus said business plans had been drawn up to transform the SARS and its top structure would be rationalised within the next six weeks.

Among other the measures announced by Marcus are:

- The transfer of staff to the areas that had the greatest shortages, especially Sandton and Johannesburg.
- Special investigations into cargo release at container terminals with the possible help of members of the South African National Defence Force.
- Tighter controls along South Africa's borders with Botswana, Lesotho, Namibia and Swaziland.

Hansard

Debate concluded.

(320)

Tax collection: policing

3. Dr K RAJOO asked the Minister of Finance:

(1) Whether his Department has extended its policing activities and increased the number of investigating staff with the aim of improving tax collection and investigating tax evaders and departmental staff; if not, why not; if so, what are the relevant details;

(2) how many officials responsible for customs collection are currently facing court action for fraud and receiving bribes?

N1066E.INT

The MINISTER OF FINANCE: Madam Speaker, the question deals with investigations in the SA Revenue Service. A caucus has been formed by affected and concerned industries. The mission of the caucus is to draw their Government's attention to certain problem areas and to obtain its support for the taking of necessary steps to ensure that customs and value-added-tax laws are implemented.

The caucus has entered into a Memorandum of Understanding with the Government task group, consisting of the Commissioner for Customs and Excise and Inland Revenue, the Director-General of Trade and Industry, the General Manager: Exchange Control of the SA Reserve Bank and the National Commissioner of the SA Police Service.

The caucus brings irregularities and cases of suspected fraud to the notice of the task group and also conducts a preliminary investigation into suspected fraud before the case is handed over to the task group for further investigation. A number of successful investigations have been conducted by customs investigators as a result of the co-operation between the caucus and the Government task group, and R10 million in duties has already been collected as a result.

Provision has been made, in the Customs and Excise business plan, to increase the number of customs investigating officers to 300 over the next five years. The first 30 will be appointed during the current fiscal year. A team of 12 highly skilled British customs investigators will arrive in South Africa on 1 July to assist with the backlog of about 600 outstanding investigations. They will also train the South African investigators in new procedures and the use of technology.

One of the major objectives of the Tax Commission, which was appointed in 1994, was to investigate the collection of taxes in order to enhance revenue collections. The commission's first interim report was released in November 1994, and the Government is in the process of implementing many of these recommendations.

Specialist tax collection sections were established in the Receiver of Revenue offices to concentrate on large outstanding debits in respect of income tax, VAT and employees tax. A special programme was initiated to deal with the acute staff shortage at the Johannesburg and Sandton offices. Approximately 90 officials from various Receiver of Revenue offices were seconded to the Johannesburg and Sandton offices. The development of an innovative system for employees tax was introduced in March this year and will ensure more effective recovery procedures.

Additional posts for control functions and for the collection of taxes have been advertised and should be filled in due course. Nine chartered accountants have already been appointed to assist with special investigations.

For example, the Special Investigations Section is currently investigating three cases of tax evasion in which the tax involved is expected to exceed R771 million. Seven officers have been charged and will appear in the regional court. [Time expired.]

Dr K RAJOO: Madam Speaker, we thank the hon the Minister for the pertinent information. We realise that his office is doing the best it can. The Minister says that 30 new staff members are going to be appointed during the year. There is a shortage of 300 staff members. He says these posts will be filled over the next five years. During the interim period there is the greatest danger, and the loss of revenue could be close to about R31 billion. The shortage of staff is due to the lack of good pay. The pay in the department is very low. Therefore, good staff cannot be kept there. What I would like to know is what the Minister is doing in that particular regard. That is of concern to us. If the pay were good, one could get more people.

The SA Revenue Service estimated that R10 billion is being lost to Inland Revenue and Customs and Excise and in the form of income tax and VAT every year. This is due to poor collection. I would like to know from the Minister what type

of new measures he is taking to plug those loopholes, those gaps, that are being made use of by tax evaders in South Africa.

On 1 April the SA Revenue Service was established. For that Vote R1 billion was voted. This is a 37% increase. However, I do not see a 37% increase in staffing. I want to know why.

I would like to know how many tax evaders were apprehended and how many corrupt officials were brought to book during that period. This is pertinent information, and this particular interpellation has been introduced to elicit pertinent facts.

We know that in Durban alone about 1% of 70 000 containers are being physically checked. Has the Minister appointed a special task team to examine the 70 000 containers which come into Durban alone every month? As far as we are concerned, this leakage is very serious.

The former Minister of Finance, Mr Chris Liebenberg, in his March 1996 Budget Speech, said that the new SA Revenue Service would plug these gaps, but has it specifically done so?

In that particular regard, what pertinent information can the Minister give us from his department? Has the new equipment, the high-tech scanners and the sniffers that were supposed to be introduced, been put in place at all the customs points? We understand that only about 26 of the 130 customs points in South Africa are being manned. What about the rest? What is the Minister's department doing about putting in place the people needed in this regard?

Seven cases of fraud investigated by the department brought in R300 million. Considering the fact that in Durban more than 2 000 transactions occur daily, if only seven cases could bring in R300 million just think how much more money could be recovered. [Time expired.]

Mr A G EBRAHIM: Madam Speaker, I would like to hear the Minister's response to a report the other day about gold worth approximately R1 billion being stolen annually and smuggled out of the country. The report said that the final destination was Switzerland. It is also claimed that the exit point was the Johannesburg International Airport. We are not only discussing the smuggling of diamonds, Kruger rands and other precious metals here, but also other natural resources such as ivory, skins and seafood delicacies as well.

We have learned that the X-ray machines used at the Johannesburg International Airport are unable to detect the passage of these precious minerals. However, we have been told that new scanners will shortly be installed at the airport, but that these will mainly scan bulk cargo. Is the department envisaging investing in technology which can thoroughly scan personal luggage, an investment which could save the country billions of rands?

I would also like to ask the Minister whether he accepts the fact that there is a dire shortage of personnel in the SA Revenue Service. If he accepts this fact, is he doing anything about training adequate personnel? Does the department and/or the service have any short and long-term programme to address this important question? Given that millions of rands are lost to the fiscus, urgent staffing must be a priority.

Alternatively, given that the service has to compete with the private sector, which is continually poaching staff, has the department considered making the service more competitive? For instance, has the department considered approaching the Department of the Public Service and Administration for a special dispensation? [Time expired.]

The MINISTER OF FINANCE: Madam Speaker, seven officers have been charged and will appear in the regional court in Pietersburg on 18 June in connection with matters related to customs fraud involving about R100 million at Beit Bridge. A further five officers are currently being investigated by the SA Police.

Let us go back to the establishment of the SA Revenue Service. Part of the objective of the SA Revenue Service is to move slightly, just slightly, outside the norms of the Public Service Commission to create better flexibility in relation to employment standards, salary levels, etc. The entire approach of the new chief executive officer, who has been in office some nine days now, is to gear up an organisation which will look very, very different from what its predecessors, Inland Revenue and Customs and Excise, did.

Bearing in mind that in its functioning it is only partially removed from the norms of the PSC, clearly the objective has to be that of attracting a better quality of personnel and, very importantly, the upgrading of the skills and accommodation of customs and revenue officers around the country.

In respect of inspections, an agreement for concessionary financing has already been signed with

France for the purchase of the scanners. When these are installed, things will certainly improve significantly with regard to the rate of inspection of containers at the various ports of entry.

In respect of the issues raised by the hon Ebrahim in relation to smuggling of goods out of South Africa, that does not normally fall within the sphere of customs and excise. [Time expired.]

Mr H M NEERAHOO: Madam Speaker, I would just like to bring to the attention of the hon the Minister the evasion of VAT in South Africa. The Value-Added Tax Act of South Africa provides that goods purchased or manufactured in South Africa can be exported VAT-free.

I would like to bring to the Minister's attention one example, in regard to which a letter has been written to his department. It concerns cigarette exports from the country to Lesotho. There is only one border control post between South Africa and Lesotho, which is on the Lesotho side. On the South African side we just have a Home Affairs border control post. Dealers from Lesotho come to South Africa and purchase these commodities, ie cigarettes, and are then invoiced with the VAT added on. They take it through to Lesotho, have it stamped, come back to South Africa with the goods and then reclaim the VAT via the wholesaler they purchased from. They then flood the market and sell at a much lower price than the wholesalers can.

This matter was taken up with the Commissioner of Inland Revenue, Mr Van Heerden. He told us that they simply lacked the finances to put up border controls, and that the matter should be considered by the Department of Finance and the Minister himself. A letter was written to the Minister and I received a reply from the Deputy Minister stating that I should further consult with Mr Van Heerden to get the matter resolved.

Today I consulted Mr Van Heerden and he told me that it was the Minister who had to make a final decision on these particular matters. I humbly ask the Minister to see to it that issues such as these are put to rest urgently, because they are costing this country millions of rands. We cannot afford to let goods go out of the country VAT-free and then have these unscrupulous dealers coming back and claiming VAT on them.

Dr K RAJOO: Madam Speaker, I thank the Minister sincerely for the specific answers that he has given me with regard to the points raised. What I would like to bring to his attention is that there are no South African customs controls at the following points: Lesotho, Botswana, Swaziland and Namibia. We would like him to take urgent action to see that these points are manned so that we can get the due revenues that are necessary for South Africa.

He stated that he would employ 30 new staff members during this coming year, and that more staff would be employed over the next five years. I would urge the Minister's department immediately to employ the 300 staff members that are required so that they can intercept all fraudulent cases. They will bring in more revenue than is necessary to pay their salaries so that we will be in a win-win situation. Why wait for such a long period when we know that . . . [Time expired.]

The MINISTER OF FINANCE: Madam Speaker, the issue of the smuggling of goods outside South Africa is not a matter that falls under customs and excise or revenue services. There is an interdisciplinary task team involved in national intelligence. The SA Police Service has set up a special Border Unit. The Department of Home Affairs is involved, the Airports Company needs to be involved and, of course, customs and excise.

Work is being done in this regard. Already there have been significant recoveries recently. Kruger Rands are actually pure gold. So it is not something separate from gold. There have been arrests just recently.

In respect of loopholes with respect to tax and tax law, the Deputy Minister raised—I think it was before the joint standing committee last week—the fact that we are at present involved in a very substantial redrafting of the income tax law, a great many parts of which we think have fallen into disrepute.

In respect of border controls, there are no revenue exchanges between South Africa, Botswana, Lesotho, Namibia and Swaziland, because one has a Southern African Customs Union in existence. However, we need those border controls in order to curb smuggling, and we are aware of what is happening in Lesotho. The issue is that it is not Inland Revenue, the SA Revenue Service or the Ministry of Finance that builds border posts. They are built by the Department of Public Works. There is engagement in regard to this, because it is not just about a post. It is about housing customs officials and all kinds of things. Ongoing discussions and plans are under way to deal with this.

In respect of the employment of investigating officers, we cannot find them in the streets. These are people who have to be trained, and therefore, while one advertises the posts, we have to fill them over time and train the incumbents. [Time expired.]

Debate concluded.

Death penalty reinstituted

4. Mr J CHIOLÉ asked the Minister of Justice:*

Whether he will consider initiating the constitutional and other steps necessary with a view to reinstituting the death penalty; if not, why not; if so, what are the relevant details?

N1065E.INT

The MINISTER OF JUSTICE: Madam Speaker, hon members, the answer to the question is no. My first duty, as Minister of Justice, is to uphold and respect the Constitution and to promote constitutionalism.

This includes respecting and giving effect to decisions of the Constitutional Court. Section 9 of the interim Constitution provides that every person shall have the right to life. On 6 June 1995, in *State v Makwanyane and Another*, the Constitutional Court held that the death penalty was unconstitutional and therefore invalid.

Section 11 of the new constitution contains a similar provision. In view of this provision and the Constitutional Court's judgment, the death penalty remains unconstitutional.

There are currently 458 persons who have been sentenced to death and who have to be resentenced. My department is therefore in the process of promoting legislation which will give effect to the judgment of the Constitutional Court.

The Criminal Law Amendment Bill of 1996 envisages the repeal or amendment of provisions which authorise a court of law to impose a sentence of death or which refer to such a sentence. Provision is also made for a mechanism in terms of which the sentences of all persons under sentence of death are to be substituted. The Cabinet has already approved the introduction of the Bill in Parliament during the 1996 session.

Mr J CHIOLÉ: Madam Speaker, the possible reintroduction of the death penalty in South Africa is becoming a very emotional subject.

The death penalty was applied in South Africa from 1910, when South Africa became a Union, until 1990, when former State President F W de Klerk placed a moratorium on it. The death penalty was finally scrapped in South Africa on 6 June 1995.

If we look at the tendencies throughout the world, we see that by 1995, 96 countries had abolished capital punishment in law or practice. However, there are also many other countries in which, with good reason and in various ways, it is still being applied. For example, Amnesty International says that at least 2 331 prisoners were executed in 37 countries during 1994. It is just as important to take serious note of what other countries which do not have the death penalty have done to bring their murder rate down.

In New York, for instance, tough new sentencing policies have put more than a million people into prison, taking dangerous criminals off the streets. The number of homicide detectives has been trebled and more police have been put in trouble spots.

In South Africa these preventative steps are not being taken by the Government. Furthermore, it is a fact that the Constitutional Court ruled in 1995 that the death penalty was unconstitutional, based on the contents of the Bill of Rights in the interim Constitution.

The Minister is quite correct. This decision was based mainly on the clause which has now also been included in the final constitution, clause 11, which says: "Everyone has the right to life". This is very clear, but clause 12(1)(c) says: "Everyone has the right to freedom and security of the person, which includes the right to be free from all forms of violence from both public and private sources". If murderers are set free to possibly murder again, these two clauses are, to a certain extent, contradictory.

It is clear, however, that the Government's intention is that the public should be protected from all forms of violence. In order to protect life and the right to security in South Africa, it is now becoming imperative for the Government, as a deterrent, to have the right to put the taking of a life, as a punishment, within the power of the court so that such sentences can be imposed on those who have wilfully taken a life and are a threat to others' lives. For this the political will has to exist within the ranks of the majority party. Only then can the constitution be changed, which

R8m tax loophole to be closed

Tim Cohen (320) BD 12/6/96

CAPE TOWN — A last-minute insertion in the new tax legislation would effectively halt a scheme which had so far cost government about R8m in lost revenue, SA Revenue Services deputy director Peter Franck said yesterday.

Franck told the parliamentary finance committee that his office had recently discovered a scheme to evade paying tax involving the abuse of the newly simplified system of accounting introduced for small businesses.

For example, the loophole allowed a small business property buyer who used a cash flow accounting system to pay VAT only on the deposit paid for the property. However, the seller of the property who used an accrual accounting system could claim the value of the whole property as an input tax deduction.

This meant the small business buying a property valued at R1m, but paying R1 000 deposit, would pay 14% VAT or R1 400, while the property seller could claim the entire R1m sale of the property as a input tax deduction due to the accrual accounting system.

The service began noticing that the scheme was being used as a tax evasion mechanism, and it had quickly proposed a legislative change to end it, Franck said.

So far, schemes involving about R8m had been picked up by the service, although there might be many more in existence, he said.

The amendment to the Taxation Laws Amendment Bill proposed to close the loophole by limiting the input tax deduction in the case of fixed property as of June 6 this year.

The committee voted to accept the Bill and the proposed changes to the Income Tax Bill, with the NP opposing their adoption. The legislation encompasses tax amendments proposed in the budget.

Adrienne Giliomee reports meanwhile that the SA Institute of Chartered Accountants has urged inland revenue commissioner Trevor van Heerden not to consider charging different tax rates on salaries and fringe benefits, after his call for fringe benefit legislation to be tightened up.

Institute legal and ethical director Jan Dijkman said differentiated rates would lead to confusion and complicate tax matters, especially in light of government's drive to broaden the tax base.

Deloitte & Touche tax partner John Stanley agreed, saying higher tax rates for fringe benefits could lead to further abuse.

"One could see tax payers abusing the difference between tax rates," he said.

Sources said yesterday, however, that Van Heerden's office said he had referred to increasing the taxable value of fringe benefits and was not considering changing the tax rates of fringe benefits. Van Heerden could not be reached for comment yesterday.

The major fringe benefits under scrutiny are cheap rental accommodation and car allowances.

Dijkman said the institute welcomed Deputy Finance Minister Gill Marcus's call for a rewrite of the Income Tax Act, saying legislation had become unwieldy: "The new act must cater for the whole population and try to avoid complicated tax legislation."

Maharaj cautioned on 6c rise in fuel levy

CLIVE SAWYER
Political Correspondent

THE government has been urged to review its entire tax structure before introducing Transport Minister Mac Maharaj's proposal to raise the fuel levy by six cents a litre over the next two years.

Mr Maharaj told the assembly yesterday that the money was needed to repair South Africa's road network, because its budget had a 40 percent shortfall.

He proposed a fuel levy of 16c a litre – the current 4c with an additional 12c – for an expanded roads network.

Mr Maharaj said about half the money needed to make up the shortfall could be from existing tax on fuel.

Ken Andrew, Democratic Party finance spokesman, said today: "The fuel levy is a tax and should not just be added to existing taxes."

● See page 8.

ARG 13/6/96

Tough stand on 'tax avoision'

MG (BM) 14-20/6/96 (320)

An ANC MP has struck out against media reports that are assisting individuals in structuring salaries to lower their tax bill. Lynda Loxton reports

AFRICAN NATIONAL CONGRESS MP Ben Turok is on a crusade to prevent what he regards as immoral tax avoidance schemes, often aided and abetted by the media.

For several weeks, Turok has expressed his concern about media reports actively advising taxpayers on how to evade the maximum amount of tax, often through what are called "salary sacrifice schemes".

These reports basically advised people on how they could structure their salary package as a mixture of cash and fringe benefits to substantially lower their tax bill.

"This is a matter of concern to us because the Katz Commission urged very strongly the need to create a climate of integrity in South Africa, a willingness to pay," Turok said.

"If that willingness to pay is not present, then you can pass as many laws as you like and evasion will continue."

Past chairman of the taxation committee of the South African Institute of Chartered Accountants Kent Karro said the situation was becoming increasingly complicated.

Tax evasion was illegal "and should not be condoned under any circumstances. The difficulty comes about with tax avoidance, where the border line is sometimes grey when it comes to tax planning, which means arranging your affairs to minimise your tax liability, and tax avoidance where one uses abnormal means to achieve those very aims."

As a result, officials had taken to coining phrases such as "tax avoison" to indicate a blurring of the two "and I concede that in practice it is extremely difficult to differentiate between them".

Commissioner of Inland Revenue Trevor van Heerden said the problem was not being made any easier by the difficulty he had in recruiting the skilled people needed to conduct investigations — but he was determined to crack down on tax-dodging schemes, especially those using fringe benefits.

Van Heerden said although newspaper reports had given the impression that inland revenue accepted salary sacrifice schemes, "it is not that we accept salary sacrifice schemes" but how the fringe benefits used were valued.

He had found that housing and car allowances were particularly undervalued, so not giving a true impression of the benefits enjoyed. "Avoidance is carrying on at a pace that we are not even able to keep up with now."

As a result, he had urged the tax advisory committee to investigate how these loopholes could be tightened.

"It should be policy and this is something we have thought about for a long time — that we should in fact tax fringe benefits more heavily than ordinary cash salaries to ensure that they go away ... I don't think that we can carry on with this type of salary sacrifice."

Turok asked him to make a strong public statement on this issue "to make it exactly clear what the law is because the public is being confused".

Van Heerden said he was "quite prepared to do this. We are busy investigating it to ensure that we give an accurate comment on these things and that we bring a proper perspective".

He said this kind of advice was probably being given because "it is a feeling among many that the rates of tax are too high and everyone thinks that it is OK to carry on with tax avoidance".

Bracket creep, which resulted in people moving into sharply higher tax brackets if they received an increase, was also of concern to government.

"The personal income tax rate is something that we will have to do something about," he said.

He admitted that the department was still not able to offer fully competitive salaries and even though it had been granted permission to employ consultants at above average rates, the response had been limited.

Problems affecting the other side of the South African Revenue Services, customs and excise, also came under the spotlight this week.

Customs and Excise chief director Fanie Basson said the main problem was he had only 20 investigating officers. But closer co-operation with the police and private sector had resulted in several successful seizures since the beginning of the year, netting an extra R10-million in customs duties.

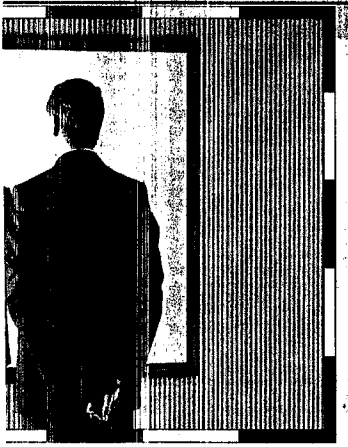
"Because of their success, we have decided to increase the investigations unit by another 30 investigators," he said. Over the next five years he hoped to boost his investigations unit to 320 people. This would increase customs revenue by about R700-million a year.

Turok said that some illegal imports were being sold in major chain stores "quite openly ... this is not a fly-by-night activity".

Several people involved had been made to pay duty but had not been prosecuted. "This massive inflow of goods is actually destroying a lot of South African industry," he said.

The backlog in cases largely resulted from the exodus of skilled staff to the private sector, where they often acted as consultants and used their knowledge of the customs system to advise clients on how best to evade duties.

A task force comprising representatives from the police, the South African Revenue Services and the private sector has been set up to gather information about customs fraud.



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SA approves agreements on double tax

CT (BR) 19/6/96 (320)

From Reuter

Cape Town — The South African parliamentary finance committee approved double-taxation agreements with Italy, Canada, Lesotho, Austria, Russia, Thailand, Taiwan and Norway yesterday.

Once ratified by parliament, South Africa will have 28 comprehensive double-taxation agreements with other countries.

Committee members asked Trevor van Heerden, the Inland Revenue commissioner, whether an agreement would also be negotiated with China, which was holding out for South Africa not to recognise Taiwan.

Van Heerden said he had not yet received instructions on this, but had been given cabinet approval to negotiate an agreement with Taiwan.

Agreements have already been ratified with large trading partners such as Britain and Germany, but not yet with the United States and Australia.

Van Heerden said good progress had been made in negotiations with the US and Australia and that these would be completed within the next few months.

He said South Africa's booming trade relations with the rest of the world under its new democracy had created extra work for his already stretched staff.

"Trade has opened up so much now that people are making use of these agreements more," Van Heerden said.

Though his department was short of staff qualified to do tax work, he said he had managed to train several staff members to deal with this highly specialised area.

Early retirement policy harming the revenue service

(320) CT(BR) 21/6/96

By Christo Volschenk

ECONOMICS EDITOR

Cape Town — The South African Revenue Service is concerned by the number of senior employees applying for severance packages to go on early retirement, Trevor van Heerden, the service's deputy chief, said yesterday.

He hinted that the shortage of skilled employees could result in many applications for early retirement being rejected.

"Just how many applications will succeed is for the minister of finance to decide," he said.

All public servants were given the option of applying for early retirement as part of an exercise to cut the number of public servants by 10 percent, or about 120 000, in the next 18 months.

Department heads were given the final say over which applications would be accepted.

"Applications are still coming in and how we are going to handle the applications must still be decided," van Heerden said.

About 12 000 people work at the service. Sources said that hundreds of senior employees had applied for early retirement. Van Heerden said he did not know the exact figure, but more than 200 had applied to leave.

"However, most applicants are junior people," he said. Industry sources disputed this, saying many were senior and highly skilled.

The service is already seriously understaffed and underskilled. It plans to rectify the situation by recruiting skilled people from the private sector.

"As soon as the details of the improved salary packages have been finalised, we will start advertising the posts," Van Heerden said.

March's Budget increased the service's budget by 38 percent to about R1 billion to improve skills levels, management systems and technology, and make it more effective at collecting revenue.

There is no short cut to redrafting SA's core tax legislation

(320) BS 27/6/96

WILLEM CRONJE

DEPUTY Finance Minister Gill Marcus recently announced in Parliament that the South African Income Tax Act is to be rewritten within the next year. This is a welcome and necessary move. The Income Tax Act was substantially revised in 1962 and amendments in the ensuing years have made for a cumbersome piece of legislation.

But 12 months is an impossible target. It is not even enough time for the preparatory work.

Around the globe moves are afoot to simplify tax law and make it more user friendly. Canada, India and Britain are among the countries undertaking redrafts. New Zealand, having gone through the preparatory stages, has set aside five years for redrafting.

Australia is also redrawing its income tax Act, and attempting to put it into everyday language. It has set aside three years.

SA is not even at the starting gate. The final report of the Katz commission, charged with designing a holistic tax system for SA, is due to be completed towards the end of this year.

Unlike Australia and New Zealand, which have been undergoing cohesive tax reforms over the last decade or so, SA is nowhere near consensus on the final shape of its tax system.

We have rejoined the international business and economic community but we have no idea at this point as to whether we should adopt a global tax system, based on residence, or whether we should retain our present source-based geographical system.

Everyone hates the STC system, but there is no agreement as to what form of dividend tax should replace it.

Should we have a capital gains tax? Our capital transfer tax system, relating to donations and estates, is under scrutiny, but the Katz commission has given no indication of its view on the matter.

We have still to develop a consensus on the right mix between direct and indirect tax, and how the developing provincial tax systems affect this balance.

Should SA follow the international trend towards a broader base and lower rate, with the ultimate goal of a flat tax system? We were on this course, until the recent release of the government's economic policy document which revealed that we are veering back towards a system of tax incentives, even going as far as tax holidays.

First, we need to agree on a holistic tax system, covering all these fundamentals, before we should commence redrafting the income tax legislation. This is not to say that all these fundamentals should be in place before the redrafting commences, but it is essential to have a clear view where the tax system is going.

Secondly, what type of legal paradigm do we want? One extreme is US fiscal legislation, which contains a fairly general tax code, linked to detailed regulations. This is a blueprint approach. The answer to most tax technical issues can be found within the legislation. Our legislation, on the other hand, is general in nature. We also rely heavily on administrative decisions — the so-called "practice notes".

Should our legal tax system remain relatively robust, or should it take pains to address specific problems and exceptional cases, such as is done in the US?

Should we take a leaf out of the New Zealand book and insert into our law the general economic purpose of certain taxing sections?

Should we adopt another element of New Zealand legislation, which is to introduce rules of logic, to avoid the exploitation of gaps in the tax legislation? New Zealand is going so far as to introduce flow charts into the legislation.

What attitude should we take regarding tax avoidance? The US and UK do not have a general anti-avoidance section, and rely either on specific anti-avoidance sections or the courts. SA has both general and specific anti-avoidance sections, but our courts have been relatively passive in determining acceptable tax planning parameters.

Last, but not least, what attitude should we take on tax evasion? Should this be decriminalised, in common with an international trend which particularly manifests itself in the area of company law?

Indeed, certain of the powers of search and seizure vested in the Commissioner for Inland Revenue are under appeal to the Constitutional Court, and may not survive.

Once we have established the suitable legal paradigm, a third issue arises: How should we organise the Income Tax Act?

One can adopt a scheduler system where, for example, farmers have their own section, and likewise mining, insurance and the like.

Another approach would be to concentrate most charging and relief sections into one general area, and only direct taxpayers to a specific section where their trade necessitates different treatment.

SA has been drifting somewhat haphazardly in the direction of a scheduler system. This may be unwise, as the tax legislation gets increasingly bulky.

Organisation of the legislation will depend to a great extent on whether we intend to adopt self assessment system. In fact, not in law, we already have a self assessment system, certainly for larger taxpayers, particularly corporate taxpayers.

What should be the cut-off point be in regard to the application of self assessment?

Once we have resolved these issues we could turn to the fourth matter, namely the grammatical style of the redrafting of the Tax Act. One of the most controversial aspects of the Australian redrafting is that the second person is used: "You must pay tax ...

I doubt how many that even the most user friendly tax legislation will be read by ordinary taxpayers.

SA's Income Tax Act must cover an immense field, ranging from salaried workers and street traders to corporate restructures and international trade. It seems impractical to attempt to redraft the Act in ordinary everyday English. The complexity of modern business requires legal exactitude.

It would be more appropriate to use plain English for the instructions for the compiling of tax returns, and retain modern legal terms for the redrafting of the Act. In his guide to good English, The Complete Plain Words, Sir Ernest Gower says: "... legal drafting must therefor be unambiguous, precise, comprehensive and largely conventional. If it is readily intelligible, so much the better; but it is far more important that it should yield its meaning accurately than that it should yield it on first reading..."

Finally, we must consider the dynamics of the change. Both Australia and New Zealand are releasing their amended sections periodically, for comment by the taxpaying public. Each new section will then be inserted into the present law. This is a somewhat ungainly process, but is essential if transparency and good communication with the public is to be achieved.

SA would gain immensely from studying the Australian and New Zealand experience. The Australian government decided to adopt a pyramid in building its new tax law. The first tier is to contain the fundamental rules of computing taxable income. The second tier will contain general rules, for instance the measurement of inventory. The third, detailed regulations and deviations from the general norm.

The Australian law is therefore being redrafted in such a way that a taxpayer can enter at the top of the system, and move down the right path to find all the relevant sections that affect him.

The deputy minister has said that redrafting of the Income Tax Act will be a major undertaking. Let us do it properly. Forget the dream of a one-year rewrite.

Cronje is a tax adviser in private practice.

Farmers denounce proposed land tax

CT (BR) 10/7/96 (E) (320)

By Christo Volschenk

ECONOMICS EDITOR

The agricultural community remains strongly opposed to any form of land tax and has blasted the renewed investigation into such a tax in its latest submission to the Katz commission's sub-committee on land tax.

The South African Agricultural Union said yesterday that its latest submission had condemned the "new version of the land tax" first mooted in the third and latest report of the Katz commission.

The union said the tax was undesirable because it proposed taxing production.

The sub-committee, chaired by Denis Davis, requested feedback from the agricultural and business communities in May on the idea that a land tax be levied by local governments rather than by the national government. Interested parties were given until this week to submit their reaction.

An agricultural union spokesman said yesterday that the agricultural community was opposed in principle to any tax that would push up production costs.

"Income or consumption should be taxed rather than production factors," he said.

Business South Africa, which represents a wide range of business interests, was believed to have identified various weaknesses in the tax, but had not rejected it.

Another spokesman for business warned that local governments would not be able to administer the complex tax proposed.

All rural land would have to be valued by local governments to enable a land tax to be calculated.

Tax inquiry subcommittees set up

(320) BD 18/7/96

THE commission of inquiry into taxation had set up a number of subcommittees in its continuing investigation of SA's tax system, the finance ministry said yesterday.

Subcommittees had been appointed to deal with capital transfer tax, mining and mineral rights tax, land tax, source basis of taxation and medical aid and benefit funds.

The taxation of non-governmental organisations was also currently under investigation. The subcommittees had called for submissions on the various issues and public hearings would be held at a later date.

The commission, which will submit its interim report at the end of October, expected its review to be completed by October next year. — Reuter.

Nafcoc urges revamp of restrictive tax laws

00 18/7/96 (320)

Patrick Wadula

THE National African Federated Chamber of Commerce (Nafcoc) yesterday called for revision of SA tax laws to provide tax shelters and incentives to facilitate black entry into commerce and industry.

In its document, Democratisation and Growth of the SA Economy, released yesterday, Nafcoc said that SA tax laws remained barriers for black entrepreneurs, and that many laws had to be re-evaluated or perhaps reformed to provide for companies setting up businesses in black townships or rural areas.

Nafcoc said that the dismantling of import substitution through the speedy implementation of the GATT agreement would open SA to foreign companies, resulting in increased foreign investment.

However, liberalisation policies should include a specified period for protection of black "infant" industry to allow them a fair chance to compete.

The policy document recommended that ways and means of restructuring and privatising state-owned enterprises be studied with a view to opening opportunities for black empowerment.

State assets designed for privatisation had to be clearly identified and a percentage of privatisation set aside for black advancement along the lines of Nafcoc's programme for black economic empowerment.

The document said that the privatisation process offered government a chance to widen economic opportunities to previously marginalised emerging businesses.

The document also drew attention to regulations concerning the sale or leasing of state enterprises through share ownership.

The document stated that the capacity of the disadvantaged communities, including entrepreneurs, to participate and benefit fully in the restructuring programmes should be ascertained and improved.

It suggested that the department of state enterprises address this issue, to prevent privatisation further strengthening the dominant conglomerates or a small number of black entrepreneurs.

Emerging business could have greater access to non-strategic public enterprises such as tourism.

Stipulation on sales may be needed to ensure that emerging firms have special access to purchases — possibly in joint ventures with established businesses, the document stated.

New call to fight VAT on the sick

(320)(666) Sowetan 25/7/96

By Mokgadi Pela

THE fight against the imposition of Value Added Tax on health care has been rekindled following a fresh call by the South African Medical and Dental Practitioners.

The call came after a two-day strategic planning workshop held at Broederstroom near Pretoria.

The workshop resolved that members of medical and dental associations throughout the country should "rekindle" the debate about VAT on illnesses and demand that it be zero-rated.

The anti-VAT lobby on health care was in the limelight before the April 1994 general elections during which activists felt it was immoral to tax the sick.

On the deregulation of medical aid schemes, SAMDP said the move should be reversed. Deregulation enabled medical aids not to guarantee a minimum insured package to the members and to discriminate against the chronically ill and the old.

The workshop also came out strongly against moves by Government to limit medical practitioners from dispensing medicines. SAMDP believes dispensing by private practitioners can only be limited when:

- Non-exploitative community dispensaries and pharmacies are situated in every neighbourhood;
- Payment to practitioners for patient examination and counselling is reasonable and in line with rates set up by the Medical Association of South Africa;
- Medical and dental graduates automatically qualify to receive the licence to dispense; and
- Restrictive measures apply equally to both private sector health facilities and Government clinics.

The SAMDP further resolved to contact all dispensing practitioners in order to forge a joint programme of action and "reverse all apartheid laws".

~~TEACHERS~~ -

TAXATION

1996 - 1997

SAAU up in arms over land tax laws

CT(BR) 9/8/96 (E)(320)

By Roy Cokayne

Pretoria — The South African Agricultural Union's general council has lashed out at the finance department's approach to land tax legislation.

Chris du Toit, the president of the agricultural union, said it was totally unacceptable that the finance department had published legislation on land taxation for commentary while a committee of the Katz commission was investigating the issue.

Du Toit said the finance department's approach was making the Katz commission's investigation look ridiculous.

He said the agricultural union would request an urgent meeting with Trevor Manuel, the finance minister, and Jeff Radebe, the minister of local government, to discuss the issue.

"The Katz commission, at the request of the minister of finance, is currently investigating aspects of the tax environment with special reference to the merits and applicability of land tax on provincial and government level," Du Toit said.

He said the union strongly objected to the fact that in view of the actions of the finance ministry, the Katz commission investigation and findings were not taken into account.

An urgent explanation of this confusing process was required, he said.

Du Toit said the union believed legislation should wait until the Katz commission's investigation had been completed.

Government moves to reduce financial markets' negative sentiments

State will lessen tax burden on poor

(320) CT(BR) 21/8/96

By Christo Volschenk and Reuter

Cape Town — The government will look for ways to lower taxes on low-income earners in next year's budget, Gill Marcus, the deputy-minister of finance, said at a press briefing in parliament yesterday.

The statement formed part of a concerted attempt by the government to present a confident face to financial markets, which have been putting pressure on the rand in recent weeks.

"We started the process of lessening the tax burden on the lowest income earners in this year's Budget and will take it further in next year's budget," she said.

"Once tax collection has been made more efficient we will know what we can do to relieve the poor from taxes."

Marcus said the rand was seriously undervalued. The currency touched an all-time low against the dollar of R4,59 in overnight trade in New York on Monday.

During a finance debate, she said the more than 20 percent devaluation of the rand since mid-February was "uppermost in all our minds".

"There is no question that the rand is significantly undervalued and is trading at a level that is out of kilter with the sound fundamentals of the economy," she said.

Nancy Myburgh reports from Johannesburg that the rand, after hitting R4,59 to the dollar on Monday night in international trade conducted after the close of local markets, recovered to R4,5645 in very quiet trade late yesterday afternoon.

"Total volume (in rand trade) is generally much smaller once the local market has closed," Chris Stals, the Reserve Bank governor, said yesterday. "A few large traders can have a large effect on the exchange rate, and I believe that is what happened (on Monday) night."

Stals confirmed that the Bank had stepped into the local market yesterday to buy rands and help stabilise its level.

Stals said that despite last month's fall of 9 percent in the Bank's gold and foreign-exchange reserves, or the store of assets the Bank uses to help protect the currency, it had not yet drawn on foreign credit lines in its defence of the currency.

At the same briefing, Trevor Manuel, the finance minister, said that the government's finances were "very healthy" at the moment.

"Five months into the financial year we are on course to hit the budgeted deficit of 5,1 percent of GDP. Both expenditure and income are on budget and we are positioned well to bring the deficit down to 4 percent in next year's Budget," he said.

"Growth should hit 3 percent this year despite the slowdown in manufacturing, and inflation remains firmly under control. The only short-term problem is the current account of the balance of payments," he said.

Alec Erwin, the trade and industry minister, said that trade negotiations with the European Union would start next month.

"Our mandate will be ready in the first week of next month. The negotiations may well be protracted," he said.

"The level of investment required to push the economy to a growth rate of 6 percent per year is within our grasp," he said.

At a separate briefing, Erwin defended the government's new commitment to privatisation.

"We are not going into a privatisation process for ideological reasons," Erwin said. "We are are going into the process for pragmatic economic reasons.

"That process doesn't automatically mean privatisation in each and every case, but only when it makes economic sense."

He said the government would have to reregulate the environment in which state enterprises operated.

"The objectives of a re-regulated framework must clearly be to prevent any monopoly abuse on the part of the new enterprise," he said

"Very tight regulatory policy as to pricing and tariff policy must be spelt out."

Scrap mine tax regime, says IMF

CT(PR) 21/8/96 (320)

By Peter Fabricius

Washington — The International Monetary Fund (IMF) has proposed the scrapping of the special tax regime for mining companies in South Africa and the imposition of a levy on them for developing minerals in a recently released report of its annual staff survey of the South African economy.

The IMF says the special tax treatment received by mines is inconsistent with the export-orientated growth strategy South Africa needs to expand the economy and reduce chronic unemployment.

That is because it shifts the tax burden to, and therefore increases the prices of, other sectors of the economy like the production of non-mining exportables, which has greater job-creating potential.

The IMF also recommends replacing the special gold tax formula with the standard rate of corporate tax.

It says the government should abolish the special accelerated depreciation allowance in the industry, or the redemption allowance, which allows eligible capital expenditure to be deducted in full against income in the same year in which that expenditure occurs.

The report notes that before the 1991 Mineral Act mineral rights were owned by the state and leased to mining companies.

That legislation removed the charge on mining companies for extracting a non-renewable resource. This was equivalent to subsidising the mining industry.

The best way of imposing a charge for the exploitation of mineral resources would be a severance tax or royalty levied on either the volume or value of minerals extracted.

Mining companies have criticised this form of tax because it raises the marginal costs of extraction and may discourage development of marginal mines.

But the IMF says that the levy on the right to mine is a payment charged by the government for a non-renewable resource and so the charge should help determine whether or not the resource is mined or remains in the ground.

Mining houses said they would not comment until they had seen the whole report and looked at the details.

"We are concerned and are studying the document," said a spokesman for a large precious metals mining company.

So many expenses but so little time after the Receiver takes his chunk of hard-earned pay

Taxed to debt

ST 1/9/96 (320)

By CHRIS BARRON

IT WAS a trifle optimistic of Reserve Bank governor Chris Stals to say this week that the average South African household had to work six weeks a year just to service their debts.

But he raised an intriguing question: just what *do* South Africans keep their noses to the grindstone for, week after week, month after month?

To pay their debts, stupid.

They pay more interest on their home loans than people in other countries do, more interest on their cars, more interest full stop. They also pay more income tax than just about anyone else on earth.

Anyone with an annual salary of R250 000 devotes the first 142 days of the year to earning enough to pay his income tax. In other words, until May 21 they work for nobody but the tax man.

Their counterparts in Britain earning £45 000 take 116 days to settle their income-tax bill. In the US, someone earning $80 000, the dollar equivalent of R250 000, gives up just 67 days' work.

The middle-income South African, with a salary of R120 000 a year, was kept busy earning income tax from January 1 to April 30 this year.

Compared with their gift of 121 days to the tax man, their British counterparts, earning £25 000 a year, spent 92 days settling their income-tax bill and Americans, earning $40 000, devoted just 31 days.

At the lower end of the scale, the tax man demands no fewer than 72 days a year out of the life of a South African earning R50 000 a year. Which means they can kiss goodbye everything they earn until March 12. In Britain, paradoxically, income tax would cost them 88 days, while, in the US, anyone earning $16 000, the dollar equivalent of R50 000 a year, can start working for themselves from day one.

And this does not include a host of other taxes wrung from the local taxpayer, such as VAT, petrol tax and regional service council tax.

And with the latest rates increases, many South Africans are now paying exorbitant property rates as well.

Whatever they get in return for these rates and taxes, basic security is not among them.

Which means most householders have to pay for security too, as a necessity not a luxury.

"Alarm costs are now effectively a tax," says a Johannesburg investment adviser Derek Sumption.

"If the government was doing its job we would not have to pay this."

In the same way, more and more South Africans regard high fees at private schools not as a luxury, but as a tax. Ordinary taxes no longer guarantee a proper education so they feel obliged to send their children to private schools.

> 'End-of-year bonuses are relied on for overdrafts of up to R100 000'

Parents earning R120 000 a year might typically have a R200 000 housing bond and an R80 000 car loan. They would spend an average of more than 400 days a year earning enough to cover just their income tax, rates, bond and car loan.

Sumption devotes more of his time than ever to devising schemes for people for whom there are simply not enough working days in the year to service their debts.

He gives the example of someone at the top end of the income scale, earning R250 000 a year. Typically, they have a 20-year bond of R400 000 and are paying off R160 000 over five years on a car.

They earn R20 833 a month. Deduct R8 253 a month for tax and a further R1 250 for pension and they are left with R11 330 a month.

It costs R8 832 a month to service their house and car debts, bearing in mind that for the first eight years they pay nothing but interest on their bond, and for the first three years nothing but interest on their car. This will cost 153 days a year of before-tax salary.

After tax and pension deductions, it will take them 252 days of work every year to service these debts.

In addition, their monthly expenditure — conservatively estimated for a family of four — is R1 000 for rates, water and electricity, R150 for an alarm system, R800 to a domestic servant, R2 000 on groceries, R1 500 in private school fees for two children, and R600 for entertainment such as eating out and going to the movies.

The total, excluding various other expenses such as clothing and the telephone bill, is R6 050 a month. Based on their before-tax salary, they would have to work 104 days to pay it. After tax, their basic living expenses would cost them 173 working days.

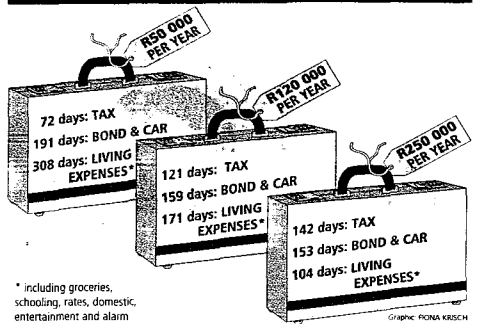
After tax they work for 43 days of the year just to send their children to school. The movies and an occasional family dinner at a restaurant, keep them chained to their desks for 17 days of the year, after tax.

This is a fairly common scenario, says Sumption, and the result is that an alarming number of people live on overdrafts.

"End-of-year bonuses are relied on for overdrafts up to R100 000," he says.

Stals said South Africans lived off credit to such an extent that accumulated household debt has risen to 66 percent of personal disposable income.

But the culprits, says Sumption, are not the banks who extend credit too easily, but South Africans who have been lulled into spending what, in real terms, they do not earn.



Concern over possible abuse of tax incentives

(320) BD 3/9/96

CAPE TOWN — The introduction of tax incentives announced in the macroeconomic strategy could be delayed amid misgivings within the parliamentary finance committee.

Committee members expressed concern yesterday about government's ability to monitor the tax incentives and prevent abuse. Chairman Zingile Dingani has asked Finance Minister Trevor Manuel, his deputy Gill Marcus and Trade and Industry Minister Alec Erwin to attend his next meeting today to discuss the concerns.

The Bill was due to be discussed in the National Assembly on September 11 and in Senate on September 17 but this could be delayed if the finance committee decides to hold hearings.

Committee members objected to efforts to push the Revenue Laws Amendment Bill through Parliament this month without giving the committee time to hold public hearings into the planned accelerated depreciation allowances and tax holidays.

"The Bill is also supposed to be geared towards job creation but it is not clear how this will be enforced," Dingani said.

The Bill also did not seem to take into consideration what effect tax holidays for new ventures could have on existing, viable businesses.

"The Katz commission said that we need to make tax laws as simple as possible, but these regulations are very complex and could lead to confusion," Dingani said.

DP finance spokesman Ken Andrew said the Bill was "overambitious given the lack of administrative capacity" in the SA Revenue Services.

Commissioner of Inland Revenue Trevor van Heerden and top officials from the trade and industry department said they would monitor the tax incentives jointly and would be strengthened by staff from the regional industrial development boards now being disbanded.

Andrew said he was still sceptical, especially given reports by auditor-general Henri Kleuver on "the inability of the DTI (trade and industry department) to monitor export incentives such as the general export incentive scheme (GEIS)".

Trade and industry officials, who have been criticised for not doing enough quickly enough to implement the strategy, are particularly anxious to get the Bill passed as soon as possible and will have to make an unscheduled stay in Cape Town to attend Tuesday's meeting. — Reuter.

Govt moves to enact tax incentives law

BD 4/9/96 (320)

Tim Cohen

CAPE TOWN — Legislation introducing a range of investment tax incentives in SA is likely to be squeezed through Parliament in the current session, in spite of misgivings about the short period allowed for public comment.

This emerged yesterday during the parliamentary finance committee hearing, which decided it would try to hold public hearings about the incentives next week.

The meeting followed complaints by committee members who objected to efforts by the finance department to rush the legislation through Parliament. The pressure for enactment flowed from the commitment in government's macroeconomic strategy to introduce the tax holiday scheme by the last quarter of this year.

Finance department officials denied there was any "rush", but said they were keen to ensure investment decisions were not delayed longer than was necessary.

Finance committee chairman Zingile Dingani said the only way to ensure that the legislation would be passed during the current session, which ends this month, would be to hold public hearings on a day when all parliamentarians were due to be working in their constituencies.

Dingani said he had written to Speaker of Parliament Frene Ginwala yesterday asking for permission to allow finance committee members to attend the public hearings. Dingani said it was unlikely this would be turned down.

If the meeting was allowed to go ahead, Dingani said, it would be possible to draw up a report on the legislation. Any amendments would be introduced on the floor of parliament by Trade and Industry Minister Alec Erwin, probably on September 17.

The legislation, which would allow tax holidays of up to six years for certain companies making new investments, and for accelerated depreciation of plant and machinery, would be formally tabled in parliament today.

Meanwhile, Deputy Finance Minister Gill Marcus dismissed misgivings about whether government had the capacity to regulate the new laws, saying systems were in place to adequately monitor the incentives.

The trade and industry department would use staff involved in the application of the general export incentive scheme (GEIS), which was being phased out.

Marcus dismissed concerns that the tax base would be eroded, saying government could not be losing. If the incentives did not exist, the original investment might not have been made.

Trade and industry director Alan Hirsch said that for this reason, any calculation about what revenue might be lost would be hypothetical. However, the department had calculated the loss to the fiscus would amount to less than a percentage point of total revenue.

45 families take over land they have lived on

Louise Cook

BD 4/9/96

THE land affairs department would redistribute 6 531ha of state-owned land at the weekend, the biggest redistribution this year, land affairs spokesman Deon van Tonder said yesterday.

The latest move involved farm land in northeast Namaqualand worth R250 000. The department said 45 families who had lived and worked there since 1940 had claimed the land in terms of the Provision of Certain Land for Settlement Act.

The deal provided for the families to buy the land with a special R15 000 household state grant and to lease adjacent land.

"One of the main features of this case is that Irish Aid — the Irish government's official development assistance programme — has been involved in helping the community."

Van Tonder said R500 000 worth of equipment and a barn had been donated by Ireland.

Other redistribution deals included land, valued at R6,3m, at Richards Bay for the settlement of 570 families, the settlement of 232 people at Weenen in KwaZulu-Natal, settlement of 200 families on land valued at R2,8m at Odendaalsrus in the Free State, and a further six settlement deals in the Free State.

At Kirkwood near Port Elizabeth, and elsewhere in the eastern Cape, deals to settle 206 families were reportedly in the final stages of being concluded.

Tax incentives scheme hits snag

Sowetan 4/9/96

320

By Waghied Misbach
Political Reporter

THE Government's introduction of a tax incentives scheme to attract foreign investment has been delayed to allow for public hearings on the issue, the Parliamentary Finance Portfolio Committee said yesterday.

At the committee's first discussion on Monday, members expressed concern about possible abuse of the system and whether it could be effectively monitored by the South African Revenue Service.

On Tuesday, committee member Ken Andrew again pointed out that the SARS had lost many skilled people and had a poor record in monitoring another tax incentive scheme, the ill-fated General Exports Incentive Scheme, which was introduced in 1990.

A definite date had not been set for further deliberation of the incentive scheme.

However, Deputy Finance Minister Gill Marcus told the committee that it was a matter of urgency because "new investment is waiting" for this legislation to be put in place.

Trade and Industry representative Alan Hirsch told the committee that the SARS had been found capable of handling the monitoring of the scheme by the National Economic Development and Labour Council – the consensus-seeking body consisting of business, labour and government.

Abolished

Hirsch also said that the Geiss system had been introduced after a balance of payments crisis in 1990 and had to be constantly revised until it was abolished recently.

Government had already recovered "tens of millions of rands" from fraudulent Geiss claims in the last year, said Hirsch.

Finance Department director-general Maria Ramos told the committee that tax incentives were part of the Government's macro-economic strategy and was a long-term plan to create jobs.

This was one of many measures the Government was introducing so that it could play "an active role in creating an environment conducive to foreign investors", said Ramos.

Marcus gets tough on tax avoidance schemes

Star 7/9/96 (320)

BRUCE CAMERON

et involved in creative life assurance oducts to avoid paying tax and you uld face the taxman investigating all ur financial transactions, warns eputy Minister of Finance, Gill Mar- s, in an interview with Personal nance.

The warning comes on the heels of e voluntary suspension last week by e assurance companies of what are rmed "blackhole" policies.

The policies are designed around a ophole in legislation which can be ed to reduce taxation liabilities.

Although the life assurance compa- es have stopped selling the "black- ole" products Marcus says this does ot mean that the tax authorities will ot continue to take a close look at peo- e who have invested in the products.

ose examination

People who buy the products should sk "who will bear the tax liability if e products are found to be illegal?

"People who go into these schemes ith the intent of not paying tax should ot moan if the Receiver of Revenue ien places all their transactions under xamination," says Marcus.

And the close examination of the nancial affairs of individuals using the oducts to avoid tax could go on for 10 ears or more.

Marcus says the policies are one of a umber of questionable practices, hich although legal, are not ethical.

Marcus says that apart from the lackhole products she has also asked ie Financial Services Board and the ommissioner of Inland Revenue to vestigate other tax avoidance schemes hich she believes sail close to the ind. They include:

- The mushrooming market in what are termed secondhand policies. The secondhand market has evolved from the often poor surrender values given to policyholders who need their savings urgently before the contract period of the policy has expired. Depending on the remaining period of the policy a better value can be obtained on the secondhand market.

The policies are bought by individuals who use the shortened maturity period of less than five years to avoid tax penalties; and

- The use of "dummy" policies. These policies are set up virtually in name only as an empty shell, using the blackhole principle and then "sold" at a later date to people wanting to circumvent the tax limitation period of five years.

Marcus also warns that unless financial services companies clean up their act and start putting ethics into the development of investment products they may well face tough compliance regulations.

Marcus says the government will prefer to go the route of self-regulation, but if the companies continue to market dubious products that not only threaten consumers but also sail close to the wind on tax issues there will be no choice but to take the course of statutory regulation.

Marcus says she is concerned that some of the dubious products being sold transfer all risk from institutions to the consumer.

Consumers have to be given proper protection against unethical products.

Marcus says she is pleased the life assurance companies have decided to suspend the products after her talks with the Life Offices Association last week. She says she has held discussions with commercial banks about questionable practices designed to circumvent taxation.



Gill Marcus: Pondering the ethics of creative tax avoidance schemes

DEFINITION

What a "blackhole" investment is: A blackhole assurance investment comes in a number of forms. Essentially it is a life assurance investment product designed around a loophole in the law which allows tax to be avoided.

The products created around the loophole are legal at the moment but could be tested by the taxman.

Under existing legislation, if you make an investment, the money should be left untouched for five years if the capital growth is to escape tax. The taxman considers most investments for shorter periods to be speculation, whether they are in shares, property or insurance policies, and therefore subject to tax.

The loophole, however, is that with life assurance endowment (investment) products you are allowed to make a single loan against your investment in the five-year period. Normally there is a charge for the loan.

How the blackhole operates is that you take a lump-sum and invest it into the policy as a single premium. Then you borrow most or all of the money back again, effectively at no interest rate.

Another creative way is to borrow the money from the bank, invest it, borrow it back and repay the bank.

Effectively you would then have created a R100 000 liquid loan facility after five years. Any money can then be paid into the policy and will attract capital growth and the money can be drawn out as a loan when capital is needed.

Alternatively, the blackhole policy could be bought if you know you are to receive a lump-sum in a few years' time but do not want to invest that money for five years.

Normally, anyone who wants money kept liquid would receive interest on bank deposits. The interest paid would be taxable.

Management fees are only charged by insurance companies on the actual amount invested and not on the full supposed value of the investment.

Cosatu approves plan for tax incentives

(320) BD 12/9/96

Tim Cohen

CAPE TOWN — Cosatu has reluctantly approved the trade and industry department's plan for tax incentives for new investments, with proposals for only minor changes.

Addressing public hearings on the Revenue Laws Amendment Bill held by the parliamentary finance committee, Cosatu general secretary Sam Shilowa said the federation had a number of "in principle" problems with the proposal for tax holidays.

But Shilowa said Cosatu wanted to adopt a constructive approach to the issue. He refrained from calling for the Bill to be withdrawn, despite pointing out that it had not been negotiated in Nedlac, as had been suggested.

Shilowa said Cosatu's problems with the plan included the undermining of the country's tax base, the introduction of a potential cycle of spiralling concessions to business and the shifting of the tax burden onto the poor.

Continued on Page 2

(320)

Cosatu

BD 12/9/96

Continued from Page 1

Cosatu also felt that there was a need for alternative strategies to channel private sector investments which were in line with RDP objectives.

He said tax holidays might be damaging to existing jobs because enterprises which were granted tax breaks could produce goods more cheaply than existing enterprises in the same field, thereby affecting their ability to maintain their work force.

Shilowa said he did not share the finance department's confidence in the ability of the regional industrial development board to manage the scheme.

The experience of so-called "border industries" near old homelands managed by the board was an "abject illustration of what the tax holiday scheme should seek to avoid", he said. The board should be restructured and include labour representatives.

Cosatu proposed three amendments to the legislation: that a new criterion for the granting of a tax holiday should be added obliging the board to assess the effect of the tax holiday on existing business; a 30-day period of notice should be introduced before an application was granted; and interested third parties should be allowed to object to applications.

The Life Offices Association also gave evidence to the committee, saying the body should be considered merely an interested observer in the legislation, but indicating it generally welcomed the proposals. But LOA tax subcommittee member Abri Meiring questioned some aspects of the legislation, including the wide discretion given to the trade and industry minister in granting applications.

He indicated that this "open-ended" clause appeared to override the detailed criteria for applications specified in the legislation.

New tax legislation could take in Cosatu proposals

BD 13/9/96 (320)

Tim Cohen

CAPE TOWN — The parliamentary finance committee yesterday decided neither to approve nor object to the trade and industry department's plan for investment tax holidays.

At the end of the second day of hearings on the Revenue Laws Amendment Bill, the committee decided it would not make recommendations on the legislation. Meanwhile, trade and industry chief director Alan Hirsch indicated at the hearings that Cosatu's proposals on government's plan for tax incentives for investment could be accommodated under the legislation.

Hirsch said Nedlac would be meeting on the issue today, and that discussions on how Cosatu's recommendations could be taken into account would be discussed.

Cosatu proposed amendments to the legislation which would, among other things, create a new criterion for the granting of a tax holiday, allowing the authorities to assess the effect of the tax holiday on existing business.

Sacob gave evidence before the committee yesterday, agreeing with the Cosatu presentation which argued that an unintended consequence of incentives might be that it would prejudice existing enterprises.

Former Sacob president Bob Wood said it was important to minimise the inevitable distorting effect of incentives by well conceived legislation and effective administration.

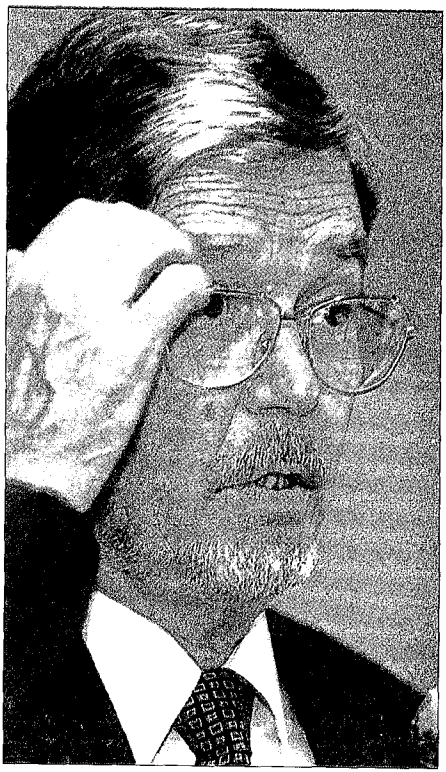
In past schemes, there were concerns about the competence of the administrators to decide whether one sector was more important than another.

If granting an incentive to a particular sector was at the expense of another, then the objectives of improving the competitiveness of the chosen sector might be undermined or even negated. The legislation gave wide discretion to the board which would assess applications, and it was critical that this board should be aware of the dangers, Wood said.

Hence, it was important that the board should operate openly and provide reasons for granting applications, which could provide a form of reference material which could guide applicants.

Tax evaders warned of a 'showdown'

(320) CT (BR) 13/9/96



CLOSING THE GAP *Piet Liebenberg wants more co-operation from business and public*

PHOTO: JOHN WOODROOF

By Thabo Leshilo

Johannesburg — The revamped South African Revenue Services is set for a showdown with tax evaders, who deprived the South African government of more than R21 billion a year in lost revenue, Piet Liebenberg, the chief executive officer of the revenue service, said yesterday.

He said the number of individual taxpayers could rise from the present 5 million to as much as double that number with improved detection.

Liebenberg said the lengthy process of restructuring the revenue service into a modern, effective department was in full swing and appointments to the new, top management structure would be announced next week.

He was speaking at a joint function of the Islamic Bank and the Islamic Chamber of Commerce and Industry yesterday.

Liebenberg appealed for more co-operation from companies, professional associations and the public in the fight against tax evasion.

"We are currently experiencing the lowest tax morality ever in the country," said Liebenberg.

He said several successful prosecutions for rampant tax evasion on imported goods could be expected shortly, especially at the port of Durban, because of the co-operation of the private sector.

He said British customs officials seconded to his department had been helpful in improving the effectiveness of the customs service.

Liebenberg, a former banker, was appointed in June to establish a new revenue service along private-sector lines, which saw the merging of the inland revenue, customs and excise and the administrative sections into one body. This process will be completed by March.

He said an effective, results-driven revenue service was crucial to reducing the huge amounts lost through tax evasion, which he said were far in excess of the R21 billion estimated by the government-appointed Katz Commission over two years ago.

The high level of corporate tax evasion was evident in the "dramatic gap" between the number of registered companies and the number of companies paying pay-as-you-earn tax collected from employees.

He said negotiations were taking place at "a high level" to gain administrative autonomy for the revenue department.

He was optimistic that such autonomy would be achieved to, among other measures, enable the department to appoint staff and pay competitive salaries.

The revenue service's information systems will be outsourced in a new, huge contract to be awarded this year.

Cosatu attacks tax laws

(320) M+G (AM) 13-19/9/96

Lynda Loxton

THE Congress of South African Trade Unions (Cosatu) this week gave notice that it was losing patience with the way the African National Congress-led government, in its rush to attract foreign investment, was failing to consult its old alliance partners.

General Secretary Sam Shilowa told the parliamentary finance committee that it was "unacceptable" that Cosatu had been given a very limited time to comment on the Revenue Laws Amendment Bill before it was tabled in Parliament.

To add insult to injury, Deputy Finance Minister Gill Marcus claimed that the National Economic Development and Labour Council (Nedlac) had been extensively consulted about the proposed new tax changes, including tax holidays, since 1995.

Shilowa produced a letter from Nedlac chamber co-ordinator Shan Ramburuth that proved "there has in fact been little discussion [on this] at Nedlac. We do not want to enter into any squabble about who is right and who is wrong, but that does indicate that there are some areas where it will be important, as part of building participatory democracy in lawmaking, to be able to take into account that there was a problem with the way in which the process was handled," Shilowa said.

Cosatu expressed strong reservations about the proposed tax holidays for new investments and recommended changes to the proposed legislation that would ensure tax holidays would not disadvantage existing investments and that details of all applications be subject to hearings before they were granted.

It also asked that the government guarantee that tax holidays should not be compensated for by increases in value-added tax, a decrease in the number of zero-rated items or higher taxes for low income earners while tax holidays remained in force.

"The key thing we want to raise is to first make clear that ... we are opposed to the issue of tax holidays, but we have not come here to argue that we should not implement them," Shilowa said.

"We have come here to inform you that if we had things our way, that is what we would do, but that we take account of the fact that there is a decision to move in that particular direction and therefore we are here to raise our concerns and put forward proposals which we hope will be able to be taken on board."

As a finance bill, however, it cannot by convention be changed by the committee, which has to either accept or reject it.

Shilowa said that despite this, he hoped that the amendments could be accepted. "It would be unfortunate ... if our recommendations ... were just to be thrown out," he said.

Cosatu's main objections to tax holidays are that they incorrectly rely on tax incentives to channel private sector investment, would erode the tax base and would shift the burden of taxation from the rich to the poor. They could also disadvantage existing investments and lead to job losses.

Shilowa recommended that the committee launch a public investigation into the range of options that could be considered to mobilise public investment and create jobs.

Shilowa said this would help "avoid an ad hoc situation like this one in which we try to deal with a comprehensive, complex situation...

"You have got a responsibility as lawmakers to ensure that at least the process of participation is itself not denied," he said.

He accepted that at times there would be legislation that had "to be rushed through ... but it is not like waking up in the morning and saying you need some legislation."

Policymakers started planning months ahead of any situation and that was the time when they should consult the committee, Nedlac and other parties.

Finance committee paves way for tax incentives with new Bill

(320) BD 17/9/96

CAPE TOWN — The parliamentary finance committee paved the way yesterday for the introduction of tax incentives such as tax holidays, by adopting the Revenue Laws Amendment Bill.

But DP finance spokesman Ken Andrew voted against the Bill, which he said was "full of holes" and had been rushed through. The Bill enacts the tax holidays and accelerated depreciation allowances announced in June as part of the macroeconomic growth strategy.

They are due to come into effect on October 1 and there were fears that this deadline would not be met because of the limited time given to the committee to hear evidence on the Bill before it was debated in Parliament this week.

"Legitimate points raised by both labour and business have not been addressed," Andrew said. These included the possible effect of tax holidays on existing businesses, the limited time given to import plant machinery to qualify for accelerated depreciation allowance and the arbitrary discretion of the finance minister to grant tax incentives. — Reuter.

Marcus gets tough on tax avoidance schemes

ARG (320) Sept. 1996

BRUCE CAMERON

Get involved in creative life assurance products to avoid paying tax and you could face the taxman investigating all your financial transactions, warns Deputy Minister of Finance, Gill Marcus, in an interview with Personal Finance.

The warning comes on the heels of the voluntary suspension last week by life assurance companies of what are termed "blackhole" policies.

The policies are designed around a loophole in legislation which can be used to reduce taxation liabilities.

Although the life assurance companies have stopped selling the "blackhole" products Marcus says this does not mean that the tax authorities will not continue to take a close look at people who have invested in the products.

Close examination

People who buy the products should ask "who will bear the tax liability if the products are found to be illegal?

"People who go into these schemes with the intent of not paying tax should not moan if the Receiver of Revenue then places all their transactions under examination," says Marcus.

And the close examination of the financial affairs of individuals using the products to avoid tax could go on for 10 years or more.

Marcus says the policies are one of a number of questionable practices, which although legal, are not ethical.

Marcus says that apart from the blackhole products she has also asked the Financial Services Board and the Commissioner of Inland Revenue to investigate other tax avoidance schemes which she believes sail close to the wind. They include:

- The mushrooming market in what are termed secondhand policies. The secondhand market has evolved from the often poor surrender values given to policyholders who need their savings urgently before the contract period of the policy has expired. Depending on the remaining period of the policy a better value can be obtained on the secondhand market.
- The policies are bought by individuals who use the shortened maturity period of less than five years to avoid tax penalties; and
- The use of "dummy" policies. These policies are set up virtually in name only as an empty shell, using the blackhole principle and then "sold" at a later date to people wanting to circumvent the tax limitation period of five years.

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Gill Marcus: Pondering the ethics of creative tax avoidance schemes

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Another creative way is to borrow the money from the bank, invest it, borrow it back and repay the bank.

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Management fees are only charged by insurance companies on the actual amount invested and not on the full supposed value of the investment.

R50-bn escapes tax net

Cross-border smuggling now endemic

~~14~~ (320) ARG 18/9/96

BRUCE CAMERON
PERSONAL FINANCE EDITOR

Reform of the tax collection system is bogged down in a bureaucratic quagmire while up to R50-billion eludes the tax net every year.

And in the latest shock to hit a deteriorating situation, a 12-member team of British customs experts has handed the Government a "frightening" report on the extent of cross-border smuggling. Auditor-General Henri Kluever says this trade is now of such epidemic proportions that it is threatening normal business activity.

The tax money going uncollected could pay off the annual state debt bill of R34,4-billion, double the R9,8-billion spent on policing and double the R5,5-billion spent on tertiary education.

Mr Kluever said the situation had reached the stage where he could not sign an unqualified audit report.

If such a judgment was to be given by an auditor of a private sector company, it could face delisting from the Johannesburg Stock Exchange and closure.

The extent of the deterioration and the bureaucratic quagmire, frustrating even Cabinet attempts to reform tax collection, were spelt out to the parliamentary committee on public accounts yesterday.

The committee heard there was already a staff shortage of nearly 10 percent in the newly constituted South African Revenue Services (SARS), with most of the vacancies at senior level.

Another 1 000 skilled staff are expected to take government severance packages, further depleting the service and its ability to collect taxes.

Committee chairman Ken Andrew said: "I sit here astounded as a set of technicalities are described.

"There is no sense of crisis."

Barbara Hogan, the ranking African National Congress member on the committee, said: "This takes us back two years. The position is worse than last year. There are now estimates that up to R50-billion is not being collected."

Ms Hogan said that if action was not taken to give effect to a Cabinet decision to give SARS greater autonomy and enable it to collect taxes efficiently, Parliament would have to take the matter into its own hands and create the legislation necessary to do so.

Targets of most of the criticism for the crisis were the Public Service Commission and the Department of Public Service and Administration. But the new head of the SARS, former banker Piet Liebenberg, blamed the tax system regulations.

Mr Liebenberg said the restructuring of the department and the change in ministers of finance had delayed reforms, but that the SARS was now ready to prepare legislation that would give it the autonomy to offer competitive working conditions.

A big stumbling-block was that regulations did not allow for competitive salaries to be offered to chartered accountants.

See Business, page 22

TWIKKELING

Move to stem leaks in tax collection

BD 19/9/96 (320)

Linda Ensor

CAPE TOWN — Parliament's public accounts committee has decided to take drastic action on the massive leakage in the tax collection system and is to ask Finance Minister Trevor Manuel to account for progress on restructuring the SA revenue service.

The committee heard this week that staff levels had deteriorated further with the result that tax of more than R20bn had escaped the net. Committee chairman Ken Andrew said a political decision was needed to remove obstacles to the restructuring process.

Auditor-general Henri Kluever welcomed the committee's decision, saying serious difficulties had been experienced in transforming the service into an autonomous entity. No real progress had been made since October, when the Cabinet decided to amalgamate inland revenue and customs and excise under the umbrella of the SA revenue service. He felt the process should be accelerated so that the service was taken out of government and given complete control of its own resources. It could be financed through a small percentage of revenue collected.

Kluever said setting up the service as an autonomous body for the ultimate benefit of the taxpayer should not be negotiable or delayed any longer. Smuggling was of such proportions that normal business activities were being affected, he said.

Piet Liebenberg, who took over as revenue service CE from June 1, said the only way for the unit to become autonomous was to have specific enabling legislation passed by Parliament. His department was working on a draft Bill which would be discussed with Manuel and the public administration department. The most serious problem was the service's inability, under public service commission rules, to offer competitive salaries to chartered accountants. An advertising campaign at the start of the year for staff at the service's Sandton office, which collected the most tax in the country, had been a flop. The office needed 78 chartered accountants but had only 19.

Liebenberg was not able to say how much eluded the tax net, but guessed that it was now more than the R21bn suggested two years ago by Katz commission chairman Michael Katz.

British experts who examined controls at customs and excise found the service dramatically understaffed and the controls inadequate. Liebenberg said the experts had discovered that undervaluation and false invoicing were the main methods used to import masses of goods illegally. Action was being taken to address this.

□ The revenue service said yesterday Trevor van Heerden had been appointed commissioner of inland revenue and customs and excise, assisted at customs by special adviser Fanie Basson.

SATURDAY BUSINESS
VENETA KLEIN
... personality
... knock
PAGE 7



STARTS ON PAGE 5 TODAY
PROPERTY
Sea Point development for families with kids
PAGE 8

6 PAGES OF SATURDAY SPORT

IN TOWN: Brian Lara

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SATURDAY ARGUS
PERSONAL FINANCE

Row hots up over your money

(320) Cape Arg. 21/9/96

When the tax base is being eroded no government can ignore it

BRUCE CAMERON

The row over tax avoidance has hotted up since Personal Finance reported two weeks ago that under pressure from Deputy Finance Minister Gill Marcus the life assurance suspended products designed to help individuals escape tax.

The action has drawn strong criticism from a number of quarters – including from Personal Finance columnist Magnus Heystek, who said it was the right of the taxpayer to avoid taxation – and extensive queries from readers who fear being penalised retrospectively for investing in tax avoidance products.

Marcus has responded strongly to Heystek in a letter to Personal Finance, **(See page 2).**

And this week, evidence before a parliamentary committee confirmed that there was widespread resistance to paying tax.

The result of the pervasive tax evasion has been that an ever increasing burden is falling on the shoulders of a limited number of taxpayers.

Marcus is adamant that loopholes, such as black hole and secondhand policies which allow tax avoidance, should be plugged as they erode the overall tax base, increasing the load on some taxpayers: "When the tax base is being eroded no government can simply sit



Find out who are the top fund fundis

Personal Finance is to launch a fund manager of the month series next week.

The manager of a unit trust fund is often the key to the success of a particular fund with many investors following the fund managers rather than the funds themselves in deciding on their investments.

Personal Finance decided to start the series to give you a better view of who the people are behind the successful unit trust funds and to help you in selecting a unit trust fund.

The fund managers of the month will be selected by Plexus Asset Management, which is an independent portfolio management company.

The first Personal Finance/Plexus Asset Management fund manager of the month will be announced next week.

Plexus has been chosen by Personal Finance to select the fund manager of the month as it specialises in advice on unit trusts and is one of the few companies that focuses specifically on the personal investment needs of individuals.

The founder and chief executive of Plexus is Dr Prieur du Plessis, who was previously general manager: portfolio management at Sanlam.

He is to be assisted by Walter Scheffler, a director and consulting actuary to Plexus. Scheffler is the immediate past president of the Afrikaanse Handelsinstituut.

QUICKMONEY

UAL IN LOW-CHARGE UNITS BID

IAL, the company that first marketed unit trust-linked investment and retirement products has announced a new range of lower charges across its full range of products. The new sliding scale of charges reduces the cost of purchasing unit trust-linked investments by more than half, depending on the amount involved. For example, a R100 000 investment into a life annuity would have previously drawn a charge of R5 000. This has been reduce to R2 500. If you invest more than R900 000 the initial charge drops to 0,1 percent.

ABSA, PICK'N PAY EXPAND

Absa Bank and Pick'n Pay are expanding their successful joint service, so far only available to residents of Cape Town and Port Elizabeth, following all municipal rates and services accounts to be paid at any Pick'n Pay outlet in the country. The accounts can be paid in cash or by cheque, ATM card or credit card. Next to be linked up will be Knysna and George. Negotiations are underway with Gauteng municipalities.

CONTAINERS SEE 50% GROWTH

The South African stainless steel container industry is forecasting a 50 percent growth for the industry in 1997 due to continued investor driven demand both here and abroad. David Jenkins of Multistar Container Transport, says the value of

PERSONAL FINANCE

Evasion, avoidance a taxing question ...

Dear Editor

I refer to the criticism by Magnus Heystek of my reaction to the so called black hole policies.

It is trite to suggest that there is a lack of understanding of the distinction between tax evasion and tax avoidance.

Clearly the fraudulent practices which make up tax evasion must be dealt with differently from tax avoidance for they are tantamount to criminal activity.

The black hole policies were obviously not tax evasion, but a form of tax avoidance.

Accordingly I never branded such practices criminal.

However, the practice of insurance companies in marketing black hole policies ensured a safe haven for interest earning income which would attract a lower rate of tax.

By the use of these policies, substantial sums of income were placed beyond the reach of

Gill Marcus: Her views on black hole policies

hand policies, which have not met with unanimous approval from tax counsel.

The solution to such tax avoidance is to advise that legislation will be introduced, if necessary, to curb such practices.

As long as the legislation is prospective, there can be no objection to it.

All that happened with the black hole policies was an announcement that such practices should not continue, and that if they did, the necessary steps would be taken to curb such practices.

There was no suggestion that any fraudulent activity was involved.

What I have done, as part of a responsible governmental reaction, is to announce that prospective steps will be taken to ensure that such avoidance cannot continue in the future.

It is of concern that criticism is expressed at our efforts to protect the tax base by the same

A watchdog is out there, guarding your investments

A watchdog, the Financial Services Board (FSB) sits behind the scenes of almost every investment product available to the public, checking the financial soundness of those schemes.

The Board does not make the regulations, it implements them. It presently implements about 14 Acts relating to the financial services industry, and at the end of March supervised 17 326 schemes, including 16 650 retirement funds and friendly societies.

It supervises the short- and long-term insurance industries, the Johannesburg Stock Exchange, bond market and South African Futures Exchange, unit trusts, participation bonds and other deposits and securities, as well as the Multilateral Motor Vehicle Fund.

But, the FSB's jurisdiction is not all-embracing. The supervision of banks falls under the Reserve Bank, since that is the banker of last resort.

Some financial schemes are not registered, and some fall

IN THE SPOTLIGHT

CHARLOTTE **Mathews**

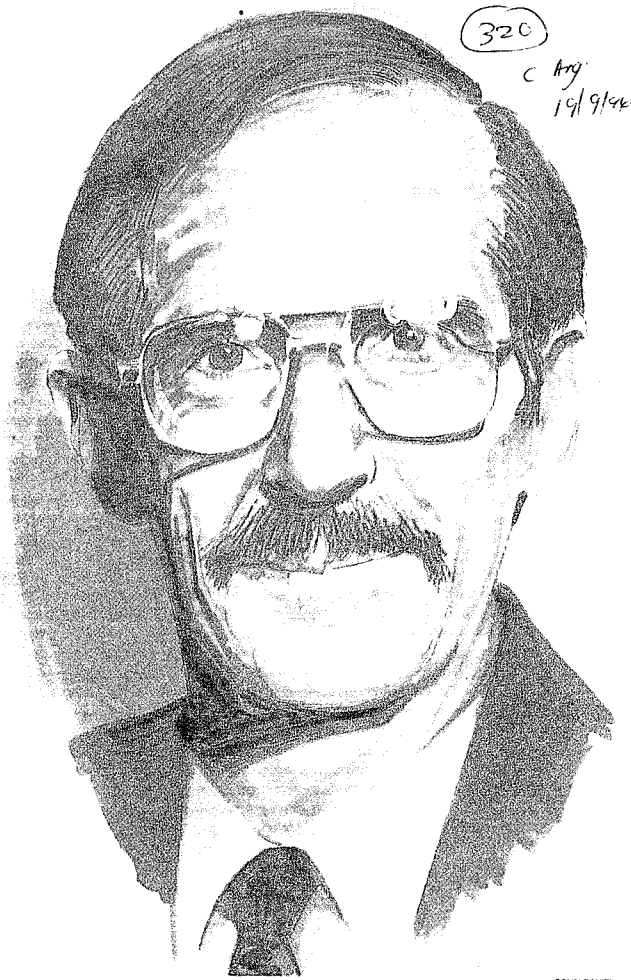
This is the second in a series of interviews with industry and government spokesmen about consumer protection issues.

THE BIG STORY

C ARG. 19/9/96 (320)

All the signs of a tax revolt are there

It will require a giant leap by government to solve the problem



COLIN DANIEL

Henri Kluever: the Auditor-General warns that South Africa could be facing a tax revolt

to collect tax. It was not a tax revolt.

"There is a difference between people who have paid taxes and who then evade taxation and those people who have never paid tax."

The problem lay directly with the inability of the tax authorities to collect tax.

He admitted that the recent tax amnesty campaign to draw people into the tax net was a failure.

He said his figure of five million tax evaders was "soft" because no one really had any idea of the extent of tax evasion.

ANC MP Barbara Hogan says the Katz committee has estimated that R15 billion is outstanding in taxes But even this is a rough estimate. No one really knows. Incidentally, the total budget for the year is R173 billion.

If the money could be collected, income tax levels could be brought down while the government could substantially reduce its need to borrow more money every year as well as spend more on development. Collection of the amount would make a very significant difference to this country's fortunes.

It is hardly surprising that all political parties have reached their present stage of frustration, particularly over the efforts of those in charge of the public service, who give the appearance of wanting to sabotage every effort to improve the efficiency of tax collection with bureaucracy.

At the hearings of the parliamentary committee on public accounts this week where the whole issue was aired, MPs were astounded that billions of rands could go uncollected year after year with no decisive action because some civil servants may object to higher salaries being paid to members of the tax collection departments.

The fact that all civil servants would in the end also get a better deal if taxes were properly collected appeared to evade Dr Lukas Stoop, chairman of the Public Service Commission. He remained very cool to the whole issue of allowing the tax collectors to set up an administration operating under different rules from his empire.

No matter how hard and long Deputy Minister of Finance Gill Marcus condemns tax-avoidance schemes, it will do little to stem the tide of growing tax avoidance, let alone tax evasion.

One of the significant figures to be released showed that even collection of taxes which SARS knew about was getting worse with an increase of 6.12 percent in outstanding due from individuals and of 11,06 percent from companies.

The government will have to move rapidly now if the country is not to face a real tax revolt. The consequences are manifold, ranging from the stimulation of the brain drain as high-earning individuals seek friendlier tax climates abroad as they have to shoulder more and more in taxes, to the direct impact on the survival of businesses and jobs.

Mr Kluever warned that the fabric of business was being undermined by the smuggling of containers of goods into the country.These were then sold at cut prices, limiting the ability of local manufacturers to compete and survive.

Mr Liebenberg believes, however, that it is not only the task of the government to get a return to tax morality; he believes businesses, particularly, can play a part.

For example, a clothing retailer and manufacturer recently insisted that all suppliers showed proof of VAT registration or exemption. The result was about 100 new VAT registrations.

Until the South African Revenue Services are given the power to employ people in sufficient numbers and with sufficient skills can the problem be rectified.

After so many years of talk and repeated identification of the underlying problem it is hardly surprising that politicians are left aghast but so are those people who pay their taxes.

19/9/96 (320)

SOPHISTICATED TAX-AVOIDANCE SCHEMES AT ONE TIME WERE EXCLUSIVE TO THE VERY RICH AS THEY SOUGHT TO PRESERVE THEIR WEALTH AGAINST THE APPARENTLY ENDLESS DEMANDS OF THE STATE. **BRUCE CAMERON**, EDITOR OF PERSONAL FINANCE, REPORTS THAT NOWADAYS NEARLY EVERY TAXPAYER IS INVOLVED IN SOME SCHEME TO LEGALLY AVOID PAYING TAX AND A GOOD MANY MORE ILLEGALLY EVADE PAYING TAX EITHER IN PART OR ALTOGETHER.

When the situation has reached such crisis proportions that the head of the South African Revenue Services, Mr Piet Liebenberg, says only half of the possible 10 million taxpayers are meeting their commitments, the question must be asked: Is South Africa facing a tax revolt of unprecedented proportions which, more than anything else, could bring the government to its knees?

On top of this, there is widespread smuggling, substantial evasion of VAT and various other tax dodges.

But mention tax revolt to anyone in the revenue services and they recoil. Privately, many concede that a tax revolt is under way as fewer and fewer people shoulder the burden of ever-increasing taxes.

'The government doesn't have the will to break the boycotts because it doesn't want to risk unpopularity by enforcing the law'

The problems are many, although the official and virtually only reason given is the inability of the tax services to pay competitive salaries to attract skilled staff.

Auditor-General Henri Kluever hinted at the potential of a tax revolt when he told a parliamentary committee this week that "equity and fairness, which are so positively underlined by the constitution, do not exist for a certain sector of the country's taxpayers, namely the salary earners, who comprise the majority of taxpayers and who have no way of evading tax."

Individual taxpayers are caught every which way possible.

Not only do taxpayers see an ever-increasing portion of their earnings go to tax as a result of fiscal drag (being pushed into higher tax brackets as wages go up in line with inflation), but petrol taxes and taxes on booze and cigarettes spiral ever upwards, rates and taxes on properties soar and there is an increasing tendency of applying user taxes, such as school fees.

Add to this, 14 percent VAT, new taxes on retirement savings, transfer taxes on property, taxes on banking charges and many others and it is little wonder that taxpayers start objecting.

It is also the reason why tax avoidance is no longer the preserve of the rich, particularly as middle-income earners are now taxed at top rates.

Tax avoidance, which is legal, includes such things as salary substitution schemes.

These range from having an employer pay all or most medical aid and retirement fund contributions to more sophisticated instruments like the controversial life insurance black hole products, which are used to reduce tax commitments.

The tax revolt in Sandton against a 300 percent rise in rates should come as little surprise to the authorities when they start counting up how much many of those ratepayers already pay in various taxes.

It is also the reason why the government should take the *Sarafina 2* issue a little more seriously.

Ken Andrew, chairman of the parliamentary committee on public accounts and Democratic Party finance spokesman, says taxpayers are bound to question high tax bills when they see their hard-earned money frittered away on dubious projects like the ill-fated musical or to pay exorbitant fees to consultants.

Then, he says, add the disillusionment of the near-absence of delivery on such things as homes or improved education for the poor.

Then the tax burden is increased by the failure of the Masekhane campaign to reverse the pervasive climate of non-payment of rents, rates and bonds.

On this front alone, Mr Andrew says, the government has neither the capacity nor the determination to break the non-payment climate.

"The government does not have the will to break the boycotts because it does not want to risk unpopularity by enforcing the law. It also does not have the capacity to administratively collect the money even when people want to pay.

"In many communities there is substantial tax evasion, aided and abetted by the inefficiency of the system."

Mr Andrew says a few people are paying more and more while they are receiving less and less. The result is that levels of dissatisfaction are rising.

Mr Liebenberg ascribed the situation entirely to the inability of the tax services

Tax money goes down the drain

(320) CP 22/9/96

By CHIARA CARTER

PERFORMANCE audits conducted in several government institutions last year found large sums of money had been wasted and a range of bad housekeeping practices had occurred between 1994 and 1995.

☐ The training courses run by the then South African Police are one example. Not only did the audit find poor planning – but it also discovered thousands of rands wasted.

Police from regions around the country attended advanced detective courses in the Western Cape, rather than their own regions. This meant the SAP spent about R2 119 on each detective – compared to about R143 if the course had been conducted in the different regions.

A R278 546 handgun-range was built in Hammanskraal in 1994 – but operated for just a month before being closed because it did not meet safety requirements. Trainees then had to be transported to another range – at a cost of about R70 200 each semester.

Auditors found that 39 police members at the Pretoria and Hammanskraal training colleges had received instructors' allowances – although they were not full-time trainers.

About R365 200 was paid each year to police used as caterers, cleaners and labourers – tasks the auditors said could have been performed by civilians.

Some trainees did not have the basic skills required to complete a course. Others turned up for courses they had already completed.

A policeman withdrawn from the Special Weapons and Tactics Course in February last year because he was a safety risk and needed basic training, was found three weeks later to have had a Z88 pistol for the previous five years.

☐ Then there was the Meat Board which spent more than R1,4 million on a promotional campaign which never saw the light of day – because the Board discovered there was a shortage of red meat.

☐ Questionnaires by the Central Statistical Service were sent by certified mail – at a cost of R1,70 more per item than ordinary mail. This translated into more than R463 000 in unnecessary postage expenses over a six-month period alone.

Six statistical series were supposed to be collected within an eight-month period – but one year later, only one tiny series had been concluded. Relatively large sampling errors occurred.

More than half the population was excluded from a survey on household expenditure – the basis for the Consumer Price Index – because the survey only covered urban areas.

☐ An audit on marine resources management found that there were no guidelines for what the Sea Fisheries Fund covered and the fund did not have an assets register.

A ship called "Algoa" was bought for R5 million in 1991 and a further R1,2 million was spent on upgrading it. Between 1994-1995 more than R1 million's worth of equipment was bought. None of these was recorded in an asset register.

☐ The Auditor-General's report said many of the shortcomings found during the performance audits had been addressed by the government institutions examined.

SA REVENUE SERVICE

DISASTER LOOMS AS BILLIONS SLIP THROUGH NET

FM 27/9/96 (320)

Middle class reels under tax burden

As the *FM* has had deplorable cause to remark, a government which cannot collect taxes is a government whose writ does not run. The same goes for a government which cannot protect the lives and property of its citizens. And there's more than a coincidental linkage between the two deficiencies, as not the least of the problems of the SA Police Service is a lack of money to organise effective policing.

Banker Piet Liebenberg has some good results to show for his first three months in office as CE of the new SA Revenue Service, which has absorbed the functions of the former departments of Inland Revenue and Customs & Excise. These have been welded into the unified structure shown in the chart.

The retirement of Customs & Excise Commissioner Daan Koleski has created room for Inland Revenue Commissioner Trevor van Heerden to be made second-in-command to Liebenberg under the new style of Commissioner: SA Revenue Service.

Liebenberg is now responsible to a board of directors chaired ex officio by Finance Minister Trevor Manuel. The entire management structure has begun to have more in common with a private sector corporation than a public service department — precisely the result Liebenberg has set his sights on. So far, so good.

What remains is the most necessary and politically the most painful step — the rapid enactment into statute law of legislation to remove the newly minted Revenue completely from public service control.

This urgent need was restated last week by Liebenberg when he gave evidence to parliament's Public Finance Committee.

He repeated that Revenue autonomy comprises three elements: the right to set its own salaries, especially for tax professionals, at levels competitive with the private sector; the right to manage its own affairs, not least to enter into contracts without going through the time-consuming public service procedures; and the right to finance its own operations through the retention of 1%-2% of gross collections. This is precisely how well-managed revenue services abroad — notably in the UK — are run.

More's the pity that this was not done at mid-year (when Liebenberg was appointed) or more than a year ago, when the decision was taken in principle to restructure SA's disintegrating Inland Revenue and Customs & Excise departments. Evidently, the collective strength of shadowy lobbies exercising formidable resistance to the reforms was greater than optimists had hoped.

LOADING THE INDIVIDUAL

Main source of tax (%)	1987	1997
Gold	13,5	1,1
Diamond	0,1	0,2
Other mines	4,8	1,5
Other companies	26,9	23,6
Individuals	54,4	71,5
Interest	0,3	0,9
STC		1,2
	100%	100%
Trends/total revenue		
-1986/97		R36,5bn
-1996/97		R140,0bn

SOURCE: REVENUE SERVICE

When the plan was announced to restructure the ailing departments, it was felt that the adjustment of some regulations under the Public Service Act would suffice to confer autonomy.

Evidently, this view has been proved wrong, so there's now no option but to spell out the new structure of Revenue in unequivocal statutory form. Liebenberg told the committee he was drafting precisely such a measure.

At the hearings, Liebenberg's plea was joined by that of Auditor-General Henri Kluever. So deep is Kluever's concern that his office is withholding an audit opinion on the completeness of revenue collection within the partially and ineffectively reformed structures. He said bluntly that no real progress has been made in reform since the original approval given by Cabinet in October 1995.

He's even more concerned about the catastrophic state of affairs at Customs & Excise. Kluever referred to a state of disintegration so complete that smuggling has reached epidemic proportions — so much so that normal business activities — and with them, the economy as a whole — are being seriously affected.

As for Revenue, Kluever correctly argued that equity in the tax system has been seriously undermined, inasmuch as a disproportionate burden has been thrown on to the shoulders of middle class salary-earners (see table). They comprise the majority of taxpayers and have no means — unlike businesses — of evading tax.

In a recent address to the Islamic Bank, Liebenberg noted in some detail that maximum authorised departmental salaries for the all-important category of accountants still did not match the private sector. More prosaically, the truth is that tax collection is and always will be a battle of wits between government's revenue services and highly paid tax professionals advising corporate and wealthy individual taxpayers.

During the almost forgotten period when young chartered accountants were allowed to perform their military service in the Receiver's offices (the "army worms"), collections jumped and the number of tax evaders uncovered jumped too. This has to be a battle of equals — otherwise government's battalions will be hopelessly out-gunned.

Liebenberg offered the committee the example of the much-vaunted Sandton flagship corporate tax office — which collects more tax than any other. Despite a strong advertising campaign to attract staff, Sandton still employs only 19 chartered accountants against a theoretical complement of 78.

He gave the committee significant fig-

ures about relative accountants' salaries. Notably, a good accountant with five years' experience can earn between R180 000-R300 000 in the private sector but no more than R170 000 in the public service. After 10 years, the gap is between R250 000-R350 000 a year in the private sector and a maximum of R199 000 in the public service.

We all wonder about the amount of revenue being lost. Katz Commission chairman Michael Katz put this at around R21bn/year two years ago. Liebenberg, reasonably, suggests that it's much more now. Even R21bn would be 15% of the current year's projected tax take of R140bn. It's probably now at least 20%, but could well be much more, as there's no way to assess the numbers accurately.

The fact that so much of the tax burden has been shifted to the middle class needs further examination. Though mostly white in the past, it's now increasingly black. What's more, it provides much of the cohesion that holds any society together. Here we find the teachers, nurses and salaried doctors, computer technicians, jet engine mechanics and Eskom boiler operators who are vital to the functioning of a modern industrial economy.

The failure to collect anything like the proper tax take (including Vat) from businesses has meant that the Treasury has been unable to adjust the tax tables to compensate for the savage impact of fiscal drag on the after-tax real income of the middle classes. The eventual risk to the economy and social stability requires no further elaboration.

Echoing Kluever's particular distress over Customs & Excise, Liebenberg reported that UK experts who scrutinised their controls found the service understaffed and the policing inadequate. They judged that the main methods of evasion were under-evaluation and false invoicing. Steps are being taken to remedy this.

There are two men in government who have to take the lead and insist on the necessary surgery to extract Revenue from the inhibiting grasp of the Public Service Commission — Manuel himself and Deputy President Thabo Mbeki.

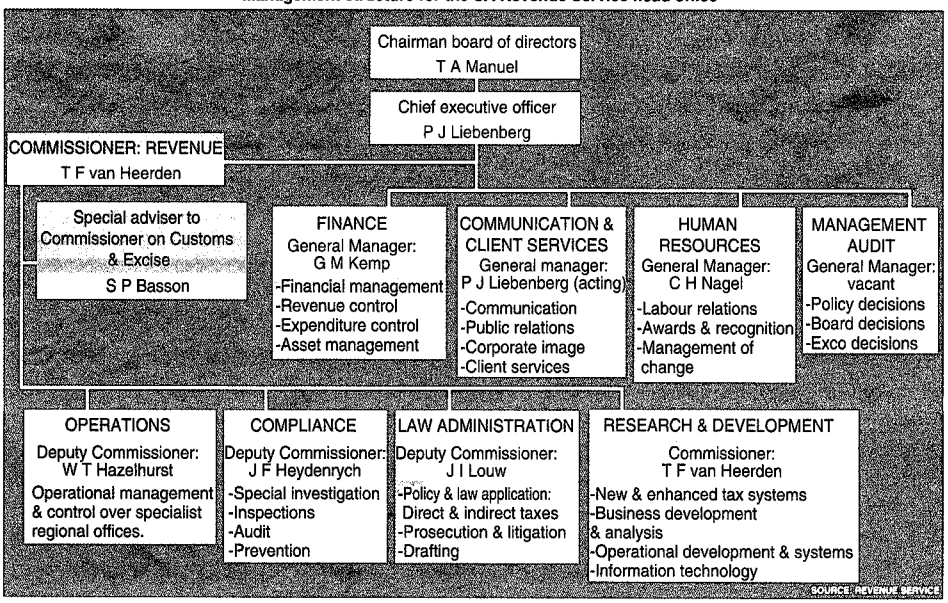
Here we must recognise the benefit to the new SA in having for the first time, in Manuel, a Finance Minister with an important power base in the governing party. In retrospect, we can see how much the lack of political clout inhibited the ability of his two predecessors to take firm action.

Not only does Manuel have this advantage, but he's a man of strong intellect and political will, even if the *FM* has at times had cause to differ on his conduct of affairs in the past. He should realise that this is a life or death issue — for himself, for the ANC and for the new SA alike. The entrenchment of autonomy will not, most pertinently, exclude the Finance Ministry from a supervisory role, as the Minister is ex officio the chairman of the board of Revenue.

It's vital for the cooler heads at the top to explain that Revenue is a very special case indeed. In particular, it collects revenue — all other departments spend. The case is simple: revenue collection determines other activities of government — in particular, how much it can spend on paying other public servants and on overdue expenditure on such neglected areas as black health and education. It's the ANC's own mass constituency which needs enhanced revenue collection more than any other. ■

GETTING SHIPSHAPE

Management structure for the SA Revenue Service head office



Nedlac report calls for tax incentives

BD 30/9/96 (320)

John Dludlu

THE grant-based regional development programme — an investment support scheme linked to the former homelands — should be changed into a tax-based scheme, says a National Economic, Development and Labour Council (Nedlac) report due to be released today.

The report, prepared by accountants Ernst & Young, comes ahead of government's plans to implement tax holidays — a pillar of its macro-economic strategy released in June.

Qualifying criteria for state support under the reshaped regional industrial development programme should include "labour absorption capacity", regional priorities and priority industries, the report recommended.

Nedlac said yesterday key aspects of the report had been fed into government's new tax holiday scheme.

A government source said the tax holiday scheme was expected to be implemented next month.

The business constituency at Nedlac has already given its backing to the tax holiday scheme after assurances from the state that it would pull in additional administrative resources, such as staff from the general export incentive scheme (GEIS), which was being wound down.

Nedlac executive director Jayendra Naidoo said debates at the council had included concerns from labour that tax holidays would result in a compensatory increase in VAT and income tax. The state had responded that revenue loss would be insignificant, and thus not necessitate such an increase.

Savings from GEIS, excluding finance for supply-side measures, would compensate for lost revenue.

At last week's quarterly executive council meeting it was agreed that labour and business would be represented on the board to administer the regional development scheme.

It was also agreed that in granting tax holidays, the board should consider the effect on existing businesses producing similar products, the effect on employees and on firms' long-term investment plans beyond the period of the tax holiday.

Naidoo said government representatives had opposed labour's proposal that applications for tax holidays be publicised and objections be allowed. Responding to concerns that tax holidays would disadvantage existing industry, government had pointed out that there was a range of schemes — including development finance and supply-side incentives — which could be used by existing businesses.

Tax man 'should be given wider powers'

20/10/96 (320)

John Dludlu

THE SA Revenue Service should be given autonomy to resolve inadequate tariff and tax administration, the SA Chamber of Business (Sacob) said yesterday.

At a public hearing on the tariff policy conducted by the parliamentary portfolio committee on trade and industry, representatives of a Sacob delegation said the revenue service's problems related to its level of autonomy.

"As long as the revenue service remains hamstrung by bureaucratic 'red-tape' and government procedures, it is extremely doubtful that progress will be made in addressing these problems. Any attempt at tariff reform will also be severely undermined."

The Sacob delegation, which its director-general Raymond Parsons, said the tariff policy was providing "little or no protection from imports". It said ineffectual tariff administration caused loss of revenue from import duties and VAT, pressure on local industries as well as a decline in tax morality.

The chamber questioned the accuracy of SA's trade statistics, saying innacuracy made the formulation of effective policy and anti-dumping measures difficult.

SA's existing commitments to the World Trade Organisation should serve as a basis of any debate on tariff policy reform, it said.

Although the chamber supported the acceleration of tariff reduction in areas where there was no local production, within the customs union, it questioned the wisdom of linking the recent performance of the real effective exchange rate with tariff reform.

In certain instances, it said tariff reduction had occurred without adequate consultation.

At the hearings, both the clothing and textile federations spoke with one voice, declaring the "war is over". Texfed president Mike Hankinson, speaking after his Clofed counterpart Bernard Richards, said challenges facing the industries included illegal import penetration amid the collapse of customs control, high input costs and lack of clarity on supply-side measures.

The two federations raised concerns at the spate of bilateral trade accords, saying these would be used as channels for illegal imports. The federations, which up until recently were opposed to the resuscitation of the bilateral agreement with Zimbabwe, called for the dissolution of all bilaterals into a regional one.

Clofed, which claimed that the industry had lost 17 000 jobs in the past 10 months, called for the extension of the duty credit certificate system — a state support scheme — to March 2003.

The federation has also asked the state to set up an export council. Parliamentary committee trade and industrial policy group chairman Ben Turok said business seemed to lack the capacity to assist government in assessing global trends like protectionism, competition and dumping.

Exit tax planned for visitors leaving SA

(320) BD 4/10/96

Nomavenda Mathiane

THE environmental affairs and tourism department would introduce an exit tax for visitors leaving SA, Deputy Environmental Affairs Minister Peter Mokaba said yesterday.

Addressing the Afrikaanse Handelsinstituut environmental committee in Pretoria, Mokaba said money accrued from this tax would go into a special tourism fund, to market and develop the industry.

Mokaba said the tourism white paper had identified tourism training and education as major challenges facing the industry. This, he said would require a well-trained work force with a positive service-oriented attitude.

A tourism training advisory committee — made up of all key interested and affected parties — had been formed recently to act as a think-tank and consultative forum for tourism training and education.

The white paper also proposed transformation of Satour in accordance with the realities of the post-apartheid era, especially now that the world had opened up to SA and there was need to align the tourism vision and strategies with reality, he said.

On the issue of violence, Mokaba said the white paper had also identified the safety and security of tourists as a critical factor for a healthy industry. But crime against tourists should not be equated to the overall crime situation in the country.

New electricity tax set to push up tariffs

PETER DENNERY
CT 9/10/96

A NEW TAX on electricity — probably 14% — is to be imposed from next year, according to a progress report on the electricity industry.

Yet the 10% surplus which municipalities already get from electricity bills will remain in place, says Mr Dave Wilken, chief executive officer of the Goodwood municipal administration, who drew up the progress report.

His report was tabled yesterday at the first annual congress of the Western Cape Local Government Association in the Strand.

He reported that an electricity working group under the National Electricity Regulator had been trying to electrify all the areas in need of it within five years, without increases or funding.

International consultants have said the working group's goals are not practical. Tariffs will probably have to increase.

The working group has recommended to a panel of government ministers that five Regional Electricity Distributors (REDs) should be formed to take over distribution from both local authorities and Eskom. These REDs will be controlled by boards on which all interested parties have seats — including municipalities.

The working group also recommended that sales of electricity to these REDs should be taxed, to help those areas with a large backlog, like the Northern Province and the Eastern Cape.

Wilken said this tax could just be VAT at the usual 14%, but this has not yet been decided.

Up to now, the power that the Cape Town electricity undertaking buys from Eskom, for example, has not been subject to VAT.

The new tax will raise the price of electricity which the consumer has to pay in the end.

The Western Cape will be under a single Regional Electricity Distributor. This will have three subdivisions: the Metropole, the Southern Cape and the West Coast.

The Star ... Thursday October 17 1996

Tax tobacco to fund health, urges Zuma

(320)

SA excise duties half that of other countries, Parliament told

Star 17/10/96

SAPA
Cape Town

Finance Minister Trevor Manuel should increase excise duty on tobacco and the revenue raised should be diverted to the health budget, Health Minister Dr Nkosazana Zuma said in Parliament yesterday.

She was supported by Farouk Cassim (IFP), who said the anti-smoking battle should be shifted to the Finance Ministry.

He urged Manuel to increase tariffs on tobacco products.

Zuma told MPs that excise duties accounted for only 32% of the price of tobacco products, compared with 70% in other countries.

Cassim said a soft-soap approach was not the answer and that "it was time to make smokers pay", especially in the light of their cost to the country's economy and productivity.

Zuma said statistics showed that 2-3 million of the country's 19 million children would be killed by tobacco.

Quoting World Health Organisation statistics, Ahmed Ally (IFP) said it had been estimated that by the year 2000, smoking would be the main cause of death.

Cassim said he had convinced his colleague Ally – a heavy chain-smoker – to kick the habit, and said Zuma should urge Transport Minister Mac Maharaj to do the same.

Zuma also endorsed Cassim's call to ban smoking in most areas of Parliament.

Speaker Frene Ginwala said Parliament's rules committee was discussing the issue, and that the matter would come up before parliamentarians soon.

Diesel scam costs tax service R100m

BD 18/10/96 (160) (320)

Reinie Booysen

THE SA Revenue Service (SARS) is losing at least R100m a year through a growing tax-evasion scam in which diesel is spiked with paraffin and jet fuel — oil products which attract little or no customs and tax.

SARS officials say the scam has reached alarming proportions. It started several years ago in KwaZuluNatal, but has now spread countrywide. It appears most prevalent in the Durban-Maritzburg and Gauteng regions.

Black-market operators are evading levies of about 70c/l on an estimated 140-million litres of "diesel" sales annually. The SARS estimates "at least 5%" of the 5 673-million litres of diesel sold in SA annually contains an illegal proportion — ranging from 30% to as much as 70% — of paraffin or jet fuel. Illuminating paraffin and jet fuel are chemically identical products, known as kerosene internationally — although kerosene sold as jet fuel is subject to stringent international quality controls, for safety reasons.

Diesel engines can also burn kerosene, although a pure kerosene "diet" would eventually damage an engine, owing to kerosene's poor lubricating qualities.

Exasperated SARS officials say it is very difficult to prove cases against black-market blenders. A major problem is that the legitimate diesel from the oil companies also sometimes contains some kerosene — usually in winter, to lower the diesel's freezing point.

It is accepted practice throughout the world for oil companies to add kerosene to diesel — although there are limits, due to the "lubricity" required in diesel. The blending is done for various reasons. Apart from lowering diesel's freezing point, Scandinavian oil companies add kerosene to lower their diesel's sulphur content, for environmental reasons. Sometimes blending is also a way of disposing of surplus kerosene.

Adding colourants to paraffin to facilitate proof against tax evaders — a

Continued on Page 2

Diesel

(160) (320)

Continued from Page 1

BD 18/10/96

common practice in Europe — has been rejected by the SARS. "We are scared of colourants," said SARS excise director Chris Barnard. "The problem is that many people store paraffin in cold-drink bottles, and dying the paraffin would pose a serious danger to children, who would be more tempted to drink the coloured liquid."

International Civil Aviation Organisation rules do not permit colourants in jet fuel.

The SARS investigation is focusing on the activities of so-called "routers", who distribute oil products to small service stations or industrial and farming end-users. Although the penalties for customs evasion are severe, prosecutors face evidential obstacles.

Barnard said the growing scale of the scam was evident from the alarming increase in complaints from legitimate diesel retailers who claimed their prices were being undercut by black-market operators retailing illegitimate blended material. "We have also had a growing number of complaints from people whose engines have been damaged by diesel with too much blended paraffin," said Barnard. "There's nothing we can do for them."

Some oil company sources also find the latest growth figures for sales of paraffin (13,5%) and jet fuel (21,3%) just a bit too good to be true. Oil company sources say there has also been a growth in "suspect" requests for jet fuel clearly not intended for use on aircraft.

While it is illegal to sell paraffin blended with a "lubricity" agent, for automotive use, without paying the diesel taxes and levies, there is a loophole in the law which permits diesel to be spiked with jet fuel.

Oil company sources say they cannot refuse requests for jet fuel, although the SARS has written to the oil companies indicating that it finds the sale of jet fuel for non-aviation uses unacceptable, and that the legal loophole will be closed shortly.

Tax amnesty plan in the pipeline

BD 21/10/96

Tim Cohen (320)

CAPE TOWN — Finance Minister Trevor Manuel is due to announce another tax amnesty plan tomorrow.

He indicated at the weekend that he would be making certain announcements which were widely believed to concern a new tax amnesty scheme. This would follow the limited success of one introduced by Manuel's predecessor, Chris Liebenberg.

The finance department hopes that a new amnesty programme will address the problem of the billions of rands that government believes it is losing through non-payment of taxes.

According to reports, the scheme is likely to be more flexible than the previous one but the extent of the relief granted is likely to be less generous.

Tomorrow Manuel is also due to give evidence before the public accounts committee about legislation dealing with the independence of the SA Revenue Service which was drafted in January. Nothing has been heard about it since.

Meanwhile, Manuel scotched market rumours that SA was discussing

Continued on Page 2

Tax amnesty

(320)

Continued from Page 1

BD 21/10/96

the possibility of a standby facility from the IMF to assist with the scrapping of exchange controls.

At a joint news conference with IMF executive director Michel Camdessus, Manuel said that he had not discussed the possibility of a funding facility from the IMF during Camdessus' visit.

"No loan, no amount, no conditionality," he said, although Camdessus indicated that the door was not closed.

Camdessus said the IMF was like a fire brigade which was called in during times of crisis. As SA did not face a crisis, it did not require assistance.

But the country was facing serious challenges, such as an unacceptably high unemployment rate, and discussions were continuing.

ARG 22/10/96

Cash rolls in as tax collection doubles (320)

CLIVE SAWYER
POLITICAL CORRESPONDENT

The efficiency of tax collection has improved significantly, with a huge jump in the number of assessments issued and in the amount of money earned from value added tax.

Minister of Finance Trevor Manuel disclosed this today when he gave a briefing to Parliament's joint committee on public accounts.

He said that this year there had been 120 percent increase in the number of tax assessments sent out compared to last year.

"This indicates our ability to draw more money out," Mr Manuel told the committee.

The Finance Ministry was today to announce tax relief measures to broaden the tax base, to ensure that everyone pays a fair share of tax and to break the culture of non-payment of taxes.

Mr Manuel said legislation on the newly-established South African Revenue Services would be ready by the end of the first quarter of next year.

He said that from the next fiscal year revenue staff would be offered incentive packages for the achievement of certain goals.

There had to be a focus on the 10 000 employees below the rank of deputy director, who were the people who made the system work.

Piet Liebenberg, chief executive of the SA Revenue Services, had spent his first two months in office visiting each of its offices.

"For too long people have not mattered," said Mr Manuel.

He added that the government had made a commitment to reduce its deficit and to end state "dissaving".

This meant more than curbing expenditure and had to mean improving the revenue side.

For this an organisation was needed which was adequately structured and staffed.

"We employ fewer people in customs and excise in the whole of South Africa than the United Kingdom has at Heathrow Airport alone."

Manuel is upbeat on tax collection

CT (BR) 23/10/96 (320)

FROM REUTER

Cape Town — Tax collection is improving and the legislation outlining the South African Revenue Services' (SARS) autonomy will be tabled in the first quarter of next year, Trevor Manuel, the finance minister, said yesterday.

Briefing the parliamentary public accounts committee, Manuel said negotiations were still under way, and he was optimistic the legislation would make the revenue services autonomous enough to be a performance-driven entity.

"We have a few feathers in our collective cap on the negotiations already, but I would not like to say more at this stage," Manuel said.

He said while efficiencies still had to be improved, progress was being made with the help of tax officials from other countries and intensive training programmes. "The situation is improving and it is improving rapidly."

The SARS was recently formed through the unification of inland revenue and the customs and excise departments.

Particular attention had been paid to retraining the 11 000 staff and outsourcing information technology systems to allow the computerisation of PAYE tax deductions.

Progress to date included the fact that the number of assessments issued had risen to 581 000 by last month compared with 264 000 last year.

The number of VAT cases audited had risen to 11 000 by last month, bringing in an extra R210 million compared with the 7 386 cases audited in September last year.

As a result, revenue collection for the 1996/97 year was "perfectly on track" to achieve the targeted reduction in the Budget deficit of 5,1 percent, Manuel said. He said R900 million in tax arrears had already been collected.

He said the SARS would be funded by receiving a certain percentage of revenue collected, and this would be used to help provide incentive schemes to staff in the new fiscal year.

As soon as it had finalised its business plan, the SARS would receive the extra R150 million allocated to revenue collection by the Budget in the current financial year.

New, shorter amnesty starts next month

Another chance for tax evaders

CT(BR) 23/10/96 (320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Taxpayers who elected not to take advantage of the government's previous tax amnesty for fear that the repayment of arrear taxes would have been financially strenuous have been given a second chance by the government to legitimise their tax position.

This time, they will be able to avoid suffering under a difficult repayment schedule.

Trevor Manuel, the finance minister, said yesterday that the government would introduce a bill in parliament early next month providing for a wider, although much shorter, tax amnesty than the one that ended in January.

This amnesty, like the last one, will be available to people who were not registered as taxpayers on April 26 1994.

It will also be available to those who were registered but have fallen in arrears with their taxes either because they underdeclared their income or did not submit tax returns.

The amnesty will be available for the 16 weeks from November 1 to February 28. People who approach the offices of the South African Receiver of Revenue to arrange payment of the arrear taxes in that period will not have to pay penalties or interest on the arrear taxes.

They will, however, have to arrange for the repayment of their arrears, either in a lump sum or in instalments.

Any amounts paid to the Receiver before February 28 will be deducted from the taxpayer's arrear taxes, not against the interest he or she owes, as is usually the case.

If there are still amounts outstanding on the arrear taxes at the end of the amnesty period, interest will start to accrue on those amounts.

"The previous amnesty, which ran from July 19 1995 to January 31 1996, was too restrictive because only those people who were unregistered qualified for relief," Manuel said.

Of the 23 000 people who applied for amnesty, only 15 000 received it. Many of the remaining 8 000 applicants had to be shown away because they were already registered.

About R2,3 billion of the R9,4 billion in outstanding taxes that the Receiver knows about but has been unable to collect consists of interest and penalties on taxes. The finance ministry expects to forfeit this amount if everyone eligible takes advantage of the amnesty.

"This final amnesty is intended to encourage people to legitimise their tax affairs without being penalised and settle arrear tax debts without having to pay interest, penalties or additional tax which accumulated on those arrear taxes," Manuel said.

□ **Manuel is upbeat, Page 19**

Accountants held in tax-evasion crackdown

CT 23/10/96 (320)

THREE partners in a firm of chartered accountants had been arrested on charges related to tax evasion, Finance Minister Mr Trevor Manuel said yesterday.

The three had been released on bail, Manuel said, but he declined to name them. "They had been servicing their clients in a particular way. We will continue to go after them and their clients," he told a media briefing in Cape Town. The hand of the new South African Revenue Services was being felt, he said.

Manuel also announced a four-month tax amnesty aimed at broadening the tax base and helping tax defaulters with arrears and penalties accumulated before February 28, 1994. It will run from November 1 to February 28 next year. It goes further than an earlier amnesty by including taxpayers who are registered but who have fallen behind on their tax. The first amnesty applied to people not yet registered as taxpayers. — Sapa, Political Staff

See Page 17

Government offers 'final' tax amnesty

BD 23/10/96 (320)

Tim Cohen

CAPE TOWN — Government announced another tax amnesty yesterday, promising it would be the last, but that it would be much more widely applicable than previous amnesties.

Finance Minister Trevor Manuel estimated that the tax relief had the potential to cost government at least R2,33bn in arrear interest charges.

Manuel said the previous amnesty, which lasted from July 19 1995 to January 31 this year and attracted 23 000 applications, was "somewhat restrictive". This was because to apply the applicant had to have been unregistered or his whereabouts unknown to the inland revenue commissioner prior to April 26 1994 in respect of all three main taxes — income tax, employees' tax and VAT.

The previous amnesty also did not deal with cases where registered taxpayers' arrear taxes had reached such proportions that they were unable to redeem the outstanding amounts. Legislation would therefore be introduced to cover four categories of taxpayers:

□ The previous amnesty would be reintroduced for unregistered taxpayers in respect of either income tax, employees' tax or VAT. Relief would rule out liability for taxes prior to February 28 1994 and would waive interest and penalties;

□ Registered persons who disclosed full and true details of their income tax, employees' tax and VAT obligations prior to March 1994. Applicants would qualify for relief from interest, penalties and additional tax;

□ Registered people liable for interest, penalties and additional tax for income tax, employees' tax and VAT during 1994 and earlier would qualify for relief from these obligations if they complied with conditions with regard to rendering returns; and

□ Those liable for sales tax penalties would qualify for relief.

Most applicants would still be liable for the principal sum, which Manuel said was important to preserve the integrity of the tax base. However, outstanding interest charges would be waived, although they could begin accumulating again on the outstanding amounts should the principal sum not be paid in full.

He said there were 404 000 registered taxpayers who owed about R6,7bn. About R2,33bn of this amount consisted of arrear interest charges, and this was the amount government would forfeit if all these applicants were successful. Government, however, had no idea how many other taxpayers would use the scheme.

Deputy Finance Minister Gill Marcus said the measures were about "1994 and a new SA" and would therefore be addressing people who did not want to take part in the system before that date. "Therefore, there will be no more amnesties," she said.

Manuel said he hoped enabling legislation, which had been referred to Parliament's finance committee, would be passed before the end of the parliamentary session on November 7. The legislation proposed that the period of application would be between November 1 this year and February 28.

See Page 3

Tax amnesty 'will pay for itself'

(320) MTG(BM)25-31/10/96

Lynda Loxton

FINANCE Minister Trevor Manuel this week sent a strong signal to errant taxpayers that the time had come for them to pay up — or else.

So confident was he that he announced a package of "relief" measures aimed at luring more taxpayers into the tax net even though the state stood to forfeit more than R2-billion in its new tax "amnesty".

This will be the money in arrears and interest payments that Manuel said he was willing to write off in return for greater tax morality among South Africans.

The reason for his confidence emerged in the parliamentary public accounts committee this week, when he briefed members of Parliament about progress in restructuring and strengthening the revenue services in the new South African Revenue Services (SARS).

"The situation is improving and it is improving rapidly. It would help if we stopped crying wolf," he said.

Over the past 12 months, the SARS had been formed, unifying inland revenue and customs and excise, and top staff had been appointed.

Particular attention had been paid to retraining the 11 000 staff and outsourcing information technology systems to allow the computerisation of pay-as-you-earn deductions.

This revitalisation of the organisation was as important as any legislation planned and "we must not pin our hopes on one piece of legislation", Manuel said.

He had been pressed to specify whether he was confident that the legislation "would provide the SARS with the necessary administrative autonomy to become a performance-driven entity".

Manuel said that he was "still in the throes of negotiation and we are fairly optimistic about the outcome.

"We have a few feathers in our collective cap on the negotiations already, but I would not like to say more at this stage."

Progress to date included the fact that the number of assessments issued had risen to 581 000 by September this year compared with 264 000 last year, or a 120% improvement.

'We have a few feathers in our collective cap on the negotiations already'

The number of value-added tax cases audited had risen to 11 000 by September this year, bringing in an extra R210-million against 7 386 in September last year, which had brought in R100-million.

As a result, revenue collection for 1996/97 was "perfectly on track" to achieve the targeted reduction in the Budget deficit to 5,1%, while R900-million in tax arrears had been collected.

"There are improvements and I think this is an important point because one reads in newspapers about the rot [setting in about poor tax collection]."

He said the SARS would be funded by receiving a certain percentage of revenue collected and this would be used to help provide incentive schemes to staff "in the new fiscal year".

As soon as it had finalised its business plan, the SARS would receive the extra R150-million allocated to revenue collection in the current financial year.

He was concerned that there had been a high turnover of staff but said he hoped that training programmes and "greater flexibility on remuneration scales" would deal with this next year.

Attention was also being paid to improving the working environment of staff members as this affected morale.

British customs officials were still helping South African officials plug various loopholes in the collection of customs duties, he said, adding that tax officials from several other countries were also expected to provide assistance soon.

Manuel stressed that improving tax collection was but one part of the overall macro-economic thrust to reduce the Budget deficit and set the stage for the kind of job-creating growth South Africa desperately needed.

He said that, half-way through the current financial year, he was still confident that the government would be able to meet its target of reducing the deficit to 5,1%.

FARM LEVY MAY BE 2%

Shock land tax proposed

(320) ET 25/10/96

RELIEF FROM the proposed tax on rural land through rebates and deferrals should be kept to a minimum, the Katz Commission's land tax sub-committee has suggested. Political Writer **BARRY STREEK** reports.

OWNERS of rural property could face a shock two percent annual land tax if a government proposal is accepted.

This means that someone owning a farm worth R1 million would have to pay an extra R20 000 a year in tax, while someone owning rural property worth R5m would pay R100 000 in land tax every year. This would not apply to urban property, however, Professor Michael Katz said last night.

The Katz Commission on tax was criticised yesterday for allowing only two weeks for the public to submit comments on the proposed tax.

The Government Gazette outlining the proposals of the commission's land tax sub-committee only arrived by post in Cape Town yesterday, two days before the deadline for public submissions.

"It's ridiculous. I just threw my Government Gazette away," said Professor Trevor Emslie, associate professor of tax law at the University of Cape Town. "I don't know where the delay is, but the result is ridiculous."

The chairperson of the parliamentary Joint Standing Committee on Public Accounts and the DP's spokesperson on finance, Mr Ken Andrew said : "It is commendable that the public are being called upon to comment. However, it is ridiculous that they are given only a couple of weeks in which to do so. This is a complex matter requiring full and open debate."

Confusion about the scale of the land tax was caused by the Government Gazette advertisement which made no reference to its being only for rural property, and a Pretoria-based valuator, Mr William Naudé, said it would apply to the market value of any immovable property.

However, Katz said it only applied to rural property and that property owners in urban areas would continue paying normal rates and taxes.

The advertisement said the land tax sub-committee had released a discussion document which suggested local government would be entitled to levy land tax under the final constitution and that legislation would be necessary to ensure that any potential economic disruption was minimised while the raising of tax revenue was optimised.

The sub-committee's tentative views on the legislation included:

- The market value of land and improvements should form the tax base.
- Valuations should take place at least every five years.
- The owner of the land should be liable for the tax.
- The tax rate should not exceed two percent a year.
- Relief through the use of rebates and deferrals should be kept to a minimum.
- The tax should be levied annually but could be collected at shorter intervals.

The sub-committee said that before formulating its final recommendations it had called for submissions on these issues and had asked for proposals on how to deal with tribal land.

Emslie said there were a number of concerns about the proposed tax. "If the owners cannot pay the tax are they going to be forced to sell the land?"

Andrew said he felt taxes should be kept as low as possible for the government to provide the necessary services. "Generally, taxes on consumption and property are better than taxes that are a disincentive to create wealth."

If it is an add-on or extra tax, "there is a serious problem because people in this country are already heavily overtaxed", Andrew said.

Mr Simon Grier, a co-owner of the Villiera wine estate near Stellenbosch, said farmers were being crippled by the ever-increasing burden of government taxes.

"We pay excise on unfortified and sparkling wine, import duties, VAT, levies to the regional council and a 42% company tax."

Many farms, handed from father to son, were also having to cope with an increased "estate" tax of 25% — a figure the government wants to raise again.

The administrative side of running a farm was a "red tape" nightmare, he said, which wasted valuable hours of a farmer's day.

"SA's wine industry is in the international market now and we need to be competitive — we need government encouragement so we can grow and be competitive."

More and more farmers were mechanising their operations to cut labour costs, because there was no respite from rising costs and taxation, he said.

"Farming depends on the weather — you must be able to build up reserves for the bad years. At the moment, this is impossible.

"If the 2% land tax came into effect, a farmer would have paid off the full value of his farm to the government in 50 years — if the farm's increasing market value was taken into consideration this figure would drop to 30 years," Grier said.

Beware! The taxman cometh ...

ARG 26/10/94

(320)

BRUCE CAMERON

Beware the taxman cometh, first gently and then with a big stick.

In doing so he hopes to reduce the high tax burden on individuals by spreading the load and to provide more money to improve the lot of the poor.

Before applying the big stick Minister of Finance, Trevor Manuel and his tax collectors are giving all errant taxpayers one final chance to clear up their tax liabilities. After February 28 next year all tax dodgers will be pursued relentlessly by the taxman and charged with criminal offences.

Chief tax collector Piet Liebenberg warned that people should not think that because they got away with eluding the taxman in the past they will continue to escape the net.

The tax collection service overhaul is now well underway and soon tax inspectors will be combing the country with added incentives to track down tax dodgers. Already this year an additional R900 milion has been recovered.

Among other things under consideration are incentives paid to tax investigators on the recovery of tax. And if you are caught Liebenberg intends not only to take his dues with penalties, but he will also charge you in court and ensure you are branded publicly as a tax offender.

Liebeneberg told Personal Finance this week that this method worked in Mexico where people faced the ignominy of being branded as common criminals. Both he and Manuel believe that following the introduction of legislation next year to improve efficiency of the tax collection services they will have the ability to carry through on their threats.

Tax defaulters wanting to apply for tax amnesty should contact their closest Receiver of Revenue office. If you have never registered as a taxpayer you can collect an amnesty application form from your local Receiver's office. If you have been hiding away from the taxman because your are in default on taxes make an appointment to see your local Receiver. From November 1 (when the amnesty should come into effect) you can call toll free on 0800 1192 000 for any enquiries you may have.

Manuel and his deputy, Gill Marcus, warned at a Press conference this week that this tax amnesty would be the last. If you do not own up this time the taxman will not only take the tax due, but will charge penalties which can be up to three times what you owe.

Liebenberg said a communications programme would be launched involving business and labour. In the campaign the benefits of paying tax would be explained.

Marcus said that people who had not paid taxes because they were opposed to apartheid no longer had an excuse. There was now a new government and they had to register as taxpayers. Manuel said many people were in violation and "no nation can allow this type of impact on the integrity of the tax system".

The tax amnesty will run from November 1 to February 28.



ROY WIGLEY

Taxing times: Finance Minister Trevor Manuel, right, backed by, from left, Commissioner of Inland Revenue, Trevor van Heerden, chief of the South African Revenue Services, Piet Liebenberg, and Deputy Finance Minister, Gill Marcus, gives a final warning to tax dodgers at a media conference this week.

Tax amnesty details

Who qualifies:

- The 404 000 registered, but errant income taxpayers;
- The unknown number of people who have never registered as taxpayers;
- Those people who owe either Value Added Tax (VAT) or General Sales Tax.

There are four categories:

Category one: Those people who were not registered as taxpayers on April 26, 1994 and whose names were not known to the taxman for the purposes of paying income tax, employees' tax (PAYE and Site) or VAT.

This category also applies to "missing persons" who were on the tax register but whose whereabouts were unknown.

This category will not have to pay any taxes due prior to February 28, 1994 but they will be liable for taxes after this date.

However, they will not have to have any interest, penalties or additional taxes if they pay up all due tax before February 28 next year.

Category two: Registered taxpayers, employers and vendors, who are on the tax register, but who had under-declared any amount in periods up to February 28, 1994.

They are now given the chance to pay all tax due up to that date without having to pay interest, penalties and additional taxes if they make arrangements to pay the outstanding capital before February 28 next year.

Category three: Registered taxpayers who are liable for interest, penalties and additional taxes for income tax for 1994 and prior years of assessment; employees tax for periods up to February 28, 1994 or VAT up to March 10, 1994. This group also includes taxpayers who have been investigated by the taxman.

This group will not have pay interest, penalties and additional taxes if they make arrangements to pay the tax before February 28 next year. This even includes people who have been investigated.

Category four: Taxpayers liable for penalties for sales tax will not have to pay penalties if they pay what they owe before February 28 next year.

Plea to bar criminals from tax amnesty fails

CT (BR) 29/10/96 (320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The parliamentary standing committee on finance refused a request from the attorney-general's office yesterday to exclude taxes, interest and penalties payable on the proceeds of crime from the tax amnesty which will run from November 1 to February 28.

At a public hearing on the Tax Amnesty Bill, Adriaan Mocke, a representative of the attorney-general's office, pleaded for the amendment of the bill on the grounds that it was "immoral" for criminals to get relief from taxes due on income received from crime.

The investigation of several cases might have to be aborted until after the tax amnesty if the bill was not amended, he said.

But Kosie Louw, the chief director in the office of the receiver of revenue responsible for the Tax Amnesty Bill, asked the standing committee on finance not to exclude criminals from the bill, saying all taxpayers had to be treated in the same way.

"How taxable income is obtained by a taxpayer is of no concern to us. We can only punish taxpayers for non-payment of their taxes. We cannot use our tax laws to punish them for other crimes they have committed," Louw said.

The amnesty bill is a so-called money bill, which, according to parliament's rules, cannot be amended by a standing committee and must be accepted or rejected in full.

Mocke said the amnesty would hamper the government's efforts to clamp down on organised crime.

The government recently started attaching property "to hit at the Achilles heel of organised crime. Since the tax liabilities of criminals may be reduced by the tax amnesty, we will not be able to attach properties until the end of the tax amnesty," he said.

□ **The Revenue Wolf, Page 20**

Tax amnesty is no escape for druglords

BRUCE CAMERON
PERSONAL FINANCE EDITOR

ARCS 1/11/96

Druglords will not, after all, be able to use the tax amnesty to escape paying taxes on ill-gotten gains.

Deputy-Minister of Finance Gill Marcus said in an interview that any tax due from April 1994 would have to be paid and criminal charges could be laid if the taxes were not paid or if fraud was involved.

"Amnesty covers only the penalties and interest – not the capital amount," she said.

Ms Marcus was reacting to evidence to the parliamentary finance committee by Willie Viljoen, of the office of Western Cape Attorney-General Frank Kahn, that alleged druglord Colin Stanfield and others being prosecuted by Mr Kahn's office for alleged tax evasion and fraud could get off the hook by applying for tax amnesty.

But she said tax legislation could not be used to attack "ill-gotten gains".

Tax authorities could not sit in judgment on how income was earned. The object of the tax authorities was to ensure tax was paid.

The amnesty did not allow anyone to escape fraud charges.

If druglords or anyone else evaded tax, they would be charged with a criminal offence.

If a druglord applied for amnesty, all income would have to be declared and tax assessed.

SA and US agree to new tax treaty

(320)

BD 4/11/96

Simon Barber

WASHINGTON — SA and US negotiators initialled a new bilateral tax treaty at the weekend to replace the pact torn up by the Comprehensive Anti-Apartheid Act 10 years ago.

Rond van der Merwe, a member of the four-man SA negotiating team headed by revenue service commissioner Trevor van Heerden, said the parties had agreed — at the request of the US Treasury — not to disclose any of the terms of the agreement until it was formally signed by their respective governments.

Assuming both governments find the terms acceptable, the treaty is likely to be signed by Deputy President Thabo Mbeki and US Vice-President Al Gore at the next meeting of the US-SA Binational Commission, to be held in SA next February.

After signing, the treaty must still be ratified by the US Senate, which does not meet again until next year.

The agreement, which creates a framework of co-operation between the governments for taxing their nationals' income on each other's soil, is unlikely go into effect before 1998.

Among other things, the treaty defines which SA taxes paid by US companies in SA may be credited against their tax payments to the US Internal Revenue Service (IRS).

US companies have been lobbying hard to have SA's secondary tax on companies made creditable to lower their cost of doing business in SA. The US Treasury had been resisting such requests in the hope of getting the tax scrapped — one reason the negotiations have been so protracted — but it remains unclear how the issue has been resolved.

The agreement comes as something of a surprise since the US Treasury had made it clear it was loath to have a treaty until SA had officially made up its mind on the Katz commission's proposals on taxation.

US companies in SA have not faced double taxation on most of their SA income since the repeal in 1993 of the so-called Rangel Amendment, a 1987 sanction which barred US firms from crediting their SA taxes against what they owed the IRS.

In a letter last February to then finance minister Chris Liebenberg, the US-SA Business Council, a trade group representing US firms with SA interests, said the lack of a treaty "represents an actual cost to US companies and it is also symbolic of an incomplete legal and financial framework.... The implementation (of a treaty) is therefore critical to the goal of encouraging new US investment in SA."

Revamp of Revenue Service 'bearing fruit'

Tax assessments up 120% – Manuel

(320)

ARG 6/11/96

ALIDE DASNOIS
BUSINESS EDITOR

The revamp of the South African Revenue Service is showing results, says Minister of Finance Trevor Manuel.

At a media briefing organised by the ANC in Parliament yesterday, Mr Manuel said the number of tax assessments completed in September was up 120 percent on a year ago. VAT cases assessed were up 50 percent and the yield on these had more than doubled.

There had also been significant arrests for customs fraud.

"We are getting a picture of an organisation which is much stronger. There is a measurable change in performance," Mr Manuel said.

On the rand, he said the key issue was not short-term volatility but the long-term fundamentals in the economy.

"Sometimes a spring tide in one market pulls things out off other markets. We can't be expected to find a new rabbit in a hat each time the tide changes, or our policy would have very little integrity."

The depreciating rand could be seen as an asset to the Government's Growth, Employment and Redistribution (Gear) strategy, he said, because the focus of Gear was the expansion of non-gold exports, which would benefit from a competitive exchange rate.

The current account of the balance of payments, recognised by the Gear strategy as the "Achilles heel" of the economy, would be strengthened by the falling rand.

But, Mr Manuel said, the currency's volatility did make investment planning difficult.



Finance Minister Trevor Manuel

On exchange control, he said the decision to lift controls would be tied into the state of the country's gold and foreign exchange reserves.

"A cushion of reserves would make a substantial difference," he said.

The Government had not set a limit date for the removal of exchange controls, nor had a decision been taken on whether or not South Africa would retain "a modicum of controls" on investment abroad.

Questioned on the possibility of an International Monetary Fund (IMF) loan, Mr Manuel said this was not being discussed, though "everything is an option at any time".

The IMF could be seen as a lender of last resort, in which case other lines of credit should be used up first, he said.

Some countries had used an IMF standby facility as a signal but had chosen rather to go the route of a syndicated loan.

Mr Manuel described himself as "an agnostic" towards the IMF and the World Bank.

"I don't believe God lives in those buildings, but the devil doesn't either."

Ministry to set up retirement forum

The Department of Finance is hoping to set up a retirement forum before the end of the year to take forward the recommendations of the Smith and Katz Commissions, Deputy Minister of Finance Gill Marcus said yesterday.

Ms Marcus said the forum would not go back over the same ground as the two commissions, but would consider issues such equalisation between public and private sector retirement, medical aid schemes and their relation to retirement.

"There's a lot of work to be done by the forum," Ms Marcus said.

Latest tax amnesty Bill gets brickbats from DP

Wyndham Hartley

(320)

BD 7/11/96

CAPE TOWN — The latest tax amnesty Bill being rushed through Parliament before it closes tomorrow would further demoralise law-abiding taxpayers and leave criminals laughing, the National Assembly was told yesterday.

DP MP Ken Andrew demanded to know from Finance Minister Trevor Manuel why he did not simply collect the tax owed instead of again offering a tax amnesty. "Presumably you do not have the capacity to do so. If that is the case, what is going to induce tax dodgers into confessing their sins now?" Andrew asked.

Andrew said the 1985 and 1995 tax amnesties had failed and there was no reason why this amnesty would succeed. On the contrary the latest tax amnesty would have a further negative effect on taxpayers and on tax morality. The DP opposed the Bill.

IFP MP Gavin Woods said "the narrow psychology" on which the latest tax amnesty was based "falls seriously short of what would motivate tax dodgers to jump into the tax net". He said that despite the expectation that most tax dodgers would give this amnesty a "wide berth" the IFP would support the Bill.

NP MP Theo Alant said tax morality in SA was very low and he hoped that those who avoided taxation because they had no representation, but used services provided by the state, would take advantage of this amnesty.

Sapa reports that ANC MP Ben Turok said the media had a duty to encourage tax morality. Newspapers were too full of methods to encourage tax avoidance, he said. Turok also appealed for "tax avoidance and evasion" businesses to be stopped.

Manuel, replying to the first reading debate on the tax amnesty legislation, said the SA Revenue Service was greatly improved in its ability to collect tax. He said the problem was that the tax system had been allowed to run down over 30 years. The government was not ignoring the realities of the tax system but was choosing not to adopt measures that would drive small businesses into bankruptcy.

He said that Andrew's criticism was easy because as political opposition he had the right to make demands but he never had to carry any of the responsibility for those demands.

Manuel dismissed the Western Cape attorney-general's concerns that the amnesty might result in drug dealers escaping prosecution.

It was "balderdash" that the amnesty impeded the work of the attorney-general, an office which should use criminal law to carry out its work, he said. "You can't lump everything under the Income Tax Act."

The Bill served to prevent many small businesses from going bankrupt, Manuel said.

The Bill was read a first time and a second time in the National Assembly in the space of an hour, and now requires the approval of the Senate and the signature of President Nelson Mandela to become law.

LAND TAX

POLITICAL AGENDA SUSPECTED IN KATZ REPORT

FM 15/11/96 (320)

Imposing a new burden on farmers

The agricultural subcommittee of the Katz Commission has put forward a proposal to allow rural local authorities to impose a land tax capped at a maximum of 2% of the improved value of the land. Though the subcommittee mitigates the tax by suggesting it should be deductible for income tax purposes, the proposal is fiscally unattractive and threatens the integrity of the agricultural economy. It also carries the risk that rural local authorities could collect the revenue without having the administrative capacity to spend it effectively — a now-familiar state of affairs.

In challenging the proposal, let's start with its purely fiscal and administrative aspects. The report acknowledges that collection costs could reach 1% of the rateable value. This means the tax — imposed at its maximum rate of 2% — would probably bear a collection cost of 50% of the gross take. This sheer inefficiency makes it inevitable that it would be imposed at the maximum rate. This alone should rule it out as a satisfactory fiscal mechanism.

The report explains that current policy towards the provision of finance for local authorities — in particular set out in the Financial & Fiscal Commission's guidelines — requires them to avail themselves as much as they can of their own sources of finance. This requirement must be met before they can ask central government for additional money.

The subcommittee goes on to point out that urban local authorities have the equivalent power to levy rates on urban property. By parity of reasoning, rural local authorities should be given a comparable power. With due respect for the commission's sense of deference to these arrangements, this argument is so mechanistic as to be suspect.

To question the capacity of rural local authorities is no mere debating point. SA possesses highly organised urban and metropolitan local authorities. But even they have been found to experience limits of capacity when it comes to extending the level of social services within their areas of responsibility.

It is probable that rural local authorities will face severe limitations of capacity, though the position could vary from locality to locality. Tax money collected from farmers could, therefore, remain unspent, or, in the worse cases, be frittered away in poorly administered projects or consumed in unproductive bureaucratic overheads.



If the framework for determining fiscal arrangements for local authorities generates a manifestly unsound result, the correct response is to urge that the framework be changed — in the last resort by amending the Constitution if that becomes necessary. Rather that, than run the risk of inflicting serious damage on a well-functioning economic sector. A sector that is one of the few that maintains a comparative advantage in export markets.

The road would then be open to propose that rural social spending be financed on a discretionary and closely supervised basis by central government. While flouting the principle of decentralisation, this solution would still be preferable to the waste of scarce resources.

The SA Agricultural Union (SAAU), in opposing the land tax, has brought forward some highly pertinent statistics. It estimates that agricultural land values totalled about R47bn in 1994. At the proposed maximum of 2%, the potential tax take would be R940m. This hypothetical amount would reflect 14% of pre-tax average annual net farming income over the period 1992-1994. If the collection cost is taken at 60%, there would be a net gain to the fiscus of about R400m. This amount, while not trivial, could be furnished by government without serious destabilisation.

The SAAU has advanced further convincing arguments, both fiscal and economic, against the land tax:

- It would, in function if not form, comprise a wealth tax. Land, including fixed improvements, represents 67% of agricultural assets. Land is a cost-bearing factor of production, so that the tax would impair its earning power. The impact would fall on rentability, cash flow, net worth and land values. Considering the relatively small return, the purpose seems to be nonfiscal, or even contrafiscal, impairing the agricultural sector's profitability and hence its ability to contribute to State coffers.

At 2%, it would negatively influence land prices, reinforcing the effect of the high crime rate on farms, a shrinking agricultural budget, adverse political perceptions and greater exposure to international competition.

Now that the traditional divergence between market value of land and its pro-

Continued from page 22

agree. I think the record stands at 14 interviews," Tapnack says.

It's hard to factor the value that this strong sense of ownership and high motivation has on the numbers but it must go some way towards explaining Investec's superior performance.

For one, it cuts out much of the backstabbing often found in large organisations. "If a manager messes up, the others don't gloat because it makes them look better or perhaps offers a promotion opportunity," Tapnack says.

"Instead, they try to help out. The better Investec, as an organisational team, performs, the higher the share price goes — and everyone benefits."

Strong focus is the second factor behind the banking group's success. Under the Investec banner, there are six broad strategic business units: corporate and investment banking; private banking; securities trading; asset management; property; and trade finance.

These six units, however, can be further divided into 14 individual businesses, run autonomously within the broader parameters of the group, and further subdivided into 32 highly focused businesses.

Investec is, in effect, a conglomerate of focused businesses operating across the financial services industry.

Tapnack credits Investec's consistent bottom-line performance (10-year compound EPS growth of 29,3%) with what he calls the "portfolio effect."

"Year after year, we consistently meet our growth forecasts. What does sometimes surprise us, though, is where that growth comes from. A quiet year, or bad year, for one business is compensated for by a strong performance somewhere else. The overall effect at group level is consistent and sustainable growth."

Diversification of earnings also lends stability. Income is almost equally split between fee income (R247m at the interim) and interest income (R249m).

More stable, recurring annuity income has lifted to 73% of the total, against deal income of 27%.

And, perhaps most important for the future, Investec sources 29% of its income in foreign currencies (at year-end) against 71% from the domestic market. That adds a significant rand hedge component to the share, certainly the highest among SA banks.

Foreign earnings have been as high as 44% in 1994, since skewed in favour of domestic earnings with the takeover of Sechold.

Ultimately, though, Koseff says the ideal target would be to earn half of Investec's income offshore, if the local market is defined as southern Africa.

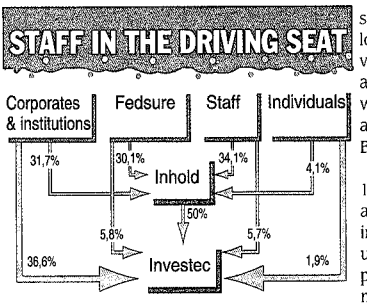
"What we are striving for is to be recognised as one of the top international banking names — not the biggest but the most successful in our chosen markets."

Investec already has considerable success in transposing its culture and niche market strategy overseas, the most notable acquisitions to date being London-based Allied Trust Bank (ATB) in 1992 and Clive Discount Co a year ago.

Together, these two acquisitions account for offshore capital of about £110m. In total, Investec has about a third of its capital (about £58m) offshore.

The international growth has been assisted partly by Bernard Kantor's brother Ian, who is based in Amsterdam. Ian Kantor is one of Investec's founders and remains chairman of Inhold.

Foreign expansion will continue this year. Deals to acquire London's Carr Sheppards and 52% of Israel General Bank are awaiting approval. Koseff says Israel General, that country's eighth largest bank with assets of about R2,8bn, could in time become as large a profit contributor as ATB.



Locally, Investec is also entering new markets. After acquiring stockbroking firm J Solms & Co and then Fergusson Bros, both incorporated within Investec Equities, the group has a strong trading operation backed by a heavyweight research team.

Rather than traditional broking, the operation is adding value through the distribution of financial products to institutions and individuals, Kantor says.

"For instance, we will offer to analyse a pension fund's portfolio, offer advice on where they may be over- or under-exposed and market suitable products to them."

Investec seems hard to fault and the few criticisms which emerged are deflected by new chairman Hugh Herman.

One was that Investec has bought some under-performers in the past. "It depends," says Herman, "on what you do with those businesses. Investec has a knack for integrating acquisitions into the group, rationalising where facilities can be shared and transferring its culture to the acquired business."

Another is that growth has been led by acquisitions. Herman counters that a programme of selected strategic acquisitions has been supported by strong organic growth.

If there is one thing Investec has not been good at in the past, it is projecting its own image. For a group which can be aggressive in the market, founders like Koseff and Kantor are extremely private men. They emphasise the team rather than individuals.

Herman, who joined three years ago, seems to be changing that and correcting outdated perceptions. "It amazes me that I still meet senior businessmen who think Investec is a leasing operation," he says.

As part of an international roadshow last year to raise a syndicated loan of US$50m and $100m in a convertible bond issue, Investec, against advice that an SA banking group would not attract much interest, held a presentation to the IMF and World Bank meeting.

"We were delighted when about 120 people attended. This year, we again held the presentation and 150 international businessmen turned up. We're thinking of making the IMF presentation an annual event," Herman says.

The JSE, however, needs no introduction to Investec. Eight years of solid performance makes the company and Inhold among the most highly rated shares in the sector.

Though the share may seem expensive, the price is not really an issue for an investor who is prepared to take a medium- to long-term view. Investec combines some of the strongest earnings growth seen in the sector with a 30% rand hedge element.

And, while less tangible, its committed staff and management give the share an edge. *Shaun Harris*

ductive value has been virtually eliminated it has become easier than in the past for aspirant farmers to gain access to land. So it would be wrong to undermine confidence further, so that effective farmers are (artificially) removed from the land. The tax could therefore operate, whatever the stated intention, as a veiled form of nationalisation of land.

❑ It is a misconception to see agriculture as an underutilised source of State income. It is wrong to see farmers as untaxed.

State assistance to local agriculture is modest compared with Japan, Europe, and even the US. The special provisions in the First Schedule to the Income Tax Act were designed to enable farmers to receive equitable tax treatment in the context of sharply fluctuating annual income. Present special provisions for income tax on farming are reasonable.

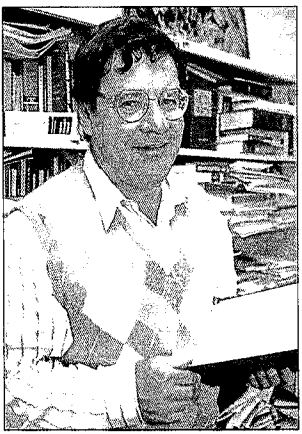
Farmers contribute to welfare expenditure as substantial contributors to income tax and Vat. Also, farmers pay many indirect imposts, such as tax on petrol and diesel, customs duty on agricultural imports and stamp duty, not to mention RSC levies and estate duty.

❑ In this context, it is legitimate to point to the current malfunctioning of the revenue-collection machine. These administrative deficiencies — on the admission of the Katz Commission itself — have caused a shortfall in collections of about R9bn at the end of 1994.

This comprises outstanding tax, interest and penalties and vastly exceeds the possible yield of a land tax. While existing taxes cannot be collected effectively by the central revenue authorities, it would be irresponsible to introduce yet another tax, the administration of which is seriously in issue. The National Party suggests, in its submissions, that the tax morality of farmers could be seriously undermined;

❑ A major problem is the existence of large areas of communally owned land, over which the imposition of the land tax seems difficult or impossible — because of confusion over who would be liable. So the tax would fall effectively on the commercial sector, and this restriction could render it subject to constitutional challenge;

❑ The supposed rationale for the land tax is visible connection with local benefits. This proposition is undermined by the low net yield. The poor functioning of the RSC levy — a comparable impost — gives further ground for doubt.



***Dennis Davis**... not holding to sound fiscal principles*

A system of user charges for local infrastructural benefits would be more appropriate.

We should consider a betterment tax to enable agricultural communities to identify original projects and to agree on their financing. The National Party asks what municipal services would be rendered to farms in exchange for the tax; and

❑ Valuation methods remain a difficult and controversial issue — whatever method is employed. These include the basis of comparable sale prices (market values), capitalisation of income, lettability or the quality of resources.

Leaving the valuation method to local authorities is implicitly permitted by Section 18(2) of the interim constitution. But international experience shows that few countries have an effective land tax, precisely because of weak valuation systems.

Broadly speaking, far better to challenge policies than individuals, but it cannot be entirely coincidental that the chairman of the agricultural subcommittee is self-acknowledged socialist Dennis Davis. Whatever the moral fervour of the remaining socialists, history has judged that socialist agricultural policies — destroying Russia's vigorous peasant agriculture — were a major factor in the collapse of the Soviet Union. A country that exported 30 Mt of grain a year before the Revolution became one that imported 40 Mt in the Eighties. Why should SA repeat these follies?

This is not to challenge the moral and political necessity for a rational land reform programme: a place should be found for black farmers within a free market context. They were once effective agriculturists and will be again. Indeed, unless blacks in large numbers join the commercial farming sector, destructive social tensions will intensify.

But it would be wrong to load the burden on to the existing population of farmers. The cost of buying land for black farmers, correctly argues the SAAU, should be seen as a social cost — to be borne by the fiscus.

The land tax aside, there is growing evidence that the land reform process is encountering fundamental problems, such as Agriculture Minister Derek Hanekom's reported difficulties in awarding individual title to plots of land in northern KwaZulu-Natal. These flow from restrictions imposed by traditional communal land ownership.

Don't forget government's large stockpile of land (leased back to white farmers) originally acquired by the Nationalist government to allocate to the now-defunct homelands.



***Derek Hanekom**... don't undermine commercial farmers*

Let Hanekom devote his abundant energies to dealing with land restitution, solving the communal land problem and in finding potentially capable black purchasers for government's land stockpile.

Leave the commercial farmers alone. As Abraham Lincoln said, "You cannot strengthen the weak by weakening the strong." ■

US and SA draft double-taxation agreement

(320) ARG 22/11/96

RICH MKHONDO
FOREIGN SERVICE

Washington – South African and American trade representatives have drawn up a comprehensive new tax agreement, which will be ratified by their respective governments next year, according to officials from both countries.

Officials said in separate interviews that the contents of the agreement had been studied and ratified by legal representatives from both governments.

"But the agreement still has to go through the United States Congress and the South African parliament's judicial process before everything can be made public," said one South African official.

The agreement will cover aspects of the taxing of American companies doing business in South Africa and those South African corporations trading in the US.

"The agreement creates safeguards that corporations should not be taxed twice, at home and abroad," said one American official.

"We cannot disclose the terms of the agreement until they have been ratified by both governments."

Call to scrap VAT on paraffin

320
Sowetan 28/11/96

By Isaac Moledi

Paraffin accounts for 4 to 12 percent of monthly spending

A WOMEN'S MOVEMENT in the Western Cape is campaigning for the scrapping of VAT on paraffin.

The group, calling itself the New Women's Movement, says it is to launch its "cost of living campaign" officially on December 14.

Paraffin, says the movement's steering committee member Mercia Andrews, accounts for between 4 percent and 12 percent of monthly spending for poor rural households.

She says paraffin price hikes are making it more difficult for poor households to meet their energy needs. This is the reason why the movement is to encourage communities to call on the authorities to treat the commodity in the same way as other basic consumer goods like bread.

The organisers intend conducting a widespread public awareness campaign through pamphlets, petitions, pickets, sit-ins and other forms of mass action.

The movement is also conducting a series of meetings with individuals, community organisations and labour to encourage them to support the campaign.

> **"We hear about price hikes in petrol, milk and bread almost daily and no one is taking any action"**

"Since paraffin is used by the poorest households, particularly rural women, increases in its price have a direct impact on these households. So, we have to find a way of fighting this, more or since the recent seven cents a litre price hike."

She says the movement will intensify their fight against VAT on paraffin because the commodity is cheaper than electricity and it is more accessible to the poorest people as it can be bought on credit from the local spaza shops.

"We hear about the price hikes in petrol, milk and bread almost daily and nobody is taking any action.

"We want the Government to exercise price control on certain basic commodities, including milk, bread and paraffin, and to ensure that there is a transparency in their pricing.

"A situation where you find one business selling a product at a certain price and another selling the same commodity at another price is unhealthy," she says.

The purpose of the campaign, according to the movement's media convener Gabrielle le Roux, is:

- To address the rise in the cost of living;
- Improve the quality of women's lives; and
- To popularise the women's movement among grassroots women and to build confidence among women to tackle issues that affect them. The establishment of the women's movement in the province follows the breakdown of the Women's Coalition in the area.

Tax policy 'penalises small businesses'

ARG 3/1/97 (58) (320)

BUSINESS REPORTER

The Government is causing South Africa's small business sector significant hardship by refusing to legislate over the Katz Commission's "tax on cash basis" recommendation.

This is the opinion of Ernst & Young partner, Neil Aereboe, who is responsible for the Cape Town office's Entrepreneurial Services Division.

This division offers professional accounting, tax and financial services to small and emerging businesses.

Mr Aereboe maintains the current tax on an accruals basis penalises small businesses because they are expected to pay tax on income they have not yet received. He says this does not encourage and support the growth of new business in the SMME sector, nor encourage a tax-compliant ethos.

"Despite Government's acceptance – in its 1995 Budget speech – of the Katz Commission recommendation that businesses with a turnover of below R2-million be taxed on a cash basis, the necessary legislation and rules have not been promulgated.

"This is causing significant hardship to small businesses ... and does not encourage these entrepreneurs to join the tax-paying public."

Mr Aereboe says the Government anticipated it would collect less tax by adopting this policy, but that this loss had been taken into account in the 1995 Budget.

Tax defaulters running out of time to pay up

(320)

But nearly half qualify for relief

ART 9/1/97

ESANN DE KOCK
BUSINESS REPORTER

Taxpayers who are behind in their tax payments have until February 28 to bring their affairs up to date, says the South African Revenue Services (SARS).

The SARS has been given the power by the Final Relief on Tax, Interest, Penalties and Additional Tax Act of 1996 to encourage defaulting taxpayers to correct their tax payments.

Although it is virtually impossible to determine the number of unregistered defaulters, the SARS says it has an accurate assessment of registered taxpayers who are behind in their payments.

Of the 2 226 367 registered individual income taxpayers, 9 percent are not up to date with payments.

Of these, SARS calculates, 45 percent are in a situation which enables them to qualify for relief under the current tax relief programme.

The remaining 55 percent of defaulters are therefore relatively up-to-date and constitute normal debtors, who fall outside the relief criteria.

SARS spokesman Christo Henning said one of the biggest problems was tracing taxpayers whose whereabouts are currently unknown.

"People fail to tell us of changes of address, employment and income levels,' he said.

"Consequently, they stop submitting annual returns and over time, their tax situation becomes very messy and onerous.

"The longer people ignore the situation, the more costly it becomes to resolve."

He said the tax relief programme was a perfect opportunity for people to bring their affairs up to date.

"They will have to pay back-taxes from the 1994/95 tax year, but we are writing off all interest and penalties prior to 1994."

An analysis of defaulters shows the SARS is in a position to recover about R2,4-billion from as few as 7 586 taxpayers who qualify for relief under the latest act.

The tax relief programme expires on February 28. If you believe you qualify, phone toll-free 0800 119 200.

Govt clampdown on tax dodgers

Sowetan 9/1/97 (320)

Take advantage of the amnesty to fix up your tax or expect a nasty visit

By Shadrack Mashalaba

ABOUT 566 000 registered taxpayers are not up to date with their payments, costing the Government billions of rands in lost revenue.

One of the biggest problems cited by the South African Revenue Service is that of tracing registered taxpayers whose whereabouts are currently unknown.

The SARS has been empowered through the Final Relief on Tax, Interests, Penalties and Additional Tax Act (1996) to encourage defaulting taxpayers – be they registered or not – to sort out their tax affairs before the end of February.

The tax amnesty was announced by the finance minister last year to recover money owed to the government. It will, among other things, benefit individual taxpayers and companies and vendors with regard to VAT.

People who earn R50 000 or more a year are obliged by law to complete and submit tax returns.

If the amnesty call is heeded the SARS stands to recover at least half of the R3,5 billion that is owed to the Government.

The SARS has estimated the administrative costs involved in recovering the lost tax to be R2 606 billion.

The analysis of defaulters shows that the SARS is in a position to recover as much as R2 406 billion from just 7 586 individual taxpayers or vendors.

SARS spokesman Mr Christo Henning said: "People fail to tell us of changes of address, employment situations and income levels. Consequently, they stop submitting annual returns and over time, their tax situation becomes very messy and onerous. The longer people ignore this, the more costly it becomes to resolve.

"The tax relief programme is a perfect opportunity for these people to bring their affairs up to date. They will have to pay back taxes from the 1994-95 tax year but we are writing off all interest and penalties prior to 1994," said Henning.

He cautioned dodgers that if they are behind with their payments they should expect a knock on their door from the receiver's office sometime after February 28.

"Of course, you can make it a lot easier by coming to us first," added Henning.

"We will be calling on people across the spectrum, so if you owe smaller amounts you are just as likely to be visited as those who owe more than R50 000," he said.

For more information taxpayers can contact the nearest Receiver of Revenue office or call 0800 119 200.

Tax task team says: you can run, but you can't hide

Team tracks big fish

ARG 11/7/97

JACQUI REEVES
OWN CORRESPONDENT

Johannesburg – A highly specialised team of legal advisers and chartered accountants will hit the streets in March this year, as part of the Government's attempt to track down tax defaulters.

News of the task team, along with hard-hitting advertising and awareness campaigns, appear to be having the desired effect – with an average of 260 panicked tax defaulters contacting the Receiver of Revenue every day.

South Africa has 240 359 tax defaulters, who owe a total of R2,6 billion, but of that group a mere 7 586 owe a whopping R2,4 billion.

This 3 percent are a combination of wealthy individuals and companies as well as people with outstanding amounts of value-added tax (VAT).

A revenue service spokesman, Christo Henning, said amounts owed in the R2,4 billion category ranged between R50 000 and R10 million – a factor which actually assisted the team in their investigations as such people were easily traceable.

"When you have individuals and companies owing as much as R10 million, one can see how we can come out at such a large figure. We know who these individuals and companies are, that owe these huge sums of money, so action will be taken against them as soon as the amnesty ends," Mr Henning said.

Although the department is receiving hundreds of calls each day, it is unable to offer exact statistics on the number of people that have applied for the amnesty.

Four different categories of tax defaulters exist, each requiring a different system of management.

The process is further complicated by applications coming from all regional revenue service offices, as well as the main toll-free line based in Pretoria.

The largest amount of outstanding revenue from the R2,4 billion category is the responsibility of wealthy individuals who owe a total of R1,1 billion. A further R800 million is owed by South African companies, with the balance of R400 million being made up by outstanding VAT payments.

After February 28, all tax defaulters will face legal action, which could range from hefty fines to jail sentences.

Mr Henning said that amount owing was a definite factor that would be considered in the meting out of punishment.

Fines will generally be in the order of an extra 200 percent on the amount due, but tax dodgers owing income tax could face a run-in with the state attorney and a jail sentence.

Fines will be in the order of an extra 200 percent on the amount due

The tax amnesty offers a full amnesty for people who were not registered in April 1994 and a partial amnesty for people who were registered, but either failed to disclose their taxable income or failed to pay altogether.

The SA Revenue Services will also employ unprecedented tactics to trace income earners who had never registered as tax payers. In a statement, the SARS said it was upgrading its computer system and infrastructure to examine data from outside sources.

These included property ownership records, title deeds and vehicle registration data, which could show up non-taxpayers who appeared to have affluent lifestyles.

"SARS will be able to cross-reference data and programme our systems to highlight people who appear to be earning money and who are unregistered," spokesman Alton Netshivhungululu said.

"Where obvious discrepancies arise, we will investigate and pursue these people."

Whereas some people had refused to pay taxes to the former regime, others simply neglected to register as taxpayers at all.

"Income earners who are not paying tax are doing the country a great disservice ,as the burden of tax now rests on the shoulders of those law-abiding citizens who are paying tax," said Mr Netshivhungululu .

Inquiries about the tax relief scheme may be made at the nearest Receiver of Revenue office or at 0800 119 200.

REVENUE COLLECTION *Authorities unperturbed by slow response to pardon*

Tax amnesty nets 1 000

(320) CT(BR) 15/1/97

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — Only about 1 000 tax dodgers have sent in applications for amnesty since the November start of the government's latest and avowedly last tax amnesty scheme, figures released yesterday by the South African Revenue Service showed.

The office shrugged off speculation that the poor response so far confirmed fears that tax evaders were simply scoffing at the government's third attempt to bring them voluntarily into the tax net.

Holiday fever and a lack of education about taxation contributed to the poor response to the R6 million scheme, tax officials said yesterday. But this was expected: "(The amount of applications) is irrelevant. It is minute. We didn't anticipate much more at this stage," said Piet Liebenberg, the service's chief executive.

Now that the holidays were over, the office would intensify its amnesty marketing campaign, conducting educational "road shows" throughout February, officials said.

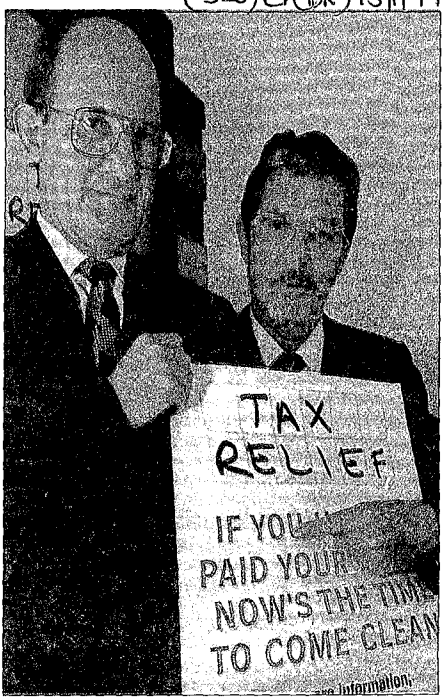
The scheme, which ends on February 28, was intended to bring in more than R4 billion in known back taxes, while about R2,6 billion in penalties and interest would be written off, the service said.

This is the third tax amnesty since the country's first democratic election in 1994, offered as an incentive to tax defaulters to join the tax base voluntarily and to help those who had not been registered for taxation under apartheid.

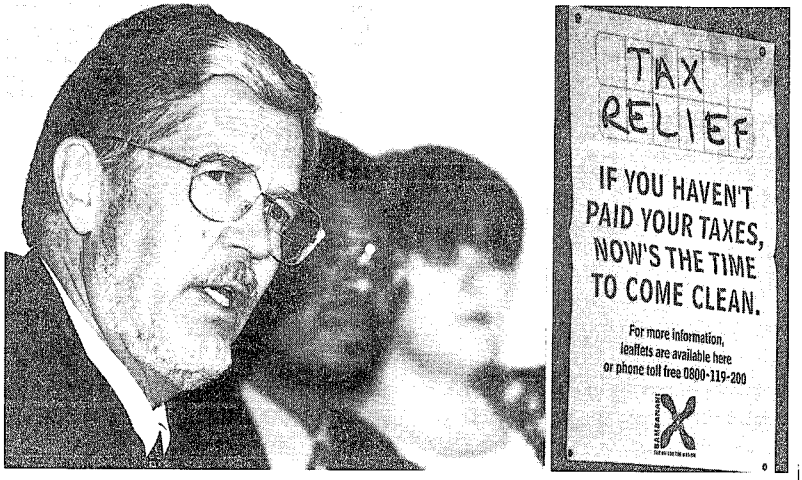
This scheme would put an end to all excuses for non-payment, Liebenberg said: "The possibility and the perception that an appeal to higher-ups (in the government) will (stop) us from taking further steps (to enforce tax laws) has fallen by the wayside. From March 1, there will be practically nobody we're aware of who can level a legitimate excuse (for not paying)."

That would clear the way for the revenue service to mete out "equal treatment to everybody" in its pursuit and punishment of dodging, he said, which could see fines of as much as 200 percent of the amount owed and surprise house calls by tax collectors.

But sceptics have questioned how well the service will stand up against the best-armed dodgers and their labyrinthine schemes for tax avoidance.



UNCONCERNED *SA Revenue Service commissioner Trevor van Heerden and Piet Liebenberg, chief executive* PHOTO: JOHN WOODROOF



SA revenue service CEO Piet Liebenberg addresses a media conference on the Bambanani — tax builds the nation — tax amnesty campaign yesterday. Pictures: ROBERT BOTHA

Tax amnesty aims to build co-operation

(320) BD 15/1/97

Belinda Beresford

GOVERNMENT's tax amnesty was about building SA and breaking the culture of non-payment of taxes, the SA revenue service said yesterday.

Revenue service CEO Piet Liebenberg said the aim of the R6m amnesty campaign was to make taxpayers more co-operative in the longer term, as well as to recover money owed to the state.

The total amount of taxes owed up to 1994 was R6,7bn, including interest and penalties.

Describing the campaign as "a very attractive carrot", Liebenberg said the service wanted to be seen as "an organisation that is fair and reasonable, but effective".

When the campaign ended on February 28, defaulting tax payers would have no further legitimate excuses for non-payment. The service had strong political backing to tackle recalcitrant taxpayers once the amnesty was over.

Efficiency would be improved by cross-checking information with other government data bases, and the service had increased its technical ability through a computer upgrade.

Liebenberg said the response to the tax amnesty so far had been slow, with about 1 000 applications received and inquiries running at about 250 to 300 a day. Interest in the scheme was expected to increase as the February 28 deadline approached.

Inland revenue commissioner Trevor Van Heerden said this would be the last amnesty, pointing out that there was no provision in the relevant legislation for an extension.

Tax holiday in SA draws one applicant from abroad

CT (BR) 16/1/97 (320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Only one local company has applied for tax holiday status and the government's lure to attract foreign investment has yet to be realised, a spokesman for the trade and industry department said yesterday.

The tax holiday legislation, a centrepiece of the government's growth, employment and redistribution plan, came into effect on November 1 last year. Regulations under the Act were finally approved by the government on November 26 last year.

New enterprises with assets of more than R3 million became eligible for a tax holiday of up to six years, sparing them the tax burden and enhancing their profitability.

The regulations listed the types of manufacturing concerns which would qualify for tax holidays and the geographical areas where the new manufacturing activities needed to be settled.

The spokesman said the department had been inundated with inquiries and there had been no complaints that the regulations were restrictive or that the administrative burden the regulations put on applicants was too onerous.

Companies applying for tax holidays had to provide the department with business plans and start-up balance sheets which spelled out where the finance for new projects would come from.

The spokesman said that the lack of interest in the tax holiday from abroad may have been because the incentives offered under the regional industrial development programme and a simplified programme were still available to foreigners. These programmes will be phased out on January 26 and February 26.

"These programmes are very attractive and foreigners seem to prefer them," the spokesman said. He said interest from local companies in the tax holiday was encouraging.

"Almost every big company in South Africa has already inquired about the tax holiday. Many said they had new projects on the drawing board and would submit their applications soon.

"New projects worth billions of rands may be in the pipeline," he said.

"Although we have only received a single application to date, we are expecting the floodgates to open soon," he said.

Applications will be evaluated by the board for regional industrial development.

The spokesman said the department would present the first applications to the board for its approval next month.

NOW FOR THE BIG STICK

(320) FM 17/8/1/97

Defaulting taxpayers have been told, again, that the cut-off date for the tax amnesty at the end of February is their last chance to come clean about their arrears.

And the SA Revenue Service is prepared to pay personal calls on all those on the defaulters' list.

Government — in the person of Finance Minister Trevor Manuel — has lent its full authority to the tax collectors to hit defaulters. Unregistered and, therefore, unknown defaulters will be traced with the aid of a newly expanded range of detection tools.

There appear to be two categories of defaulters in Revenue's sights. The first is politically sensitive; it is made up of black defaulters who plead political arguments to dodge their taxes. This applies particularly but not exclusively to liabilities incurred before the change of government in April 1994.

The second category comprises taxpayers, corporate and individual, who have slid into arrears to the point where they find it difficult to pay interest, penalties and capital due.

Part of the responsibility lies with the administrative weaknesses at the old Department of Inland Revenue, which allowed tax liabilities to pile up from year to year — until they reached the point where the taxpayer felt there was no return.

The part of the campaign directed against taxpayers with a political motivation is being backed by various public relations promotions organised by Msomi Hunt Lascaris.

There will be road shows and deployment of the slogan *Bambanani* — "tax builds the nation." Even the Internet will be brought into service by using the Web site www.sars.gov.za.

As for taxpayers who face real financial problems paying, the terms of the amnesty legislation provide a simple procedure for Revenue to waive interest and penalties and restrict itself to collecting the capital. Taxpayers will then be able to start with a clean ledger.

Commissioner Trevor Van Heerden explained this week that legislation was needed to bypass the provisions in the Income Tax Act that certain financial criteria have to be met before Revenue can make case-by-case write-offs. If the taxpayers follow the amnesty procedure, it will be automatic.

The total number of tax debtors is 566 000, compared with about 3,4m registered taxpayers. Of those, 240 000 qualify for the amnesty. And of the total of around R7bn qualifying for relief, Revenue estimates at least half is recoverable.

To trace unregistered taxpayers or expose those who are registered but underdeclare their taxable income, officials will make greater use of a spectrum of databases to which they will have legal access, including fixed property and shareholding registers as well as motor vehicle ownership lists held by local authorities.

SA has come to the end of the process of honeyed words. From now on failure to pay tax constitutes nothing less than a challenge to one of the two most basic attributes of political authority (the other being the maintenance of law and order). *Robin Friedland*

TAX AMNESTY— WHAT'S AT STAKE

Category	Additional tax & penalties (Rm)	Interest (Rm)	Total (Rm)
Individual income tax	213,5	873,5	1 087,0
Company income tax	184,6	669,6	854,1
Vat	355,1	310,0	665,1
Total	752,2	1 853,1	2 606,2

SOURCE: SARS

FINCORP PERSONAL WEALTH CLUB

INVESTING ABROAD

If you're interested in offshore investment, the next meeting of the Fincorp Personal Wealth Club is for you.

Rob Beutem, of IPAC Securities, Australia, will speak on international investment after exchange control in SA ends.

Another speaker, Ray Eskinazi, of Deloitte & Touche, will talk on aggressive tax planning in 1997.

The meeting will be held on January 28 at 6 pm at the SA National Museum of Military History (the War Museum, next to Johannesburg Zoo). It will cost R95, including refreshments, which can be paid at the door. Or phone 447-8143 to make your booking. ■

INTERNATIONAL FINANCIAL MARKETS

DEFYING LOGIC

Volatility in financial markets was predicted at the start of the new year. But few foresaw the frenzy of the first fortnight, centred on New York and Tokyo.

Wall Street's burst to a new high this week, to add 4,1 percentage points to the Dow Jones Industrial Average's 26% climb in 1996, made little sense. It came in the wake of economic data which gave bond markets the jitters and added 10 basis points to the yield on 30-year US Treasury bonds, at more than 6,85%.

Nonfarm payrolls rose 262 000 in December (2,6m for the year), signalling gross domestic product growth nearer 3,5% than the 2,5% sustainable pace preferred by the Federal Reserve. And longer hours are being worked at higher rates, with average wages up 1,3% since October.

Yet the Dow charged on, battering the bears and producing resounding echoes elsewhere, especially in Europe where 15 bourses matched New York with new peaks. The Pan European *FT*-SE Eurotrack 100 index was more than 3,2% up on the close of 1996.

The Tokyo equity market resembled a bungee jumper. Diving more than 2 000

— with New York treading water at its high — at 18 093 but looked insecure. Little has changed in the fundamentals which started the slide last year and generated a 20% decline from the June peak.

There will be no fiscal prop for either the financial markets or the economy. Extra public spending of US$96bn is being followed by a tighter budget, with $60bn in tax increases and $26bn in expenditure — much of it considered unlikely to boost wider economic activity.

As the economy slows to the brink of recession — private-sector forecasts of below 1% growth challenge the official prediction of 1,9% — the recovery in corporate profits is sliding. Against 36% average gains in 1995-1996, and original expectations of around 12% for the year to March, projections have been revised down to a little over 6%.

Tokyo analysts are talking of "a weeding out of the weaklings," while, in the spirit of Japan's deregulatory Big Bang, Finance Minister Hiroshi Mitsuzuka has ruled out intervention to stabilise equities this time. "There is nothing we can do about it," he has said. *John Cavill*

SEARCH AND SEIZURE

NOT THE LAST WORD

The term Anton Piller orders means a great deal to lawyers and not much to anyone else.

It reflects a major piece of legal innovation by the English courts in 1976 in the case of Anton Piller KG vs Manufacturing Processes Ltd, hence the name.

Essentially, the court held that a potential plaintiff could apply to court for a search order for documents or other material which could provide a basis for his case. This procedure has been taken up in SA because of its merits.

So as not to alert the defendant, an Anton Piller order may be obtained in camera and without notice. This goes against generally accepted legal principles but the deviation is justified on the basis that the potential defendant might destroy or remove evidence if conventional rules were followed.

However, because of the potential for abuse inherent in the procedure, strict requirements must be adhered to.

The applicant must set out the claim he intends to pursue. He must establish that the respondent possesses specific documents or things which constitute vital evidence and that there is a "well-founded apprehension" this evidence may be hidden or spirited away by the time the case comes to trial or before discovery.

An Anton Piller order was granted in the Cape Supreme Court in Dabelstein and others vs Hildebrandt and others (in December 1995 but reported only in August 1996) after being challenged on constitutional grounds.

The defendants argued that the order would violate their constitutional rights to privacy, including:

- The right not to be subjected to searches of the home, and seizure of possessions, guaranteed by Section 13 of the interim constitution;
- The right to freedom and security of the person, contained in Section 11;
- The right to property guaranteed by Section 28; and
- The right of protection against self-incrimination.

It was also argued that such orders conflict with the spirit, purport and objects of chapter three of the interim constitution — which contains the Bill of Rights.

But the Supreme Court held that the power to grant Anton Piller orders in appropriate cases is necessary. Provided the order contains adequate safeguards, the intrusion into the potential defendant's rights is justified in terms of Section 33, which provides a mechanism for limiting constitutional rights.

Deneys Reitz partner Lourens van Staden notes that Anton Piller orders have been upheld by the European Court of Human Rights as "necessary and proportionate" to their legitimate aim.

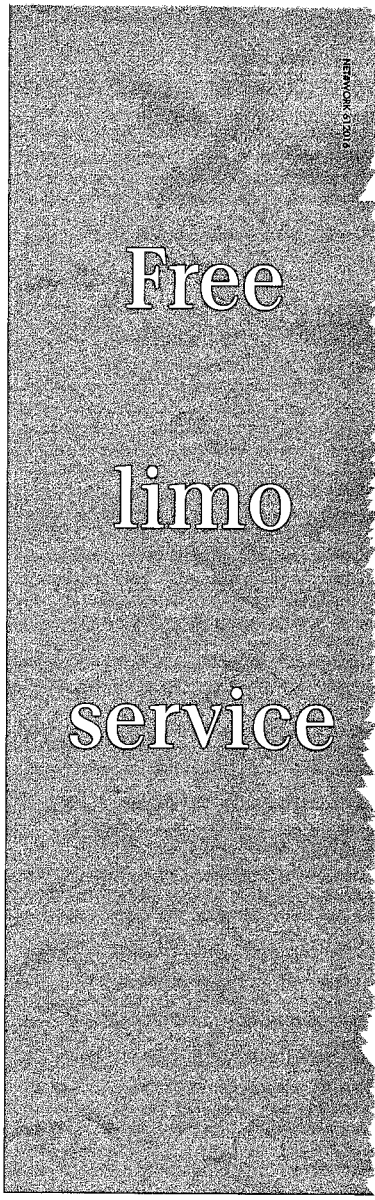
For that reason, such orders are not in breach of Article 8(1) of the European Convention on Human Rights — which provides for the basic right to privacy.

The Appellate Division of SA's Supreme Court has also considered and upheld Anton Piller orders.

Significant developments over the past few years include the recognition of the right to enter a person's home or business place to search for documents or things — as opposed to the previous "point and disclose" orders which disallowed any search.

Courts have also approved Anton Piller orders to preserve another person's documents or things for evidence, as opposed to mere recovery of property.

The Dabelstein case is not necessarily the last word on the subject. Whether Anton Piller orders affect the basic right to have a fair civil trial is one of the issues now being investigated. ■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Tax informers collect R1m in bounties

BD 22/1/97 (320)

Belinda Beresford

THE SA Revenue Service has paid more than R1m to tax informers — after tax — so far this fiscal year, says service special investigations head Hein Heydenrych.

Bounty payments are subject to tax "just like any other professional payment for service rendered", and the service has also taken the opportunity to "clear the books" by deducting any tax arrears and penalties owed by the informant, he says.

Under the "very successful" informants programme, people who provide "specific information" leading to the recovery of extra tax are paid up to 10% of the amount collected. The maximum reward is usually paid.

Heydenrych said the highest payment made to an individual in terms of the programme had been just under R1m — after tax — for the recovery of about R17m in revenue that would otherwise have been lost to the state.

Information received on both individual and corporate tax evaders qualified for the bounty scheme. The deed was usually done for personal reasons, for example by disgruntled employees and jilted lovers or spouses. However, a prerequisite for receiving the reward was that the person could not have been involved in any way with the tax evasion scheme. This was to ensure that the revenue service did not pay the mastermind, Heydenrych said.

On "very rare" occasions companies had blown the whistle on other enterprises, usually when one made a suspicious request of the other, such as asking to be paid with a cash cheque.

He conceded that although the scheme "helped a lot" in catching tax defaulters, there had been problems with malicious accusations. As a result the service evaluated information carefully before putting individuals or companies through the "traumatic experience" of being investigated.

Heydenrych said anyone planning a career as a professional tax informer would need to be aware that specific information had to be provided to qualify for a reward. No informant had received more than one payment to date.

tion of SA (Gasa), which represents illegal casino operators, hit back, leader Mangosuthu Buthelezi, want- Other reports said that a repre

Gauteng govt endorses gambling tax proposals

BD 29/1/97 (320)

Vuyo Mvoko

THE Gauteng government's standing committee on finance and economics yesterday endorsed the provincial finance department's recommendations of a 9% tax on casinos (effective 20,17% including VAT) and a 12% on bingos (effective 22,81%).

However, with regard to gaming machines the committee reduced the proposed 20% on revenue (effective 29,82%) to 15% (effective 25,44%).

Committee chairman Andrew Feinstein said the committee did this to be in line with the international norm and to ensure that small operators could afford to get into the game. Encouraging more participants would increase revenue and turnover.

The standing committee's decisions will now go to Gauteng finance and economic affairs MEC Jabu Moleketi, who will then promulgate them into law. The Gambling and Betting Board will process and award applications in accordance with prescribed laws.

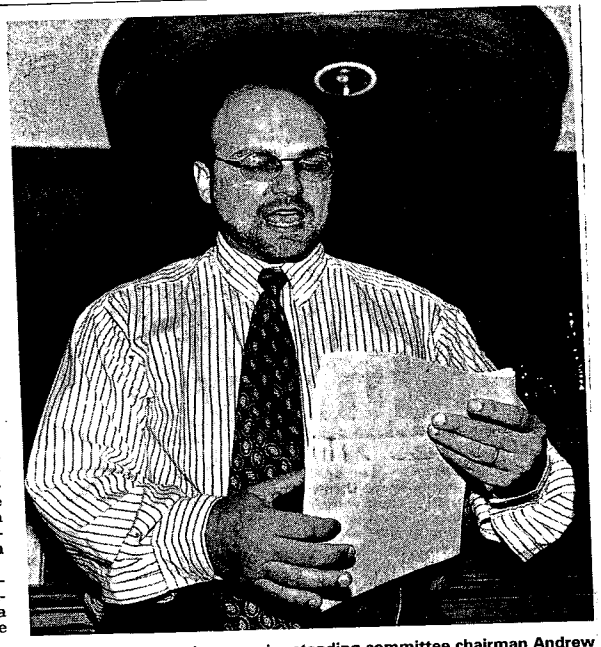
A consultant raised the question of exclusivity of operation within a particular area, something which has been enacted but for which there is as yet no policy. Feinstein said this would be "considered" by the board when specifically requested by an applicant.

On the issue of small operators being restricted to R500 maximum payouts a win, the committee stuck to this position. It said this limit would restrict competition with the big casinos as gambling was meant to be a source of recreation for sports and other social clubs and not their main source of income.

About 70% of the country's total gambling revenue will come from Gauteng. The Gauteng finance department's documentation "conservatively" estimates the casino market between R1,5bn and R2bn a year, with a provincial tax generation potential of R135m to R180m (calculated at 9%). The gaming machine market is estimated at between R400m and R700m with a tax revenue of between R60m and R105m (at the reduced 15% rate).

With regard to the one-off application fees, it was recommended that an application fee for a casino licence be a nonrefundable R570 000.

This was fee would be R490 000 more than in the Western Cape and R370 000 more than in Mpumalanga.



Gauteng finance and economics standing committee chairman Andrew Feinstein at a news briefing in Johannesburg yesterday at which recommendations were made on proposals for provincial taxes on gambling operators. Picture: ROBERT BOTHA

Study reveals ignorance about tax procedures in SA

(320)

Sowetan 11/2/97

By Isaac Moledi

MANY South Africans want to pay their taxes but remain ignorant on how to go about paying and registering as tax payers, research carried out on behalf of the South African Revenue Services has revealed.

The research, conducted last year December by the Management Science Group to measure attitudes and perceptions relating to SARS's mandate under the Final Relief of Tax Act (1996), also revealed most South Africans do not understand Final Tax Relief Programme offered by the Government.

The research concentrated on attitudes across all population groups, with more emphasis on economic stratifications within these groups.

This included whether people were urban or rural dwellers, and whether they were involved in the formal or informal sectors.

The research has also revealed that many people are still unaware of the procedures of paying and registering for tax.

Even in the formal sector, where it is often assumed people have the knowledge, only 51 percent appeared to have a reasonable knowledge of tax payment and registration procedures.

"In general, South Africans are in favour of the idea that everyone should pay their fair share in terms of tax," says the research.

Another 55 percent of the urban blacks in the informal sector showed a willingness to pay and 63 percent in the formal sector also agreed to pay their taxes.

The survey shows that 88 percent of the formal business sector doesn't favour the idea that wealthy people should be the only people paying tax.

Nafcoc ready to fight tax issue

(320)
Sowetan 19/2/97

By Mzimkulu Malunga

NAFCOC'S council is to hold an emergency meeting in Johannesburg this weekend in response to President Nelson Mandela's rejection of the organisation's request that its members be granted tax amnesty.

Mandela rejected the organisation's plea to have tax owed by Nafcoc members before the 1994 elections written off.

It is estimated that black businesses owe the receiver somewhere in the region of R8 billion.

Nafcoc chief executive Phillip Machaba said his organisation's tax committee would meet South Africa Revenue Services commissioner Trevor van Heerden on Friday to work out the mechanisms through which amnesty cases for individual members could be processed.

The issue of tax amnesty is so close to the heart of Nafcoc members that even before the Monday meeting with Mandela and Finance Minister Trevor Manuel some were already alluding to the possibility of "mass action" should the Government's response be negative.

This is not the first time the organisation has tried, without success, to get tax amnesty for its members. Nafcoc tried to engage the previous government in talks on the same issue.

After the talks with the previous government failed, the expectation in Nafcoc ranks was that when a democratic government took over, their demand for tax amnesty would be heeded.

During its submission to the Katz Tax Commission, the issue of tax amnesty was the organisation's first priority.

The organisation's main argument is that they were supporting a call by political organisations that said black people could not be taxed as they did not have representation in Government.

Another argument advanced by Nafcoc members is that black business people were confined to the townships and homelands during the apartheid years, and could not operate freely in the central business districts of major cities. It is therefore unfair to expect them to pay tax owed from that time.

(320)

Nafcoc says it will ignore tax grace deadline

CT (BR) 24/2/97

MPHO MANTJIU

Johannesburg — The National African Federated Chamber of Commerce and Industry (Nafcoc) said last week it would not heed the deadline call for defaulting taxpayers to render returns under the South African Revenue Service's tax amnesty proposal.

The federation's council met last week to respond to President Nelson Mandela's "unfair and immoral" rejection of its demand that its members' pre-1994 taxes be written off.

It called on its members nationwide as well as other black business organisations to prepare themselves for a mass action to start on March 12 in protest against Mandela's decision.

The federation had met Trevor Manuel, the finance minister, and Mandela last week to discuss the tax amnesty for those previously disadvantaged.

Nafcoc said Mandela had expressed sympathy for Nafcoc's views on the matter but said conceding to the demand would bring down the financial infrastructure of the country.

Nafcoc reaffirmed its position that the arrears accumulated over the years should be treated as a political debt and be dealt with accordingly.

Nafcoc threatens rolling mass action

(320) Sowetan 24/2/97

Government accused of being more concerned about big business

By Isaac Moledi

THE National Federated Chamber of Commerce and Industry has called on its members to prepare for "rolling mass action" next month to protest against President Nelson Mandela's response to their demand.

Nafcoc, which claims to have a million members in small and medium enterprises throughout the country, met Mandela last week to demand a pre-1994 tax amnesty.

However, Mandela did not accede to the demand and explained that there would be "complete anarchy and chaos" in the country's financial system if the request was granted.

Nafcoc's rejection of Mandela's response as "unfair and immoral" comes just five days before the government's February 28 deadline for tax amnesty applications.

The tax amnesty was introduced by Finance Minister Trevor Manuel in November last year to bring tax defaulters back into the tax net.

The South African Revenue Services has warned that it will take drastic action – including penalties of up to 200 percent – if people do not respond by the cut-off date

Finance Minister Trevor Manuel said there was about R7,5 billion outstanding in unpaid tax. A third of this amount comprised penalties and interest that could be written off under the tax amnesty.



Soweto Chamber of Commerce chief executive officer Bongani Mphuthi

Amnesty call

The SARS estimated that about 566 000 registered taxpayers were not up to date with their tax payments.

If the amnesty call is heeded, the SARS stands to recover at least half of the R3,5 billion that is owed to the government.

Nafcoc's chief executive officer Phillip Machaba said yesterday that the Nafcoc council, which is the supreme body of the organisation, had rejected as "unfair and immoral" President Mandela's response to its demand for tax amnesty.

The council, he added, instructed its president, Mr Joe Hlongwane, to seek an urgent meeting with Mandela in a bid to discuss and resolve the matter amicably.

"However, the council also calls on all its members countrywide as well as other affected business organisations and individuals to prepared themselves for rolling mass action which would begin on March 12," Machaba said.

Nafcoc reiterated its standpoint that tax arrears accumulated over the years prior to 1994 should be treated as a political debt and dealt with accordingly.

Machaba said the federation was of the opinion that if the democratic government was prepared to grant amnesty to those who committed crimes in support of the apartheid system, its members and the business community should also be granted amnesty for their fight against apartheid.

Legitimate call

He said Nafcoc found it strange that its legitimate call for a total amnesty of pre-1994 tax liabilities was rejected in order to placate the interests of big business which had benefited from apartheid.

The government stance, Machaba argued, strengthened the federation's conviction that the government was more concerned about appeasing big business at the expense of blacks who were at the receiving end of apartheid oppression.

Nafcoc's position was supported by its affiliate, the Greater Soweto Chamber of Commerce, which on Friday said it will be difficult to encourage its members to pay the "apartheid tax."

"Those taxes were not of our making and paying them is unacceptable," said the chamber's chief executive Bongani Mphuthi.

Political struggle

Mphuthi said Soweto business owners did not understand why President Mandela failed to acknowledge that black business was part of the overall political struggle that was waged by various political organisations, including the ANC.

"Township businesses never operated in a normal way, which is why owners could not meet their obligations with their creditors timeously," he argued.

The chamber demanded the establishment of a compensation fund, similar to the one introduced in Kathorus on the East Rand which led to the rebuilding of houses which were destroyed by violence.

Nafcoc threatens mass action to force tax amnesty

BD 24/2/97 (320)

Shareen Singh

THE National African Federated Chamber of Commerce and Industry (Nafcoc), is preparing for mass action against what it believes is President Nelson Mandela's "unfair and immoral" response to its demand that more than R7bn in unpaid taxes be written off.

Mandela met a delegation led by Nafcoc president Joe Hlongwane a week ago and rejected their amnesty request for pre-April 1994 tax arrears. "Complete anarchy and chaos would be introduced if we grant your request," Mandela told Nafcoc.

Hlongwane said he was seeking another meeting with Mandela in the hope the matter could be amicably resolved. In the meantime, the chamber had called on its members and other affected organisations to prepare for "rolling mass action" to start on March 12, Nafcoc said yesterday.

Nafcoc maintained that tax arrears should be treated as "political debt" and dealt with accordingly.

"If the democratic government is prepared to grant amnesty to those who committed horrendous crimes in support of apartheid ... the black community should also be granted amnesty for their contribution to the fight against apartheid," Hlongwane said.

He accused government of placating big businesses "which benefited from apartheid" and sacrificing small and medium-sized black businesses "which were at the receiving end of apartheid oppression".

Hlongwane said government was insensitive because it had ignored constitutional provisions which allowed it to "redress past imbalances empowering those who were previously disadvantaged".

Confrontation looms as government rejects federation call to write off apartheid-era 'political' liabilities

Nafcoc adamant over back-tax debts

(320) CT(BR) 26/2/97

THABO LESHILO

Johannesburg — The National African Federated Chamber of Commerce and Industry (Nafcoc) was on a confrontation course with the government after its demand that Nafcoc members' apartheid-era tax debts be scrapped was rejected, Joe Hlongwane, the organisation's president, warned yesterday.

Hlongwane said Nafcoc would *unleash "rolling mass action"* reminiscent of the volatile political and labour protests of the past unless the government acceded to its demand.

Last week, President Nelson Mandela turned down Nafcoc's request for a blanket amnesty for members' tax liabilities prior to the April 27 1994 elections.

Mandela said such a move would result in "complete chaos and anarchy".

The call has also been rejected by Piet Liebenberg, the chief executive of the South African Revenue Service. Liebenberg has said the cut-off date for the final amnesty removed all possible objections people might have had to paying tax previously.

Hlongwane called on the government to extend Friday's tax amnesty deadline to allow further discussion of its request for amnesty. He said black businessmen would be crippled if they were suddenly forced to pay the millions of rands they accumulated collectively in unpaid tax under apartheid, thus undermining government efforts to promote black business.

"The Zimbabwean experience of prosecuting businesses that boycotted tax during the Smith regime should inform the new South Africa. Thousands of small businesses were wiped out when this happened," he said.

"We are not saying people should not pay tax. What we are saying is that there is a problem (with the current amnesty). People on the ground are very angry."

Nafcoc's 100 000 members were committed to paying tax dating back to when apartheid formally ended, he said. But it was unfair to expect them to pay taxes owed to the previous "illegitimate and unrepresentative" apartheid government.

"Our members were part and parcel of the political struggle and complied with the call by political organisations that 'taxation without representation is tyranny'. Hence the boycotts of rates, levies and other taxes."

Non-payment of pre-1994 tax liabilities should be categorised as "political debt" subject to negotiations like other political actions being considered for amnesty, he said.



WE WON'T PAY *The top table of Nafcoc, the National African Federated Chamber of Commerce and Industry, stands firm: from left, David Mokoena, first vice-president; Joe Hlongwane, president; Peter Rabali, deputy president; Rahlagane Machaba, chief executive officer* PHOTO: JOHN WOODROOF

Budget to target tax collection — Davis

Reneé Grawitzky

THE 1997/98 budget was expected to take a strong stand against leakages in customs and excise which lost billions in revenue, a tax expert said yesterday.

Katz commission member Dennis Davis criticised the ineptness of customs and excise and the incompetence of the revenue department in ensuring effective tax collection. "You cannot have proper tax reform without an effective department," he told the National Economic Development and Labour Council's labour school.

He called for tax relief for those earning less than R30 000 a year. While predicting value-added tax (VAT) and secondary tax on companies would remain unchanged, he said the focus would be on fringe benefits, and pensions and excise tax could increase.

Davis said although the budget was not expected to be dramatic, it should come out decisively against leakages in customs and excise and tax evasion. Tax avoidance was unavoidable but a deterrent could be created and compliance extracted. "We need a public show of two to three major cases to test the tax avoidance legislation."

He said Durban had effectively become a free port because customs was so inept, but government appeared to be addressing the co-ordination of activities between departments to reduce the number of ports of entry. There had been no proper co-ordination between the ministries of finance, trade and industry, justice and safety and security.

Davis said secondary tax on companies should be scrapped and the company tax rate increased to 37% instead. He proposed VAT be reduced to 12% and tax on luxury goods of up to 16% or 17%. Many nations were struggling to address VAT because of its regressive nature. UK Labour leader Tony Blair was considering taking items out of the net to reduce the burden on the poor.

It was problematic that government had no idea of its spending on tax incentives. There should be a rethink on incentives for training.

Cosatu general secretary Sam Shilowa said the budget would be judged on how far it addressed job creation, reallocation of resources for social spending, and the reduction of inequality and poverty. Labour demands included a 55% tax rate for the "super rich" and an increase in company tax, the zero-rating of basic goods, a capital gains tax, a 5% levy on companies to help finance housing and public works programmes, and a higher tax on luxury goods. He questioned government's fixation on achieving certain budget deficit targets which could affect the reallocation of resources.

BD 26/2/97

(320)

Picture: Page 3

Mandela's rejection of tax amnesty 'final'

BD 26/2/97 (320)

Shareen Singh

PRESIDENT Nelson Mandela's refusal to scrap tax arrears prior to 1994 — a request of the National African Federated Chamber of Commerce and Industry (Nafcoc) — was final, his office said yesterday.

"There is no question of reopening discussions on the tax issue. The president has given his final word on the matter and the issue is closed," presidential spokesman Parks Mankahlana said.

Nafcoc president Joe Hlongwane had called for a second meeting with Mandela to persuade him to change his mind. At a recent meeting with Nafcoc, Mandela told the organisation that "complete anarchy and chaos would be introduced if we granted your request".

Hlongwane said yesterday Nafcoc members were "very angry" and were willing to go to jail over their demand.

Nafcoc was keen to resolve the matter amicably and had, therefore, requested a second meeting with Mandela, Hlongwane said.

The chamber has threatened mass action, which it claims would have the support of taxi associations, civic associations and other community and business structures. Details of the protest action would be released soon.

Nafcoc maintained that tax arrears should be treated as "political debt" and dealt with accordingly. The tax arrears had stemmed from a general boycott of payments to the apartheid government.

Hlongwane said if the government could grant amnesty to "those who had committed horrendous crimes in support of apartheid ... the black community should also be granted amnesty for their contribution to the fight against apartheid".

Government is owed about R7,5bn in unpaid taxes prior to 1994.

Nafcoc believes that about R700m of the total outstanding amount could be attributed to black business.

Tax door slams shut on Nafcoc

(320)

THABO LESHILO AND CHRISTO VOLSCHENK

CT(BR) 27/2/97

Johannesburg — The National Federated Chamber of Commerce and Industry (Nafcoc), which wants President Nelson Mandela to postpone tomorrow's tax amnesty deadline, had the president's door shut firmly in its face yesterday.

Joel Netshitenzhe, Mandela's spokesman, said the president had made clear his objection when the parties met last week to Nafcoc's call for a postponement and the scrapping of tax debts owed by black business before the 1994 elections. He said Mandela now considered the matter closed.

That sentiment was echoed by the ministry of finance, which said the government would not budge under Nafcoc threats of mass action. The ministry said it would be "unjustifiable and even discriminatory" to give black business a blanket amnesty on taxes owed.

Nafcoc wants the government to write off about R900 million in taxes owed by black businesses out of a total of about R7,5 billion outstanding taxes. The organisation says it is unfair to expect black business to pay taxes owed to the previous "illegitimate and unrepresentative" apartheid government.

The newly formed Black Business Council said it would meet today to consider its stance on Nafcoc's call for a blanket tax amnesty.

The Foundation for African Business and Consumer Services (Fabcos), the country's second-largest black business organisation after Nafcoc, does not support Nafcoc's campaign.

Fabcos and Nafcoc belong to the Black Business Council.

David Moshapalo, the general secretary of Fabcos, said the organisation supported the government's efforts to broaden the tax base which would help pay for housing, health, education and other necessary functions.

Why black businessmen say they are reluctant to pay their taxes

(320) Star 28/2/97

By Bongiwe Mkangeni

Many black businesses say they are willing to pay their present taxes, but feel betrayed by the Government's decision not to scrap tax debts incurred during the apartheid era.

"The same people who advised us not to pay taxes and rates to the apartheid government are now punishing us for not having done so," Soweto businessman Nkosana Nkosi said.

"I am willing to pay my taxes and rates to the present government, but my conscience will not rest if I start paying monies owed to the old government."

His concerns and those of about 100 000 black business people have been expressed through the National African Federated Chamber of Commerce and Industry (Nafcoc).

Nafcoc's attempts to meet the Government again and negotiate for tax amnesty were slammed this week when the president's office said it saw no need to discuss the issue again.

Sapa reported that the Government said it would never be able to justify why the poorest of the poor had to pay taxes all these years, yet businessmen who still had a reasonable level of income and a considerably more comfortable lifestyle under apartheid were exempt.

Nafcoc spokesman Phillip Machaba said they would keep on trying to persuade the Government to accede to their request.

The cut-off date for tax amnesty is midnight tonight.

Nkosi, who owns two retail shops, said the Government was overlooking the terrible conditions under which they had to operate during the apartheid era.

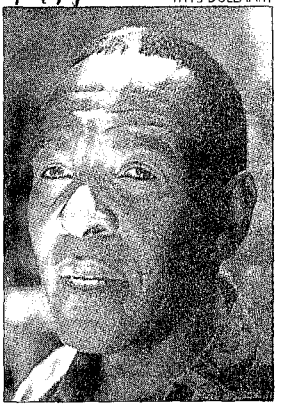
"Some of our businesses were burnt down and these things did not affect businesses in the city centre or suburbs. We had to close shops many times because of stayaways."

He said the problem of tax had been created by the previous government because it never cared about the development of black businesses.

Nkosi said he did not know what he owed the Receiver of Revenue. Nafcoc could not estimate the amount owed by its members either.

"No one before has ever asked me whether I paid taxes and right now I don't even know what I owe," said Nkosi.

THYS DULLAART



Indebted ... Nkosana Nkosi says he will willingly pay his present taxes, but not those levied before 1994.

Last-minute bid for tax amnesty

(320) BD 28/2/97

Belinda Beresford

THE SA revenue service was experiencing an "unbelievable" last-minute response to the tax amnesty which expires today, spokesman Christo Henning said yesterday.

Henning said people were complaining that they were unable to get through to the toll-free numbers to register for the amnesty, while tax offices were also being overwhelmed.

The revenue service has estimated that about 9% of taxpayers or 435 000 individuals are behind in their payments, of whom 195 500 were eligible for the amnesty.

Henning said the service would be satisfied if it collected about R2,15bn in taxes through the amnesty. This is about half the amount of capital tax estimated to be owed by taxpayers.

At the end of last week there had been about 4 000 registrations for category one of the amnesty, which covered those who had never registered for taxes. Henning said no one knew just how many tax dodgers there were in SA, but the service was "happy" to have new taxpayers.

He said it would be impossible to provide monetary values for the tax deficits collected in the other categories until early next week. The computer program was still running and figures could not be collated until it was stopped at the end of today.

Other taxpayers eligible for amnesty were those who had underdeclared on tax returns, those who had avoided sales tax and those hoping to write off interest and penalties.

Henning said it was very unlikely the amnesty date would be extended, as demanded by the National African Federated Chamber of Commerce. To do so, relevant legislation would need to be altered by the end of tomorrow.

Nedlac labour component divided over stayaway

BD 28/2/97 (355) (355)

Reneé Grawitzky

THE labour component within the National Economic, Development and Labour Council (Nedlac) is divided over Cosatu's call for a national stayaway on May 12 to push for its demands to be included in proposed employment standards legislation.

Cosatu has indicated the action would go ahead if insufficient progress was made during negotiations on the issue. Nedlac's executive council meets today to discuss options for taking negotiations forward.

The Federation of SA Labour Unions (Fedsal) said yesterday that it had not received a mandate from its 297 000 members to participate in Cosatu's action. The National Council of Trade Unions (Nactu) said it would participate.

Fedsal general secretary Dannhauser van der Merwe said he did not believe that the labour market was as inflexible as employers made out. Certain industrial council agreements already provided for flexibility by varying standards, he said.

Nactu general secretary Cunningham Ngcukana said the council had decided last week to participate in the mass action. But, a final assessment would be made on March 20. He said workers would continue to push for a 40-hour week with no loss of pay.

Concerns lead to re-examination of accrual system

(320) BD 6/3/97

Shareen Singh

THE accrual accounting system used to tax small and medium businesses will be re-examined following concerns raised by small enterprises that the system adversely affected their businesses, a trade and industry department official said yesterday.

The department's small business promotion centre chief director Alistair Ruiters said section 37G of the Income Tax Act which provided for a cash-based accounting system would also be reviewed "in the context of other measures which could be implemented to ease any unnecessary burden on small businesses".

The department was in the process of establishing "mechanisms to look at these issues", he said.

The accrual accounting method obliged businesses to pay tax on credit sales for which funds were still outstanding.

Afrikaanse Handelsinstituut chairman Koos van Wyk said small businesses found it difficult to cope with this system because of cash flow mismatches.

Section 37G, promulgated in 1995, allowed the finance minister to make regulations prescribing what constituted a small business with respect to taxation and to provide for variation of provisions of the act. These regulations had not yet been passed.

An SA revenue services official said the regulations had not been passed because of concerns over "the large scale tax avoidance which could occur under a cash-based system and the adverse revenue implications which may follow from such a step".

He also said the revenue service would not have the capacity to administer and monitor the cash-based system.

"Although the Katz commission's proposal of a cash-based system applying to micro-businesses with a turnover of more than R100 000 and restricted to sole proprietorships or partnerships was accepted, the revenue service would have preferred other options to be explored," he said.

Van Wyk said business organisations had demanded that the cash-based system as proposed by the Katz commission should come into effect as soon as possible with some changes, including extending section 37G to include closed corporations and private companies with a turnover of R7,5m, or less.

"Extending the definition to suit the call by small business organisations would mean that we will have two systems for companies — an accrual system for big companies and a cash-based system for smaller companies. This would lead to chaos and open the door for abuse," the revenue official said.

Ruiters said these issues, among others relating to small business taxation, would be investigated with a view to recommending a coherent and accessible system. The government had already granted several concessions and tax holidays to small and medium enterprises, he said.

Higher taxes on company cars punitive — Naamsa

Edward West
BD 13/3/97

THE "punitive" increases in fringe benefit tax on company cars and allowances would accelerate demand towards smaller cars and could prejudice the interests of large vehicle assemblers, the National Association of Automobile Manufacturers of SA (Naamsa) said yesterday.

In such a scenario, revenue accruing to the fiscus could diminish by virtue of lower value-added tax collections on lower priced units.

The changes to the tax on company cars and allowances would also accelerate the trend by employers to grant car allowances instead of company cars. Yet overall the budget was expected to have a moderately positive effect on the economy.

The association said the increase in fringe benefit taxation on the private use of company vehicles from 1,2% to 1,8% of the determined value of a vehicle "seemed rather punitive".

The proposal that the taxable value of a second company vehicle be increased to 4% from 2% of the determined vehicle value was also punitive as the value levied would be in excess of the cost to the employer of providing the vehicle. Firms bought more than 70% of annual sales of new passenger vehicles.

Delta Motor Corporation finance director Chris Allen said the changes meant the taxable value of an average R60 000 car had been increased 0,6% or R360 a month.

"Your average middle management taxpayer with a marginal tax rate of 40% will be paying an additional R144 a month. Those who have a second company car will be even more severely taxed — up 2% or R1 200 a month on a car costing R60 000," he said.

"We are concerned that this adds to the already heavy burden on the cost of motoring to the consumer."

Nissan SA CEO John Newbury said the increase, offset by slight easing of the personal tax burden, was about the best that could be expected, given the need to hold the budget deficit at 4% of gross domestic product.

Government will lose R2,8bn in relief for

(320) BD 13/3/97

Linda Ensor

CAPE TOWN — Overburdened low and middle income taxpayers can look forward to lower tax rates and a range of other tax relief measures which will cost the government R2,8bn this year.

Finance Minister Trevor Manuel said yesterday that to address fiscal drag, government had ensured that all taxpayers would experience a nominal decrease in their tax rates on the basis of an 8,5% inflation rate.

The tax rate of individuals earning R30 000 would rise by a real 2%, with those earning less than R30 000 benefiting by a real decrease which in some instances was as high as 6,7%. The tax rate of those earning R60 000 would rise by a real 1,3% and for those earning R100 000 by 1,4%.

Manuel said taxpayers with taxable incomes of less than R60 000 a year would derive 60% of the benefit of the tax reform measures, which would put R2,8bn "into the pockets of families who need it".

In terms of the proposals, a single scale of rates for all individual taxpayers was proposed, reaching a maximum marginal rate of 45% at a taxable income of R100 000. A primary rebate of R3 215 (a 21% rise over the previous R2 660) was granted to all individuals, with an additional rebate of R2 500 for those 65 years or older.

The finance department estimated that those with taxable incomes of up to R30 000 would gain by a 15% reduction in their tax burden, those earning R30 001 to R60 000 by 44%, R60 001 to R90 000 by 21%, R90 001 to R120 000 by 12% and R120 001 and over by 8%.

Other elements of the proposed change in the rate structure were:

- The elimination of fiscal drag for those with taxable incomes up to R30 000;
- The reduction from 41% to 32% in the marginal tax rate applicable to taxpayers with taxable incomes ranging from R40 000 to R45 000; and
- The reduction in the number of income brackets from eight to seven through the creation of one tax bracket for taxable incomes of up to R30 000.

The effect of the proposed table on a taxpayer under the age of 65 with a taxable income of R20 000 would be that he/she would now pay R255 less tax a year. Similarly, a person earning R60 000 would pay R805 less tax a year. In the case of a person over 65 years who earned R30 000, the tax liability would fall by R440 a year, while a person earning R100 000 would pay R705 less a year.

The tax threshold was increased to R16 921 (R15 580) for those under 65 years, and to R30 050 (R27 907) for those above 65 years.

Furthermore, the limit beyond which individuals would not have to submit a tax return was increased from R50 000 to R60 000 as from March 1. This increase in the Standard Income Tax on Employees (SITE) limit would reduce the administrative burden on the SA Revenue Service and relieve many thousands of taxpayers of the burden of submitting tax returns.

The budget review noted that the additional cost to the fiscus of these measures would mainly be financed from improved collections resulting from the increase in the number of taxpayers as well as the more efficient and effective collection.

It noted that while the major portion of the tax relief was granted to people with taxable annual incomes of less than R60 000, "the inherent progressivity of the rate structure has the effect that any assistance granted to taxpayers in lower tax brackets automatically flows through to taxpayers in higher brackets".

The R2,8bn cost of the amendments would be offset by the R2,5bn in additional revenue that was expected to be raised through the improvement in the collection of taxes and tax arrears, including an amount of R800m from individuals and R100m in interest on overdue income tax.

The proposed changes to the tax rate structure were only a first step towards implementing the objectives recommended by the Third Interim Report of the Katz Commission, which could not be fully implemented because of budgetary constraints. These objectives included the reduction in the gradation of the marginal rate schedule; the reduction in the number of marginal rate brackets; the raising of the tax threshold and the adjustment for inflation.

"It is envisaged that the tax table in respect of individuals will be restructured to ultimately reflect four broad categories of taxpayers. The rationale for this is to group low, low-middle, middle and high income taxpayers together in marginal tax rate brackets," the review said.

personal taxpayers

Community water projects to bear brunt of cut in funds

Robyn Chalmers

BD 13/3/97

THE water affairs and forestry ministry's budget allocation was cut by 8,9% to R2,1bn with water resource planning, water resource development and community water supply and sanitation programmes bearing the brunt of the reduction.

The programmes' budgets were cut to R74,6m (R76,5m), R218,8m (R231m) and R1,2bn (R1,5bn) respectively. Stakeholders expressed disappointment at the dip in funds that would be available for water, sanitation and forestry projects.

One nongovernmental organisation spokesman said the cut in the community water supply and sanitation programme was particularly disturbing as real progress was being made on projects falling under the programme.

Water Affairs and Forestry Minister Kader Asmal was more optimistic yesterday, saying the budget focused strongly on socio-economic development, which made considerable provisions for the poor.

He shrugged off the cut in his budget, saying the overall focus on speeding up socio-economic development meant the funds would be well spent elsewhere. In addition, rolled over amounts from the reconstruction and development programme (RDP) could be made available to supplement the existing funds.

The budget review said the allocation on the community water supply and sanitation programme of R1,2bn included a R500m carry-through from the RDP. Projects which had been started by the end of last year would ensure that a total of 6,4-million people gained access to water supplies.

"Projects to serve a further 2,1-million people have recently been announced in the fourth RDP programme. It is expected that a further 1,7-million people will be served in 1997," the review said.

It said the integration of the water affairs and forestry department with the corresponding components of the former homelands had been completed, with the exception of KwaZulu-Natal.

Restructuring would continue as direct water supply functions were devolved to water boards and local government, and the department's emphasis turned to support other spheres of government.

Govt closes loopholes in retirement fund taxation

Belinda Beresford

BD 13/3/97

GOVERNMENT has acted to close two loopholes in retirement fund taxation, and has announced plans to equalise public and private sector retirement provisions.

Pension funds are now going to be taxed at 17% on the dividends they receive from investments in property unit trusts.

Previously, such investments had escaped owing to an omission whereby tax was only paid on rental and interest. Money from property trusts was technically dividend income, and not included in the tax net.

Deloitte & Touche partner Anne Pappenheim said the situation arose from a genuine error. Dividend income was not included in the definition of interest when the tax on retirement was defined.

"To be totally honest, this one was a straight mistake," she said.

Also effective from March 1 are government plans to tax retirement funds that earn income from lending scrip. Pappenheim said technically such compensation for lost interest was not defined as interest, therefore it did not fall into the retirement fund tax net.

In addition, the government will tax the fees paid by the borrower to the lender company for lending the scrip.

Government has decided to tax lump sum payments from public sector funds on the same basis as private sector funds to equalise taxation, in effect from March 1 next year.

However, this change is subject to protection of vested rights — people will be "protected by reference to the number of years' service ... as well as the final salary applied".

One exclusion from the vested interests clause concerns the transfer of benefits from public sector pension funds to any kind of provident fund. Two-thirds of such transfers will be subject to tax as of yesterday.

The SA Revenue Service is to investigate whether contributions to medical savings accounts should remain tax deductible or regarded as investments. Interest accrued by such savings accounts is to be taxed.

Government plans "no changes to the current system for this year" for private sector retirement funds pending National Retirement Consultative Forum recommendations.

Katz commission will probe land tax rate

(320)

Louise Cook BD 14/3/97

A KATZ commission subcommittee has set up an investigation into an appropriate rate for a land tax, effectively flying in the face of calls by Land and Agricultural Minister Derek Hanekom for a maximum rate of 2%.

A member of the land tax subcommittee, Danie Uys, yesterday told a seminar in Pretoria that the 2% rate proposed up to now had been a complete "thumbsuck". The commission had suggested the 2% rate after the poor public response to a discussion document on the matter.

"At this stage we are awaiting the results of a scientific study by Riel Fransen of University of SA into what will be a viable rate. This is not necessarily 2%," Uys said.

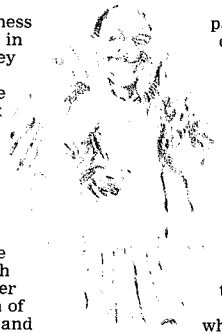
However, Hanekom has on various occasions told farmers he favoured a rate not more than 1% or 2% at the most. Responding to the Katz commission's discussion document last year, Hanekom said his support of a land tax was conditional. The proposed tax should also benefit only those who paid the tax, he said.

Uys said: "There is no question that there will be a land tax due to the following realities; local authorities need the income; they also need an income source other than central government; and a land tax will ensure accountability to taxpayers rather than to central government, which is a better system."

Debate by the subcommittee was focusing on what land should be taxed, how to determine its value, a viable rate and keeping the system simple. The commission's final report was not expected before November this year.

Errant taxpayers will lose out on a slice of the action

BY CHARLOTTE MATHEWS



Those who want to do business with the government will in future have to show that they are paying their taxes.

"It is fair that only those South Africans whose tax affairs are in order should be allowed to participate and benefit from the economic policies we are introducing," Finance Minister Trevor Manuel said in the Budget speech.

"To this end we have decided that any South African who wants to tender and participate in any form of contract to provide goods and services to government, or who wishes to access any financial assistance opportunities, must be a registered taxpayer and sign a declaration that their tax affairs are in order."

He said the culture of non-payment and evasion that characterises South Africa's tax system is severely hampering the government's ability to implement a fair tax system.

The government is taking steps to improve tax collection in various ways. For its own part, it has drafted and circulated for comment the client charter shown below, which commits the SA Revenue Services (SARS) to courtesy and impartiality.

It will also start the wheels rolling on re-drafting the Income Tax Act to ensure that the tax code is accessible to all citizens but remains clear and certain in its details.

DRAFT CHARTER: YOUR RIGHTS AND OBLIGATIONS

YOU ARE ENTITLED TO EXPECT SARS

TO HELP YOU
- by being courteous at all times
- to understand your rights and obligations
- by continuously upgrading our services

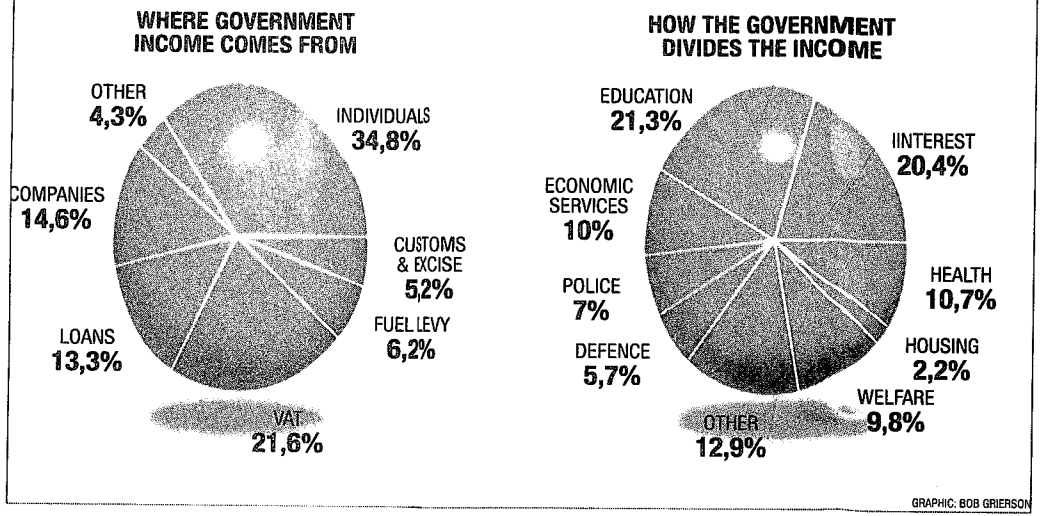
TO BE FAIR
- by expecting you to pay what is due under the law
- by treating everyone with equal fairness

TO PROTECT YOUR CONSTITUTIONAL RIGHTS
- by keeping your private affairs strictly confidential
- by furnishing you with reasons for adverse decisions
- by applying the law impartially and consistently

IF YOU ARE NOT SATISFIED
- you may ask that your tax affairs be re-examined
- you may exercise your right to object and appeal
- on request, we will advise you of the procedures to be followed in lodging an objection and appeal

IN RETURN, YOUR OBLIGATIONS ARE
- to be honest
- to submit full and accurate information
- to pay your tax on time

THE COLLECTING & DIVIDING OF THE GOLDEN EGG



GRAPHIC: BOB GRIERSON

Relief for old age pensioners

BY BRUCE CAMERON



Social pensioners have been given a 9,3 percent increase in their pensions from July 1 this year.

Social pensions for the destitute aged have been increased from R430 to R470 a month.

Maria Ramos, the director-general of Finance, said at a post-Budget meeting held by accountants KMMT Brey & Associates in Cape Town that the government had deliberately pitched the increase above the expected inflation rate of 8,5 percent.

"It is an investment in people."

Ramos said research had shown that each pensioner supported "10 or sometimes 12" other people.

Raising old age pensions was one of the best means of redistributing income.

"We find this actually gets to people on the ground. It's hard to find another mechanism which is as effective."

The government would have liked to increase old age pensions by far more.

In a budget that is aimed at relieving abject poverty, government has moved on a broad front to provide community-based poverty relief programmes, unemployment relief programmes and greater support for the aged and for child and family support programmes.

Trevor Manuel recommitted the government to relieving the plight of the poor but pointed out that the long-term solution was growth in the economy and job creation.

The increase in social pensions has cost an additional R1 billion.

An amount of R300 million has been set aside for programmes that target rural areas and that benefit women while another R75 million has been provided for a flat-rate child support benefit. The details are still to be announced.

Pensions of all civil servants who retired before April 1 1996 are to be increased by 6,6 percent from April 1 this year.

The pensions of all civil servants who retired after April 1, 1996 are to be increased by 0,55 percent from April 1 this year for each completed month since retirement calculated up to March 31 this year.

Increases in military pensions will be announced later.

Sunday Times Business Times
March 16 1997

Some perks survive the taxman's attack

(320) ST(BT) 16/3/97

Important benefits have been hit, but it's still worth structuring your package, writes LEIGH ROBERTS

WILL tax structuring your salary package survive after the attack on fringe benefits in the Budget?

Yes, but it's going to be slightly more difficult to structure in a tax-saving mix of perks and cash.

Fringe benefits were once again attacked with Finance Minister Trevor Manuel scolding taxpayers for "the widespread abuse of fringe benefits" which has resulted in a substantial loss of revenue to the fiscus.

He targeted four popular benefits:

□ Company cars. From July 1, the monthly taxable benefit of a company car is 1.8% of the car's value, up from 1.2%. Thus the taxable benefit of a R100 000 car rises from R1 200 to R1 800, which at a 45% tax rate means paying an extra R270 tax a month.

Michael Brits, tax consultant at Ernst & Young says company cars remains worthwhile because in the above example the employee pays R810 tax a month for the private use of a company car — still less than the car's actual cost.

Where some taxpayers will feel the pinch is on their second company car. The monthly benefit goes up from 2% to 4% of the car's value. So, on a R100 000 car the tax increases from R900 to R1 800 a month — in line with the car's actual cost.

□ Travelling allowances. The change is a higher deemed private mileage for taxpayers who do not keep a logbook. The deemed private mileage is now 14 000km, up from 12 000km a year, but the total deemed mileage remains at 32 000km.

Employees who do not keep a logbook are obliged to use the taxman's deemed mileages: the first 14 000km of your total yearly distance is private and the rest is business (but your total mileage is limited to 32 000km).

An employee with a R57 000 car who uses the deemed mileages now calculates his tax deduction to be R21 740 instead of R24 155.

The cash flow advantage of a car allowance also diminishes. From July, 40% instead of 35% of the allowance will be taxed at PAYE rates.

□ Holiday accommodation. A free holiday in accommodation owned by the employer previously carried a taxable benefit of R35 per person per day. The new benefit is R100 per person per day.

□ Residential accommodation.

This is the perk hardest hit by the Budget. It has become common for employees to rent their accommodation from their employers and so earn a nice tax break. The employer deducts the rental which is paid to the landlord from the employee's salary, and the taxable benefit to the employee is calculated on a very generous tax-saving formula.

The variations of this perk were numerous and include employees putting their homes in trust funds and then renting back their house.

From this month, the employee will be taxed on the full rental and running costs to the employer, provided the accommodation is not owned by the employer, or where the employee has an interest in the accommodation.

If the employer does own the property the existing tax formula still applies, but the factors have been increased by one percent.

Brits says the clampdown will have a major impact on lower-income employees who rent their homes.

But while fringe benefits have been hit it's still worthwhile to tax structure your package.

Mark Silver of Deloitte & Touche says: "Things are slightly more difficult but you can still use the allowances, such as entertainment, subsistence, travelling and relocation. The first company car is still worthwhile, as are non-contributory medical aid and provident funds."

He adds that the holiday accommodation perk remains useful, especially for overseas holidays.

THE NEW TAX TABLE

TAXABLE INCOME	RATES OF TAX	
R0 – 30 000	19% of each R1	
R30 001 – 35 000	R5 700 + 30% of the amount over	R 30 000
R35 001 – 45 000	R7 200 + 32% of the amount over	R 35 000
R45 001 – 60 000	R10 400 + 41% of the amount over	R 45 000
R60 001 – 70 000	R16 550 + 43% of the amount over	R 60 000
R70 001 – 100 000	R20 850 + 44% of the amount over	R 70 000
R100 001 and over	R34 050 + 45% of the amount over	R100 000
REBATES OF TAX		
Primary	R 3 215	
Age 65 and over (additional to primary rebate)	R 2 500	
TAX THRESHOLD		
Below the age of 65	R16 921	
Age 65 and over	R30 050	

Source: SARS

Wealthier citizens in for a mauling

ST (BT) 16/3/94

Even lower-income earners don't have that much to celebrate, reports TERRY BETTY

THE much-vaunted gain in take-home pay of lower income earners has been overstated, but wealthier taxpayers who enjoy structured packages are in for a real mauling.

Changes to personal tax announced in the Budget include reducing the number of tax brackets from eight to seven. This offers some relief to individuals from fiscal drag and results in a tax saving of R805 (before inflation) for those with taxable incomes of R45 000-R70 000.

Further relief is offered through the increase in the primary rebate from R2 660 to R3 215.

The marginal rate still kicks in at 45% for those who earn over R100 000.

Some fringe benefits, namely company cars, travel allowances, residential and holiday accommodation, have been squeezed.

The SITE limit has been raised from R50 000 to R60 000.

The four accompanying examples, across the spectrum of income earners, show that employees on tax-structured packages are hardest hit, though lower-income earners have little reason to celebrate.

The take-home pay of the R40 000 earner has risen by only 1.6%, or a mere R36.25 a month. However, as the tax savings table (below) shows, for someone earning R17 000 a year, or R1 417 a month, tax is virtually eliminated from R270 to R15 a year.

Willem Van Ryswyck, partner at Deloitte & Touche, says clamping down on fringe benefits sends the wrong message to young, desperately-needed professionals already considering leaving the country. "Was it necessary to crack the walnut with a sledgehammer?"

The example shows a young professional's monthly earnings fall by R687 (13%). The executive's salary drops by 26%, largely due to the tax on second company cars. Van Ryswyck says the second company car is doomed to extinction.

"Those using fringe benefits have been salary earners for years, and have paid taxes for years. They'll now pay even more. Should the government not devote its time and effort into tapping into the market of non-taxpayers?"

Heavy smokers are in for a dire year. Tobacco duties are to rise by 52%, bringing total tax, including VAT, to half the average retail price, and smokers will have to pay an extra 27c for 10 cigarettes, which translates into a R200-a-year increase.

YOUNG WOMAN



She has an annual salary package of R40 000, of which R6 000 is paid into medical aid and R3 000 into the pension fund by the employer. The employee contributes R2 000 to the pension fund.

	BEFORE	AFTER
TAX PAID	R2 730	R2 295
TAKE HOME PAY	R26 270	R26 705
INCREASE R435 (1.66%)		

COMMENT:
The talk of more beneficial tax brackets for lower income earners is exaggerated

Graphic: FIONA KRISCH Source: DELOITTE & TOUCHE

YUPPIE



He has a fully tax-structured annual package of R120 000, of which R6 000 is paid into medical aid, and R9 000 into the pension fund by the employer. The employee contributes R6 000 to the pension fund. The employee receives a travelling allowance out of his total cost of employment to pay for his business travel. He has a R75 000 motor car and travels 30 000km per year. Included in the above package are R24 000 of rental payments made by the employer to lease residential accommodation for the employee.

	BEFORE	AFTER
TAX PAID	R11 656	R19 898
TAKE HOME PAY	R63 344	R55 102
DECREASE	R8 242 (12.01%)	

COMMENT:
Clearly affected onerously by the changes, particularly the residential perk

Graphic: FIONA KRISCH Source: DELOITTE & TOUCHE

EXECUTIVE



He has a fully tax-structured annual package of R500 000, of which R12 000 is paid into medical aid and R60 000 into the provident fund by the employer. The employee receives two company cars as part of his total cost of employment - they each cost R200 000 and cost R96 000 to run each year (these amounts are part of the R500 000). He, his spouse and his two children spend 14 days a year at the company cottage in Plett.

	BEFORE	AFTER
TAX PAID	R128 182	R157 195
TAKE HOME PAY	R107 818	R78 805
DECREASE	R29 013 (26.91%)	

COMMENT:
Very significant decrease, because he receives all the attacked fringe benefits

Graphic: FIONA KRISCH Source: DELOITTE & TOUCHE

PENSIONER



She receives R80 000, is over 65 years old and incurs medical expenses of R6 000 per year.

	BEFORE	AFTER
TAX PAID	R20 160	R18 395
TAKE HOME PAY	R56 340	R57 105
INCREASE	R765 (1.36%)	

COMMENT:
Remains very much unchanged

Graphic: FIONA KRISCH Source: DELOITTE & TOUCHE

TAX SAVING BEFORE PERKS TAX HITS YOU

TAXABLE INCOME	1996/7 TAX PAYABLE	1997/8 TAX PAYABLE	TAX SAVING
R17 000	R 270	R 15	R255
R20 000	R 840	R 585	R255
R25 000	R 1 890	R 1 535	R355
R30 000	R 2 940	R 2 485	R455
R35 000	R 4 440	R 3 985	R455
R45 000	R 7 990	R 7 185	R805
R50 000	R10 040	R 9 235	R805
R55 000	R12 090	R11 285	R805
R60 000	R14 140	R13 335	R805
R70 000	R18 440	R17 635	R805
R80 000 and over			R705

SOURCE: ERNST & YOUNG

New system to boost collection of taxes (320)

BD 18/3/97

Tim Cohen

CAPE TOWN — The SA revenue service is planning to introduce two systems to boost personal and company tax collection and customs income, after estimating that 95% of all imported produce falls within the technical definition of "smuggled goods".

Speaking during parliamentary hearings on the 1996/97 budget, internal revenue commissioner Trevor van Heerden emphasised that to combat massive customs fraud the service intended implementing the proposed "minimum value" system.

He explained that the definition of smuggled goods encompassed goods which were completely undeclared and those whose value was understated.

In terms of the new system, the revenue service would publish a list of minimum values for importing certain products. Anyone who declared goods at a lower value than scheduled would be subjected to increased scrutiny.

For example, Van Heerden said the revenue service had found that the stated value of car radios —usually subject to a 95% total tax bill — was often about a 10th of their actual value.

In response, the revenue service would specify a minimum value of car radios, and anyone declaring the value of car radios as less than this amount would be closely watched by the service.

Once the scheme was formally launched within a few weeks, the service would specify a minimum value for imported products, starting with electrical goods and clothing and textiles.

Van Heerden said that with the aid of a team of British customs experts, the service had managed to increase the number of examinations from 1,5% to 3,5% of all imported goods.

Although this figure seemed low, the revenue service was able to be fairly effective because it knew what kind of products were typically smuggled. The international average was an inspection rate of about 5%.

It had been loosely estimated that SA lost about half of its potential customs and excise income last year on containers through customs fraud. SA earned R6,8bn from customs duty in the 1995/96 financial last year.

Another innovation would result in the revenue service introducing a system of approved tax consultants, which would improve the speed of personal and company tax assessment.

In terms of the scheme, the revenue service would approve certain reputable firms and would generally accept their tax assessments at face value although it would reserve the right to investigate returns.

The system, which had worked well in countries such as Australia, would make a significant difference in reducing the backlog in assessments, Van Heerden said. Broad agreement on the idea had been obtained from the accounting profession.

On organisational matters, revenue service CE Piet Liebenberg reported that government had agreed in principle to the service becoming an autonomous body, but had not yet agreed on what percentage of the income generated by the service it would be entitled to retain.

Legislation would be passed in the second quarter of this year which would secure the service's autonomy, he said. The cabinet had agreed in principle to the revenue service funding itself by retaining a proportion of the taxes it collected.

Continued on Page 2

Tax

BD 18/3/97 (320)

Continued from Page 1

He said the service's existing budget would be insufficient for it to perform its duties adequately, particularly as its R947,1m budget was up only 0,3% even though it was expected to collect about R2,5bn in extra tax.

Liebenberg said the service was still having difficulty attracting and keeping senior staff, with staff turnover at about 30% a year. About 1 300 people had accepted retrenchment packages in the past year, he said.

Van Heerden said the tax amnesty had been a success, netting R966m. The revenue service had forgone R887m in penalties and interest on the additional revenue. The amount collected was in terms of the third category of tax amnesty, which applied to companies and individuals who had not stated the correct liabilities.

Extra income from the second category of amnesty, which applied to people who had understated their taxable income, would be known this month.

Tax incentives for NGOs sought

Star 18/3/97 (320)

POLITICAL CORRESPONDENT

Cape Town – Non-governmental organisations have requested the Government to introduce tax incentives for individuals and corporations that donate funds for development projects.

The NGO Coalition, a group representing more than 20 000 non-governmental organisations, yesterday told the finance committee during the hearing of Finance Minister Trevor Manuel's 1997-98 Budget that the move would yield tangible results.

SA Revenue Services chief executive Piet Liebenberg said the current budget allocation for his department was insufficient.

Representatives of a Johannesburg-based auditing firm told the committee they were concerned about disadvantaged communities' lack of access to information on tax.

Katz commission walks a tightrope on policy for wealth taxes (320)

Belinda Beresford

THE Katz commission has failed to reach a definitive position on wealth taxes, saying that capital transfer taxes are desirable on some grounds but are impractical to implement and unlikely to produce high returns.

Research and international comparisons had shown capital transfer taxes were usually difficult to administer and were expensive to collect. As a result, they tended to have "notoriously low" yields and gave "rise to an unproductive estate planning industry".

Designing a capital transfer tax for SA would have to reconcile the need for the efficient utilisation of the SA revenue service, reduce unnecessary complexity in the tax system and achieve the "greatest possible attainment of vertical and horizontal equity".

The commission said that while there was significant concentration of wealth in the hands of relatively few people in SA, the combination of estate duty and donations tax meant that SA effectively had a capital transfer tax, although it was not formalised.

The commission intends to release a holistic view of the tax system later this year. The latest report was drawn up to react to speculation about capital transfer taxes, the commission said.

In the report released yesterday the commission recommended that the current system of a flat 25% tax on donations and estates should be maintained. The commission did not favour the introduction of an inheritance tax.

The commission recommended that generation skipping trusts be taxed on a periodic basis "to achieve equity and consistency". A frequency of between 25 and 30 years "would be appropriate". Exemptions should include trusts set up by immediate relatives to provide for mentally or physically disabled people, and those providing benefits such as death, disability, unemployment insurance and medical benefits.

Such a tax on trusts would include commercial as well as individual trusts. The commission said businesses had to "accept all the consequences" of using trusts, particularly as there

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was no cogent commercial reason for them to do so. Rather commercial trusts tended to be used to avoid company law obligations and to gain favourable tax dispensations.

In addition, capital distributions from trusts should be subject to capital transfer tax unless this would result in double taxation.

The commission said the current exemption of spouses from estate duty should be retained on pragmatic

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grounds. This was despite the argument that differentiating people on the basis of gender or marital status was constitutionally unjustifiable.

The commission recommended estate duty regulations be changed to encourage "socially and economically beneficial bequests".

Estate duty would not be charged on donations or bequests made to state-selected nongovernmental organisations, it said.

Although SA's source-based tax system meant offshore capital assets tended to fall outside the tax net, extending capital transfer tax to worldwide assets "would exceed the enforcement capabilities" of the country.

The commission recommended instead that the commissioner for inland revenue should negotiate further double estate duty treaties. SA has only five such agreements at present.

Katz report offers few surprises

TAX REFORM

By MARCIA KLEIN

THE Katz Commission released its fifth interim report on Friday, offering few surprises apart from the reintroduction of withholding tax on interest flowing from South Africa.

The commission also proposed to tax residents on investment and royalties earned abroad (see BT Money).

The commission's report represents a crucial move from purely source-based taxation to a blend of source- and residence-based tax and brings the country in line with international taxation trends.

Commission chairman Michael Katz said on Friday the recommendations were designed to recognise South Africa's place in the international arena.

The report says since April 1994 South Africa has rapidly rejoined the global economy and this has created the need to analyse international dimensions of the tax system.

In his report, Katz says the SA system was developed on a source basis. The commission now recommends that active income — derived from direct, operational activity — continue to be taxed on a source basis, but that passive income — income derived from passive forms of investment — be taxed on a worldwide basis.

This means that SA corporates or individuals should pay



TAKING THE GLOBAL ROUTE ... Michael Katz

ST(BT) 6/4/97 (320)

SA tax on their passive income, irrespective of the source.

The commission says as long as SA tax rates are effectively higher than most of its trading and investment partners, taxing on a residence basis will see SA companies compete in foreign countries at a major competitive disadvantage as they will pay more tax in those countries than the host or even third-country competitors. At the same time, by taxing active income on source, foreign companies operating in South Africa will pay the same tax as local competitors.

The recommendations on passive income "will protect the tax base from possible erosion when exchange controls are lifted. Capital has become highly mobile and passive income can be relocated with little inhibition in pursuit of tax objectives rather than financial or commercial ones."

Tax experts said they were surprised to see the reintroduction of a withholding tax on interest flowing from a SA source to a non-resident who is a connected party.

Katz said: "We are now saying that with the relaxation of exchange control and now that we are able to invest abroad, we are wanting to protect the tax base of South Africa."

The commission said implementation of its recommendations "will provide a unique opportunity to ensure that our law is compatible with international conventions and terminology".

This will enable foreigners to quickly understand the system, "equip domestic business to plan in a more familiar environment" and both taxpayers and authorities will be able to rely on international expertise to understand and implement tax law.

The law will be compatible with international norms and will be able to easily absorb changes internationally.

Tax experts said there were few surprises in the report, other than the withholding tax. One said the report was sensible and pragmatic "and totally appropriate to SA and its need to lock into international concepts"

◉ See BT Money

Katz moots longer reach for tax man

BD 7/4/97 (320)

Janet Parker

CORPORATES and individuals could soon pay local tax on all their passive or investment income — regardless of the source — and passive income could be taxed on a worldwide basis, according to recommendations in the latest Katz commission report.

Commissioner and Arthur Anderson & Associates senior partner Pierre du Toit said aspects of the fifth interim report could become law as early as June or July, and the commission was hoping to publish the final report — a holistic review of the SA tax system — by November.

He said the next three interim reports would deal with mining, land tax and nongovernmental organisations, and could be expected in the next three to four months. Invitations for public comment — which would contribute to the final report — were imminent.

The commission's fifth interim report — which considered the implications of a shift in SA's tax structure from a source basis of taxation to a worldwide or residence basis — said that worldwide-based tax on passive income, along with more effective anti-avoidance measures, could protect the tax base from erosion once exchange controls were lifted.

"This will protect revenue, in so far as investment which gives rise to passive income is highly mobile and may otherwise be exported or manipulated purely for tax reasons," the report said.

The commission defined passive income as investment income, for example interest on investments such as offshore bank accounts, and royalties outside SA; whereas active income was earned from active trade or commerce.

Passive income also included all forms of income other than active income, and for the purpose of anti-avoidance the commission recommended that certain income be deemed passive unless the taxpayer could show it was earned offshore through a "suitable" permanent establishment.

The commission said the controlled foreign corporation rules in section 9A of the Income Tax Act should be extended to cover all offshore entities.

SA currently uses the source basis of taxation, taxing income in the country in which it is earned. The commission, however, recommended that SA followed the growing international trend towards a combination of source basis- and residence-basis tax systems.

The commission said active income should continue to be taxed according to the source system to "provide the kind of tax neutrality that is good in principle and facilitates our participation in the global economy".

It emphasised the need for anti-avoidance measures as SA stepped up its re-entry into the global economy, stipulating that the measures — like those in Germany and the UK — should remain simple enough to implement effectively.

Individuals will be able to invest limited funds offshore from July 1. The commission said this, combined with the worldwide basis of tax on passive income, called for stringent antiavoidance laws. "These antiavoidance rules should be sufficiently detailed to be effective, but should not become so complex as to become counter-productive."

1997 March

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Companies likely to relocate if 'source-based' system is discarded

Katz urges SA to stay with tax system

ETBR) 7/4/97. (320)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — The Commission of Inquiry on Taxation, chaired by Michael Katz, has recommended that South Africa stick with its current taxation method, especially since the country's tax rates are so much higher than those of most of its trading partners, the commission said in its Fifth Interim Report, released on Friday.

The commission had received evidence that many companies were likely to move out of the country if the "source-based" system were discarded, the report said. South Africa's source-based tax system taxes income derived from within the country's jurisdiction, regardless of where the earner lives. Developing countries typically use this system, the commission said, while developed countries tend to use a "residence-based" one, which taxes all the income derived by the residents of a country, regardless of whether they earn it there or overseas.

"So long as South African tax rates are effectively higher than those of most of its trading and investment partners, taxing on a residence basis would mean that South African businesses would have to compete in foreign countries at a major competitive disadvantage — they would pay more tax on income earned in those countries than the host and often third country competitors," the report said.

South Africa takes in about 26 percent of GDP in taxes, according to Kevin McManus, a partner at Price Waterhouse, while most developing countries take in between 15 to 22 percent.

A residence-based system could also fuel emigration out of the country, particularly by South African multinational corporations, the report said. If South African multinationals had to pay South African tax rates on their income from all over the world, they would likely jettison their South African components.

The report said the source-based system needed adjustment. South Africans' passive income, like income from financial investments, should be taxed by the South African government no matter where it is earned, it said. Under the latest exchange control reforms, South Africans will soon be able to earn passive income from overseas investments.

Tax evaders could be denied loans and have other economic freedoms curtailed

Taxman may conscript banks

(320) CT(BR) 10/4/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Banks might be prohibited from extending credit to clients who were not in good standing with the taxman, Christo Henning, a spokesman in the office of the receiver of revenue, said yesterday.

Banks might also be required to provide the taxman with income tax reference numbers of individuals and companies they pay interest to, he said.

These are some of the options considered by the receiver of revenue to counter tax evasion and re-establish a culture of tax obedience.

Another option considered is to require proof of good standing with the taxman from the buyer and seller of a car before registration.

Henning declined to list all the options under consideration. "Some of the options are quite harsh, but something must be done to break the culture of non-payment.

"The idea is to limit the economic freedom of the tax evader as much as possible without intruding on his human rights," he said.

This follows the announcement by Trevor Manuel, the finance minister, in the Budget that proof of good standing would have to be provided from July 1 to successfully tender for a contract to provide goods or services to the government, to get access to any of the supply-side financial incentives granted by the government, to get access to any other form of financial or other government assistance and to apply successfully for foreign exchange.

Legislation to give effect to these measures is now being drafted by the Receiver. "We hope to have the legislation passed by parliament before July 1," Henning said.

Additional measures, such as the option to require proof of good standing for credit to be extended, will be implemented later by regulation.

Once the legislation is in effect, individuals who want to buy foreign exchange to travel abroad or companies who want to invest abroad will have to supply banks with proof of their good standing with the taxman.

Theft probe targets

Top officials suspended at Receiver's

JOHAN SCHRONEN
CRIME CORRESPONDENT

A big scam, possibly involving millions of rands, has been uncovered in the Cape Town office of the South African Revenue Services.

It is the latest in a string of thefts and irregularities exposed at the office.

Last week a VAT expert was suspended when it was alleged he had opened a bank account in the name of a fictitious business and was depositing revenue service cheques in it.

The scam came to light after authorities became suspicious about large amounts of money flowing in and out of the account.

A high-ranking source in the revenue service said four other officials were being monitored and their work scrutinised.

In February, a senior tax official with about 20 years' service was suspended for allegedly pocketing PAYE payments.

The alleged scam was exposed when her work portfolio was changed. Certain taxpayers' files were taken from her, preventing her from covering her tracks.

The official admitted stealing about R60 000 when the irregularities were found, but to date thefts amounting to "well over" R800 000 have been linked to her, according to a well-placed source in the revenue service.

Fraudulent transactions connected to the VAT official suspended last week so far involve only R25 000, but the investigation is at an early stage.

The source said the amount could be much higher and that internal investigators were going through files with a "fine-tooth comb" to establish the magnitude of the fraud.

The Receiver in Cape Town, Attie Fourie, confirmed that his department was investigating two cases but declined to elaborate. He also declined to identify the suspended officials.

The latest investigations follow the arrest last year of a VAT official who allegedly created a fictitious bottling company to steal more than R400 000 of taxpayers' money.

He allegedly ran the scam for at least a year before he was caught.

Police have announced that fraud in government departments is a top priority. Late last year a meeting between heads of commercial crime units across the country prompted a more unified approach in the previously fragmented network of investigative units to clamp down more effectively on government fraud.

It was proposed that a new agency, the Financial Intelligence Centre, be formed to monitor suspicious banking transactions, in a bid to expose money laundering.

Cape Town HQ

(320) ARG 10/4/97

taxmen

REVENUE *Firms' financial records checked*

Taxman in surprise swoops on businesses

CT(BR)21/4/97(320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The 67 offices of the South African Revenue Services throughout the country have embarked on a series of swoops on businesses to round up tax evaders and to establish a culture of co-operation with the tax authorities.

Senior officials in the 67 offices began the swoops about a month ago to check on firms' financial records and to ensure employers and employees were registered as taxpayers.

The officials had collected "substantial amounts" of extra tax, a spokesman for the commissioner of inland revenue said at the weekend.

Some offices employed additional workers for the swoops. Receivers of revenue at several offices were satisfied with the early results of the programme, saying it had netted extra tax while improving tax discipline.

"In smaller towns, the visits are unannounced, but in the bigger centres, tax officials usually warn businesses in advance and request them to keep their books ready for inspection," said Stan Shrosbree, the Cape regional manager of the receiver.

The records of the businesses visited were subjected to in-depth audits. Cecile Bothe, the receiver of revenue in the Pretoria office, said face-to-face contact with taxpayers was improving co-operation between taxpayers and the taxman.

She said a team of auditors from her office randomly selected an industrial area, suburb or small town to visit on a given day, and then drove there in convoy. On arrival, the squad would divide into smaller teams and without warning, enter business premises and ask to see the financial records.

"The squads check whether businesses are registered for the different taxes they have to pay and check that employees with annual incomes over R60 000 are registered for personal income tax," she said.

When a team recently visited Warmbaths, "many irregularities were found and the prospect of meeting the taxman face-to-face encouraged businesses to get their books in order".

Pierre du Toit looks forward to the Katz commission's demise as the sign of a job well done

Today, SA's greatest challenge is learning to cope with hope

CT(BR) 12/5/97 (320)

The Katz commission on taxation needs to suffer an early death, since its demise will mean South Africa will have solved most of its fiscal problems.

So contends Pierre du Toit, a key member of the Katz commission and a tax partner at accounting firm Arthur Andersen.

Du Toit welcomes what he sees as "two big consensus circles" in the spheres of politics and economics.

"I am incredibly impressed with what we've achieved politically .... I know of few societies where, under broad principles, there is this degree of consensus around economic policies. And I include even Cosatu."

A third circle of consensus is, however, absent. It is one in which policies must be agreed upon to reconcile very limited resources with huge social spending demands.

"Place that against the background of the economic model, and you have the tax system which needs to act as a bridge between the two. It's an absolutely crucial element, and if we don't have some sort of consensus on what that tax system should look like, everything else will collapse."

Du Toit regards the challenge as "exciting" and points to the need for a policy consensus on what he describes as the broad-base, low-rate approach.

"There is a consensus developing there to a degree, though Cosatu is still somewhat out of line. It is certainly not as strong as in the political and economic spheres."

He is nevertheless optimistic, because of the enhanced enforcement environment and the promise that increasing numbers of South Africans will voluntarily pay the tax they owe.

"For decades people regarded the payment of taxes as funding their own suppression. Now tax becomes ... a patriotic duty .... We're already beginning to see some of that, though for the present I see much emotional instability around the tax environment."

On enforcement, Du Toit says that when the Katz commission



SUNNY FORECAST *Pierre du Toit sees clear skies ahead*

dies its epitaph should point out that in its first report it strongly urged administrative reform.

"If you can't administer tax, you can't administer reform. This is happening now."

But having arrived at its destination, the message contains the corollary that there must equally be protection in the law for the taxpayer: "The law must exact every cent that is due, but not one cent more."

Here Du Toit detects some philosophical conflict. "At the end of the 1980s I said the rule of law, like liberty, is indivisible. If you ignore it in the townships, don't demand it in your boardrooms."



JOHN SPIRA

Nowadays he couches the message in converse terms: "Don't think you can waive the rule of law in your boardrooms ('I don't like this tax so I'm not going to pay it') and then expect the rule of law to apply in the townships ('I don't want hijacking and crime'). The concept is indivisible, illustrating the balance between every cent that's due but not one cent more.

Other than the time Du Toit spends on the Katz commission, what does he do at Arthur Andersen?

"We conduct, in addition to tax consulting and other disciplines, what is today one of the major commercial legal practices in South Africa, an activity based on the notion that the old professional white-collar elitism is over."

He elaborates by noting that the many South Africans who have been economically marginalised for 300 years have no base from which to achieve economic advancement.

"They don't want to run from accountants to lawyers to consultants. They want one-stop advice, not solely for convenience but also for intellectual integration.

"The magic happening (with us) is in the creativity arena. The client sits at a table with an accountant, a financial expert and people from other related disciplines. He defines what he would like to achieve, and they create together."

Du Toit is puzzled by the brain drain. "I cannot understand why people are leaving South Africa. It's the most exciting country in the world and will continue (to be) so for the next decade."

He predicts that the next 18 months to two years will witness a situation in which "the crime problem will be quite a lot better", while on the economic front "there's more hope there than there's been for a long time".

Du Toit identifies the police force as a big problem area. "It is corrupt, trained for the wrong things, has forgotten how to do detective work and is hopelessly underpaid."

He reckons it will take a while for these problems to be overcome because not enough is being done to address the deficiencies. At the same time, though, the groundwork has been laid for significant improvement in the form of communities' attitudes toward policing.

"If you put the best police force in the world into a community which doesn't recognise its legitimacy, you'll have chaos. There the change has been fundamental. That's a big plus."

Du Toit maintains that South Africa's difficulties have been compounded by the fact that South Africans are "catastrophe junkies".

"For too long we have lived with the security and predictability of national suicide. Suddenly, confronted with hope, we're having to learn to cope with it.

"South African business, with some wonderful exceptions, can be unbelievably pessimistic. Politically there was going to be a disaster. Then came the elections and disaster was averted. Then there was going to be an economic disaster. That hasn't happened. Then you get a sensible Budget from Trevor Manuel.

"Now it's crime and Africa. Yet people who successfully fought oppression are not going to deliver their liberation into the hands of the criminals."

Du Toit still detects widespread fear of what awaits South Africa from north of its borders.

"There's concern that Africa will pull us down; that all the illegal immigrants will swamp us.

"Then someone from the World Bank comes here and points out that 24 countries south of the Sahara enjoyed growth rates of 4 percent or more last year. Juxtapose that statistic on the average white South African's picture of Africa and it's totally different. I certainly don't see Africa as providing the new comfort of suicide.

"South Africans must grow accustomed to not having the main part in a Greek tragedy; our future is not noble death but vibrant prosperity and peace."

Land tax 'means better-paid councillors'

BD 26/6/97 (320)

Louise Cook

THE introduction of a land tax in rural areas, the focus of a Katz commission investigation, would enable rural local councillors to earn better salaries, Gauteng development planning and local government MEC Sicelo Shiceka said at the weekend.

Interviewed at a conference on rural development on Friday, he said there were vast disparities between the remuneration of councillors in cities and those serving on rural councils. "Those councillors have to travel extensively (and) some of them earn only R500 a month," he said.

There were 1 020 rural local councillors in Gauteng.

Shiceka could not say how much the province could generate from a land tax, but thought it would be a substantial amount. "Such a tax has a lot of potential and would be an important revenue base. It will stop speculation that distorts the market and drives up prices. It will ensure that people use land productively and do not leave it undeveloped with a view to selling at a profit at a later stage."

A spokesman for the Gauteng agriculture, environment and conservation department said a land tax would be introduced in the province but was not regarded as the sole means of encouraging productive use of agricultural land. Emerging farmers were not expected to object as they had committed themselves to supporting the department's vision.

The SA Property Owners' Association said the cost of collecting a land tax would be high — a view backed by the SA Agricultural Union. The rural hotel sector would be worst hit and the tax could put some rural lodges out of business. Other property sources said the tax was likely to have an inflationary effect on land prices.

Shiceka also said a rural development forum set up on Friday, involving the Gauteng government, parastatals, the private sector and representatives from national government, would facilitate rural development in the province. It would examine job creation in the tourism sector, hoping to create 20 000-30 000 jobs by 2002.

Picture: Page 3

New immigrants to benefit in tax bill

CT(BR) 28/5/97 (258) (320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Immigrants would not have to pay tax on investment income earned abroad for the first three years following their residency in South Africa, according to the Income Tax Bill tabled in parliament yesterday.

But investment income earned on assets acquired after they become residents would be taxed in the same way as all other investment income earned abroad by local residents, according to the bill.

The bill gives effect to all the tax-related announcements contained in the March Budget, including the one that the local tax base would be protected by making investment income earned abroad taxable in South Africa.

The bill defines investment income as interest, rentals, royalties and income in the form of annuities, but not dividends.

Trevor Manuel, the finance minister, said in his Budget speech that it would be necessary to protect the tax base after foreign exchange regulations had been reduced on July 1 this year to allow local residents to invest limited amounts abroad.

Residents will not be able to evade tax on investment income by donating the income to a non-resident or by reinvesting the income abroad to earn dividends which are not taxable.

According to the bill, the income earned by the donation would be included in the income of the resident and be taxed accordingly.

The bill also spells out how interest rate swop-agreements would be taxed and how benefits transferred from public sector pension funds to provident funds would be taxed.

Two-thirds of the benefit transferred would be taxed, leaving the member of the fund to receive a lump-sum payment of one-third of the capitalised value of all his benefits, the memorandum to the bill says.

The 1997 Taxation Laws Amendment Bill, also tabled yesterday, introduces a new section to the Value-Added Tax Act which prevents the splitting of a business into more than one business to keep the annual turnover of each below the threshold of R150 000.

This bill also extends the definition of rental income received by pension and provident funds.

Manuel's housing tax change rejected

BD 28/5/97 (123) (320)

Linda Ensor

CAPE TOWN — Finance Minister Trevor Manuel's proposed change to the taxation of housing fringe benefits, announced in his March budget speech, was rejected by Parliament's finance committee yesterday because of the harmful effect it could have on low- to middle-income earners.

A proposal in the budget to scrap the cash basis for paying VAT was also turned down by the SA Revenue Service, which called instead for it to be retained but limited to purchases of up to R100 000, with the invoice basis being used for higher amounts.

Committee members estimated that if the proposals for housing fringe benefits were implemented, tens of thousands of low-income earners would earn 20% less in net income. The amendment was aimed mainly at those abusing a loophole in tax legislation.

The withdrawal of the proposed amendment to the Income Tax Bill was welcomed by the Chamber of Mines and the SA Chamber of Business. Sacob economic policy director Ben van Rensburg said it would have imposed an onerous financial burden on law-abiding people who had capital commitments from which they could not suddenly extricate themselves.

Manuel wanted to introduce the measure retroactively from March 1 to close a loophole in tax legislation, and expected to garner an additional R50m for the fiscus as a result. Revenue service deputy commissioner Kosie Louw told the committee attempts to persuade him to phase it in over several years because of its impact on employees' cash flows had been unsuccessful.

The committee decided unanimously to meet revenue service representatives and Deputy Finance Minister Gill Marcus this week to consider withdrawing the clause from the bill until next year to allow for a comprehensive investigation. Manuel is abroad.

African National Congress MP Andrew Feinstein said the lack of balance in the proposal was "completely unsat-

Continued on Page 2

Taxation

Continued from Page 1

isfactory". Some method would have to be found to differentiate between the categories of income earners.

Inkatha Freedom Party finance spokesman and head of the finance committee's taxation subcommittee Gavin Woods accused the revenue service of taking a "harsh approach" to those who would be affected.

The amendment relates to the determination of the taxable value of residential accommodation provided by an employer to employees. It proposes that where the employer does not own the accommodation, the employee should be taxed on the full amount of the rental and other expenses paid by the employer. (320) (123)

The rest of the Income Tax Bill, which gives effect to the budget's tax proposals on new tax rates and the taxation of lump sum payments, was adopted by the committee.

Revenue service deputy director of VAT Martine Botes conceded VAT proposals in the Taxation Laws Amendment Bill, also laid before the finance committee yesterday, would create difficulties for small businesses, as they would have to operate two systems and their cash flows would be affected.

BD 28/5/97

Pension fund taxes to be equalised

BD 29/6/98

Linda Ensor

CAPE TOWN — The taxation of lump sum payments by public and private pension funds will be equalised from March next year in terms of the Income Tax Bill submitted to Parliament this week.

The bill gave effect to many of the tax proposals made by Finance Minister Trevor Manuel in his budget speech, including the one that public and private funds be treated equally for tax purposes.

Until now lump sum payments by public sector retirement funds have not been taxable.

In terms of the bill, the vested rights of members of public funds would be protected and only that portion of a lump sum relating to services after March 1 1998 would be taxed.

The bill contains a new formula which can help determine the taxable portion of lump sum payments from public funds.

As a prelude to the relaxation of foreign exchange controls from July 1, the bill widened the ambit of the deeming source provisions for the taxation of investment income. This was defined as any income in the form of annuities, interest, rentals and royalties.

A memorandum to the bill stated "where any investment income is received by or accrued to a resident from a country other than the Republic, such investment income shall be deemed to have been received by or accrued to the resident from a South African source and the resident will accordingly be taxable in SA on such income. The same rule will also apply to a nonresident earning investment income arising from activities carried on by him or her through a permanent establishment" in SA.

The bill stated that these provisions would not apply to investment income derived from substantive foreign business activities.

As an anti-avoidance measure, the bill proposed certain measures regarding the income of any resident from a controlled foreign entity. It stated that this should include a proportional amount of the investment income received by or accrued to such foreign entity, which was attributable to the resident's participation rights in the entity.

A provision was made for a phasing-in period for the taxation of investment income of immigrants on foreign assets acquired before they first settled in the country.

This income would not be subject to the new tax regime for the first three years of assessment ending on or after February 28 1998.

housing

Bosses and employees get year's grace on

(320)(123) BD 4/6/97

Linda Ensor

CAPE TOWN — The method of taxing housing fringe benefits provided by means of salary sacrifice schemes will not be altered this year in terms of the Income Tax Bill to be introduced in Parliament tomorrow.

But the reprieve would be shortlived, as government found these schemes unacceptable, Deputy Finance Minister Gill Marcus said yesterday. An amendment to close the tax avoidance loophole involved in these schemes would be introduced in next year's March Budget. She called on employers and employees to use the year's grace to make alternative arrangements.

The bill, however, would retain the clause dealing with the more blatant tax avoidance schemes related to residential accommodation, where the employee retained an interest in the accommodation owned by the employer.

Ownership by the employee would include instances where any increase in the value of the accommodation accrued to the employee or anyone connected to him, or where the employee or anyone connected to him had a right to acquire the accommodation from his employer. Examples included where special trusts were created or where the employer paid off the employee's bond.

In terms of the bill, this accommodation would be deemed not to be employer-owned and would therefore not be treated as a fringe benefit for tax purposes.

Marcus accepted that the bill's original proposal to tax salary sacrifice schemes would have inadvertently imposed a heavy tax burden on thousands of low-to-middle income workers living in rented accommodation subsidised by employers. In terms of the proposal the full value of the rental paid by the employer for this accommodation would be taxable.

Parliament's finance joint standing committee conveyed its strong objections to the proposed clause to Marcus last week and argued that the measure, announced in Finance Minister Trevor Manuel's March budget, be withdrawn.

Committee chairman Sipho Mpahlwa (African National Congress) informed the committee yesterday that Marcus had agreed to this, subject to the approval of Manuel, who is abroad.

Chairman of the finance committee's tax committee Gavin Woods (Inkatha Freedom Party) said in an interview it was agreed with Marcus that salary sacrifice schemes would be addressed in legislation next year after a thorough investigation.

In terms of the agreement, employers would be given formal notification by SA Revenue Services that legislation was pending and that they would have one year to get their houses in order.

The partial withdrawal of the budget proposal could cause problems with some employers, who in anticipation of the announced amendment, had immediately changed their systems.

Katz plans national debate on tax system

(320)

ARG 18/6/97

Final report is due in November

ALIDE DASNOIS
BUSINESS EDITOR

The Katz Commission is on track to deliver its final report by November, and hopes to launch a countrywide debate on the whole tax system, says chairman Michael Katz.

Addressing Parliament's finance committee yesterday, Professor Katz said the commission's sixth and seventh reports – on the taxation of benefit funds and on the taxation of mining and mineral rights – were due to be released this week.

Reports on the taxation of non-governmental organisations (NGOs) and on a national land tax would be ready by October, he said.

The deadline for the final report was November, Professor Katz said, "and we want to meet that".

The last report would be a holistic view of the whole tax system and should trigger a debate which "must involve the whole nation".

"It will not be prescriptive but suggestive," Professor Katz said.

"We decided the country doesn't need an encyclopedia."

Commission member Pierre du Toit said the commission had tried to strike a balance in the holistic report between the need to "wipe the slate clean" in South Africa and the need for some stability.

The public had to "buy in" to a new tax system by making contributions to content and not just to procedure.

"But meanwhile the economy must run on," Mr du Toit said.

"What we will offer is diagnostic with some suggestions as to ways to give some orderliness and stability."

Professor Katz said the commission had distilled several principles in its work. These included:

- The need in the tax system for certainty, simplicity, equity, coherence and neutrality;
- The need to broaden the tax base;
- The need to reduce unnecessary arbitrage between systems, and
- The need to fit in with the demands of international competition.

"This is the golden thread which runs through all our reports," he said.

Deputy Minister of Finance Gill Marcus told the committee that work on the holistic report was co-ordinated by University of the Western Cape economist Lieb Loots.

The report would look not only at tax but at the economy, and at the functioning and enforcement of the tax system.

One of the issues to be examined was whether or not the Government had the necessary capacity for tax policy planning, or whether a commission like the Katz Commission was necessary on a permanent basis.

This was "an open question", she said.

Ms Marcus urged the committee to hold public hearings on the commission's latest reports "as soon as possible".

The Government hoped that the work of the commission would be wound up by the end of the financial year, she said.

Capital gains tax too difficult to administer – Katz

BUSINESS EDITOR

A capital gains tax is desirable from the point of view of equity but would be too difficult to administer, says Michael Katz of the Katz Commission on taxation.

Worldwide, this tax was one of the lowest-yielding, Professor Katz told Parliament's finance committee yesterday.

"It contributes very little to revenue," he said. "It is usually introduced in the interests of equity."

The commission had considered whether or not South Africa needed a capital gains tax which would not be a wealth tax, but would be part of the income tax system.

"We said that a capital gains tax would require a sophisticated South African Revenue Service to administer. This capacity does not exist yet, so we did not recommend a capital gains tax at this stage."

At present, he said, all receipts and accruals were taxed except those of a capital nature. Whether or not a gain in the value of an asset was defined as a capital gain rather than as income depended largely on the taxpayer's intention in buying the asset. For instance, if shares were held for five years or longer, any gain in value at the time of sale was deemed to be capital, not income, and was not taxed.

SARS autonomy bill slammed

CT (BA) 19/6/97 (320)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The long-awaited bill to give administrative autonomy to the South African Revenue Service (SARS) was tabled in parliament yesterday under a barrage of criticism from opposition parties claiming the bill did not ensure the SARS became an effective tax-collecting institution.

Commentators said the bill only substituted Zola Skweyiya, the minister for public service and administration, with Trevor Manuel, the finance minister, as the political head responsible for the SARS, and conferred nothing more than "cosmetic autonomy" on the SARS.

Earlier this year, Piet Liebenberg, the then commissioner for the SARS, said in parliament that the SARS would only be effective as a tax-collector if it was allowed to operate as a separate business entity with control over its staff, equipment and the buildings it occupied.

When Liebenberg resigned unexpectedly, it was speculated that he was unhappy with the extent of autonomy conferred on the SARS by the bill.

According to the bill, the SARS would be able to decide its staff size, would be able to employ and fire staff, buy and sell buildings, open and run bank accounts, borrow money, charge fees for services rendered to other parts of the public sector, and institute legal actions in court — with the consent of the finance minister.

The SARS commissioner and an advisory board would be appointed by the minister of finance, who would also determine the conditions of service of SARS employees. The SARS would be audited by the auditor-general and its annual financial reports would be presented to the minister of finance, who would table the reports in parliament.

Yesterday Trevor van Heerden, the acting commissioner for the SARS, said the bill was exactly what was needed to turn the SARS into an effective tax-collecting institution. But opposition parties in parliament criticised the bill for not going far enough.

Ken Andrew, the DP's spokesman on financial matters and a proponent of comprehensive administrative autonomy for the SARS, said the autonomy given to SARS was "flimsy" and "pretty cosmetic".

He said the bill gave Manuel "enormous discretion" and created the space for "inordinate interference by the minister of finance in the affairs of SARS".

Andrew said he would have preferred if the bill required the SARS to report to parliament and not to the minister of finance.

INCOME TAX

(320)
FM 20/6/97

Bloody nose for Receiver

Court ruling augurs well for commerce, but for how long?

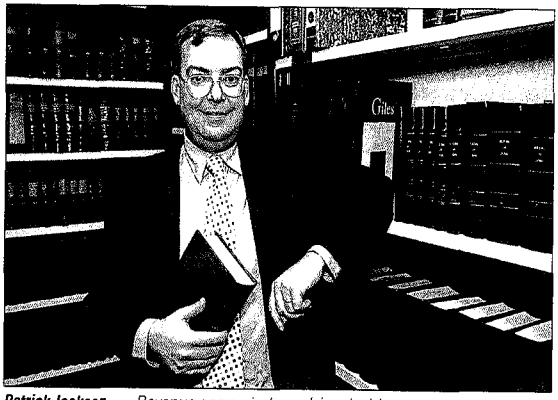
A recent, unreported judgment of the Income Tax Special Court in the Eastern Cape — by Judge Frank Kroon — has struck a blow for the taxpayer's right to conduct his affairs in a way that attracts the least tax.

The case details are important to manufacturers and banks. A manufacturer sought funds for expansion. He could have borrowed from a bank and claimed a tax deduction for the interest but the capital repayments would have been excluded. So he sold a parcel of manufacturing assets to a bank and leased them back. The lease payments were fully deductible, though they incorporated a capital repayment item.

Revenue challenged this and wanted to restrict the deduction to the interest element, though a full deduction was justified.

The taxpayer's objection was overruled and the case went to the Special Court. It had to be adjudged in the shadow of Ladysmith vs CIR — decided last year in the Supreme Court (formerly the Appellate Division). In that case, the appeal was lost on the facts but the court stressed the distinction between arrangement of affairs to pay the least tax and disguising a transaction's true nature to reduce tax. The Special Court rejected the Receiver's efforts to bring lease-backs within the scope of the anti-avoidance Section 103(1) of the Income Tax Act, saying this section must be interpreted strictly.

The Commissioner would have had to show the lease-back had been entered into mainly to obtain the tax benefit. But the main purpose had been to raise more capital for business expansion; so the most tax-efficient route had been selected.



***Patrick Jackson** . . . Revenue aggressively applying doctrine*

Deneys Reitz tax partner Patrick Jackson says Revenue has recently shown a tendency to apply "form vs substance" doctrine aggressively to extract more tax in situations where a taxpayer has used his right to arrange his affairs to his advantage.

The courts generally look at substance rather than form.

Jackson reckons the Special Court case reflects the correct application of the form-vs-content principles to lease-backs. He concedes the judgment does not have the sanction of the Supreme Court on lease-back specifications but believes the ruling may temper the Receiver's approach to widely recognised structures.

Unfortunately, taxpayers often win the battle but lose the war. The Commissioner can go to parliament to change the Act.

In view of the court decision, he is taking a further step. The Income Tax Bill before parliament provides for the treatment of future lease-backs as loans for tax purposes. So the part of lease payments that reflects capital repayments will no longer be tax-deductible.

To be in accordance with the basic tenet of tax law against retroactivity, the amendment should not increase the tax burden on financing structures already in place.

Robin Friedland

REVENUE *Commission proposes local answer to global debate on source- or residence-based systems*

Katz committee faces taxing questions of reform

CT(BR) 20/6/97 (320)

MATT GETZ

Johannesburg — The Katz Committee on Tax Reform had a minefield to steer through when determining whether South Africa's tax system should be source-based or residence-based, Michael Katz, the committee's chairman, said recently.

He told a Southern Life workshop that the debate between source-based and residence-based income was being heard all over the world.

"Therefore, we must put ourselves in position to follow developments abroad," Katz said.

Residence means that a country will tax all of its residents' income, regardless of where they earn it. Source, on the other hand, taxes whatever income is earned within a country's borders, regardless of who makes the money.

Katz said most developed countries used residence, because they were net capital exporters and a great deal of their income was earned outside the country. Developing countries tended to be source-based, though there were few absolutely pure examples.

South Africa was source-based, but also had the advantage that in most cases of double taxation treaties, which ensure that the same earnings are not taxed in two different countries, the tax accrued to the source-based country.

But Katz said South Africa could not stay purely source-based because of next month's relaxation of exchange controls. He said source-basing would kill the tax base because people would be freer to establish corporations and earn money overseas, which would not be taxed within South Africa.

But there were equally serious problems with residence-basing. "If we tax on residence, South African companies abroad will be uncompetitive because they are paying higher rates," Katz said. Clearly, Katz said, the tax system had to remain source-based, but with reservations.

To reconcile the problem, the committee proposed distinguishing between passive and active income. "Active income goes with source; with passive income, any South African who invests abroad will be taxed on residence ... It means we won't lose much revenue, and will probably gain some."

This means any active earning which takes place within South Africa will be taxed, as will any passive income earned by any South African anywhere.

Katz said the committee needed to define the terms properly to avoid later problems. The committee defined active income as active trade or commerce, making everything else passive income.

But, "there will clearly be efforts to recharacterise passive income as active. This should be dealt with in anti-avoidance provisions," Katz said.

The report is expected to become law later in the year.

Katz targets loopholes in benefit funds

BD 4/7/97 (320)

Belinda Beresford

THE Katz commission on taxation has recommended measures to clamp down on the use of benefit funds to avoid tax and to eliminate grey areas in legislation which have caused some funds to be largely unsupervised.

The sixth interim Katz report, released to the media yesterday, concentrated on benefit funds. The Income Tax Act defines three forms of benefit funds — friendly societies, registered medical schemes and the "omnibus category" of so-called "paragraph c" funds.

The commission said the tax regime applicable to benefit funds had developed piecemeal and was complex and open to abuse. Benefit funds were exempt from income tax and this exemption extended to investment income.

Benefit funds could be used to create tax shelters and salary sacrifice schemes which would be "attractive only to employees paying significant tax". Under salary sacrifice schemes employees accept lower salaries in return for the employer paying the same amount to a benefit fund. This causes no net tax cost to the employer and results in lower tax for the employee.

To prevent such schemes, employer contributions to medical schemes should be limited to a "rand-for-rand" basis, the report said. Self-employed taxpayers should be able to deduct 50% of their contributions.

Interest and withdrawals from medical savings accounts should be taxed, as should cash bonuses paid for low medical claims, the commission said. It could also be necessary to intervene if medical schemes were used for prefunding postretirement medical expenses. The appropriate vehicles for such schemes were retirement funds.

Friendly societies, or mutual aid schemes, should eventually lose the right for employer contributions to be tax deductible, the report said.

However, medical schemes and friendly societies should continue to be exempt from income tax since there was "no significant danger of the industry being used to shelter other income, and no significant scope for tax arbitrage". The situation should be reviewed if assets held increased enough to allow such tax manipulations.

The commission also recommended the eventual elimination of paragraph c benefit funds, which receive special tax advantages not available to medical societies and friendly societies.

The report said the number of paragraph c funds was unknown, although they were estimated at more than 20 000. They varied widely in nature from those operating similarly to medical schemes and those behaving more like registered insurers. It was also unknown how many were operating outside legally defined boundaries.

Both friendly societies and paragraph c funds were entitled to offer unemployment benefits, and there was "no compelling reason why the one entity should be preferred".

Friendly societies operate under the Friendly Societies Act and the Financial Services Board. However a paragraph c fund "is a law to itself", the report said. It recommended that paragraph c funds dissolve themselves, reregister as another kind of benefit fund or register as insurers.

KATZ REPORT *Salary sacrifices under scrutiny*

(320)

Medical aid tax loophole may tighten

ET(BR) 4/7/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — A popular tax loophole that allows employers to pay the total amount of employees' medical aid contributions could be partially closed if the government accepts the recommendation in the Katz commission's sixth report, released yesterday.

The Katz commission has proposed that employers only be allowed to deduct from tax the same amount as employees contribute to medical aid funds.

At present, an employer may deduct the full amount contributed to a medical aid fund.

The tax loophole allows higher-income employees to become members of medical aid funds without having to make contributions from their taxed incomes. This also cost employers nothing.

The commission's proposal would only partially eliminate the attraction of salary sacrifice, but it has proposed the government cut back further on the deductibility in due course.

The commission also suggested that the investment income of registered medical aid schemes remain tax-exempt, and that self-employed people be allowed to deduct 50 percent of their contribution to a medical aid scheme. The interest earned by a member of a medical savings account should also be subject to a withholding tax.

The commission did not recommend a rate for this tax, but said "it should not be too far below the corporate tax rate to discourage tax arbitrage".

The commission stopped short of extending tax deductibility to medical insurance plans.

"The amounts paid out by medical insurance plans are lump sum payments and, as capital receipts, they are not taxed," the commission said.

Regarding its proposal not to tax interest income of medical aid funds, the commission said the "matter should be kept under continuous review should medical schemes in due course become vehicles for the prefunding of post-retirement medical expenses".

Parliament's portfolio committee on finance will consider the report before the government decides which of the proposals to accept.

Medical aid tax dodge faces threat

(~~209~~)(320)

The Katz Commission on tax has recommended tightening the law to stop employers paying medical aid contributions for employees as a way of avoiding tax.

This sort of "salary sacrifice" scheme, where employees in high tax brackets accept a lower salary in return for employers' contributions to medical funds, is unfair to self-employed people, says the commission. ARG 4/7/97

It recommends employers be allowed to deduct from tax for contributions to medical aid only on a "rand for rand" basis, where for each rand contributed by employees, employers could contribute another rand and claim it as a deduction from taxable income. – Business Editor

MIDWEEK PERSONAL FINANCE

New bill puts taxman on the road to autonomy

(320) CT(BR) 9/7/97

CHARLOTTE MATHEWS

The South African Revenue Services' (SARS) breakthrough towards its long-talked-of autonomy in the Revenue Services Bill, due for debate in Parliament in August, has passed largely unnoticed.

Attention has focused instead on chief executive Piet Liebenberg's resignation, rumoured to be a result of his dissatisfaction with the bill as it did not go far enough.

But Trevor van Heerden, Commissioner for Inland Revenue, said last week that the bill was "groundbreaking" as it is the first to allow a state department to break away from the civil service. It will enable the taxman to offer competitive, market-related salaries and give it freedom to determine salary grades and scales.

The bill proposes making the department of revenue a new organ of the state within the broad public administration but outside the public service.

In addition to the post of commissioner, a renewable five-year position, the SARS will also be governed by an advisory board of about ten people, of whom about eight will be drawn from the private sector. Van Heerden said the board will draw on private sector expertise to improve the management, efficiency, performance measurement, budgeting and implementation of the Act.

SARS is also raising its levels of computer usage and has just awarded a large tender for computer equipment.

Automation will play a role in various activities in the future, one of which is the monitoring of certificates of good tax standing.

South Africans wishing to make use of the R200 000 foreign investment allowance have to complete forms stating that their tax affairs are in order. It has also been suggested that similar forms be completed by those tendering for government business, those applying for subsidies from the Department of Trade and Industry and even by consumers applying for certain services.

Van Heerden said a number of these areas is being looked at and progress is quite rapid. Monitoring the certificates of good standing will not be a labour-intensive process but checked automatically by centralised computer systems.

"This is only the beginning," he said. "The intention is that we should be technically driven in future."

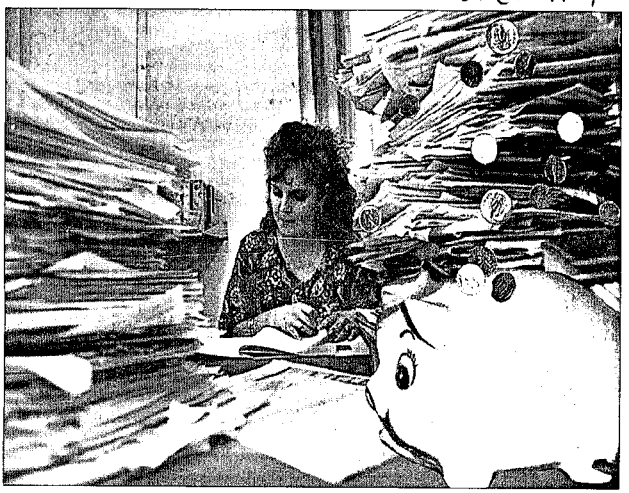
Raising the status and morale of the tax collectors through becoming an autonomous department, paying better salaries and being supported by sophisticated management and technical systems will translate into better tax collection.

The only people who will not welcome these moves will be the tax dodgers.

This quiet revolution could cost you

CT (BR) 17/7/97 (320)

PETER MAYBREY



While the R200 000 exchange control allowance for foreign investments by South African individuals was being introduced, a somewhat less talked-about and even less understood revolution in taxation legislation arose: the introduction of the residence basis of taxation for passive income earned by South African residents or entities under the control of South African residents.

This legislation was introduced in direct response to the exchange control relaxations, as one effect of those relaxations is that residents may now freely move income-producing assets offshore. Under the old source tax rules, this might enable residents to avoid South African tax on the income produced.

For example, a South African could use the R200 000 allowance to buy a house in Ireland, which could then be rented out, producing rental income which would not be taxable under the previous rules.

The new legislation will cause any investment income accruing to a South African resident (be it an individual or other legal entity, such as a company or close corporation) to be taxable in South Africa, regardless of where it accrued. Investment income includes interest, royalties, annuities, rentals and income of a similar nature, but does not include dividends.

There are some significant anti-avoidance provisions. One provision will potentially tax a pro rata share of any investment income arising in a foreign entity controlled by South African residents, while another will tax any investment income arising from an asset given away (generally abroad) by South African residents.

Now for the all-important implications. Primarily foreign investment income of South African residents will be subject to South African tax, unless it is connected with a foreign "permanent establishment" of substance. For example, if a company has a house in the Virgin Islands and this house is rented out when not used for company business, that rental income will be taxable in South Africa — unless the company happens to have a substantial distribution office as a "permanent establishment" in the Virgin Islands and the house can be connected with the activities of the office.

A simple way to avoid the above provision would be to set up an offshore company. For example, the South African company could set up a subsidiary in the Virgin Islands and transfer the house to the subsidiary, in exchange for the issue of shares by the subsidiary. The rental income could then be paid back to the South African parent as a dividend, which is not taxable in South Africa.

However, the Controlled Foreign Entity (CFE) anti-avoidance provisions counteract this sort of avoidance by causing investment income earned by non-South African companies with little substance which are "controlled" by South African residents to be subject to South African tax.

Active trading income (for example, the buying and selling of goods) of non-South African companies which are controlled by South African residents and situated in low-tax jurisdictions will not, prima facie, be affected by the new rules. However, existing anti-avoidance provisions already cover this type of income.

It appears unlikely that the CFE provisions will be overridden by double tax treaties because the controlling South African resident will bear the tax charge, not the foreign entity.

Subsidiaries earning investment income in high-tax countries, such as many foreign subsidiaries of Anglo American, are exempt from the CFE rules. However, the exemption does not apply if the foreign tax is less than 85 percent of the South African tax payable on the investment income.

Thus legitimate offshore operations in jurisdictions not generally regarded as tax havens may be subject to South African tax. South African double tax credit relief provisions have also been introduced for this possibility.

In conclusion, all groups with passive foreign income, particularly in foreign subsidiaries, will need to review their tax positions in light of the new "quiet revolution".

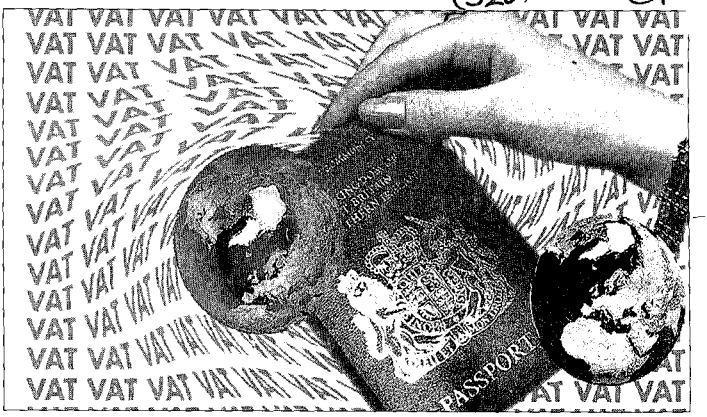
☐ *Peter Maybrey is a partner at Coopers & Lybrand*

A VAT of confusion for non-resident

business

(320) ET

ANNE JENKINS



The new Taxation Laws Amendment Act contains a fairly well-publicised provision which requires any non-resident business providing telecommunications services in South Africa to register and account for VAT in South Africa.

In simple terms, any person or business that carries on an enterprise or activity in, or partly in, South Africa on a continuous basis may be required to account for VAT in South Africa if taxable supplies of goods or services are made for a consideration.

The question arises on what exactly constitutes "continuous" for VAT purposes.

The main area of contention for non-resident companies relates to supply and install or turnkey-type contracts. A typical supply and install-type contract will include a design and manufacture element, normally conducted offshore, delivery of the goods to site in South Africa and an erection/supervision/commissioning arrangement. Local subcontractors may perform the bulk of the local element of the contract.

In many instances, the non-resident will only be involved in one such contract. The assumption is that the activity is therefore not continuous and no VAT registration is necessary.

However, even under one contract, goods and/or services are supplied. VAT registration is required if the value of those supplies exceeds R150 000, in line with the practice of the South African Revenue Service (SARS).

In any event, VAT registration may be advantageous, since it will allow the non-resident to recover the VAT incurred on local costs, for example on subcontractors' charges.

Just as there is an assumption that the non-resident need not register for VAT, the other side of the coin is the assumption that services provided by local subcontractors engaged by the non-resident are zero-rated. Again, this is not necessarily the case.

Such services may be zero-rated, provided the non-resident is outside South Africa at the time the services are rendered. In addition, those services must not directly relate to land or improvements in South Africa, or to moveable property in South Africa, unless that property is to be exported to the non-resident, or forms part of a supply by the non-resident to a VAT registered vendor in South Africa.

The situation is further complicated by the recent VAT amendments, which require that the service be provided "for the benefit of and contractually to" the non-resident before zero-rating can apply.

The amendments attempt to legislate for the current SARS practice, whereby if any party in South Africa receives a benefit from the supply rendered to the non-resident, zero-rating cannot apply. There are often several beneficiaries in any given business scenario, so it is likely the amendments will confuse, rather than clarify, the issue.

For example, in the supply and install scenario, if the non-resident is not registered for VAT, the services of the subcontractor may be disqualified from zero-rating on the grounds that the local customer receives a benefit from the subcontractor's services.

This situation could result in a significant VAT cost on such projects. In addition, VAT will be incurred on any goods acquired locally by the non-resident, and there is no scope for zero-rating unless the goods are exported.

Assuming the non-resident is conducting a continuous activity in South Africa, the practical requirements just for VAT registration can be frustrating.

In the first place, the practice in local SARS offices can differ widely. In addition, new requirements in the VAT Act mean a non-resident will not be allowed to register unless he has appointed a local representative to act on his behalf and has opened a bank account in South Africa.

Since the representative will be held liable for VAT, it may be assumed that any person willing to be appointed in this capacity will first require fiscal guarantees of some description.

Secondly, a non-resident may currently only open a non-resident bank account, and it is not clear at this point whether such an account will be acceptable to the revenue service for the purpose of registration.

These practical problems will also affect any telecommunications providers required to register in South Africa as a result of the changes.

The amendments introduce one light at the end of the tunnel for non-residents not registered for VAT, who are importing goods into South Africa as a principal — for instance, when the non-resident wishes to retain title to the goods until ultimate delivery or payment.

Normally the importation is handled by an agent who will pay the import VAT on behalf of the foreign principal.

Prior to the amendments, only the principal could claim the input credit on the importation. If the non-resident is undertaking the transaction on a "one-off" basis, he cannot register and recover the VAT, which forms a cost to the non-resident.

Following the amendments, the non-resident may appoint an agent to act on his behalf. That agent, provided he is a registered VAT vendor, may claim the input credit. The agent is deemed to make the supply to the recipient of the goods and must account for output tax in the same tax period as he claims the input credit. The non-resident must agree not to reimburse the agent for the import VAT paid on his behalf.

As can be seen, the issue of VAT and non-residents is complex and interpretation of the legislation is often subjective. Care should be taken when structuring agreements to avoid unnecessary VAT costs.

□ *Anne Jenkinson is VAT director at Coopers & Lybrand*

2/9/97

Land tax disadvantages may outweigh advantages

BD 4/8/97 (320)

Deborah Fine

THE possible negative effects of introducing a rural land tax to raise much-needed revenues for cash-strapped rural local authorities could outweigh the positive benefits if the tax came as an additional cost to farmers, two academics have said.

One of the most negative effects could be loss of job opportunities, the exact number of which would depend on the tax rate and whether or not the tax was based on the market value of agricultural lands, or on the land use value.

This was according to preliminary findings in a recently published paper by associate professor Herman van Schalkwyk and agricultural economist Daan Louw, who are both currently conducting research at the University of the Free State, in Bloemfontein, on the effect of a proposed land tax on the agricultural sector.

A subcommittee of the tax commission released a contentious report late last year recommending the imposition of a 2% local land tax in rural areas to give rural local authorities a higher level of fiscal autonomy as well as bring rural areas in line with property taxes imposed in urban areas.

At present, no property or land taxes are levied in rural areas. The committee is still considering a framework according to which the tax could be implemented.

The report was met with concern by agricultural organisations, including the SA Agricultural Union, that the imposition of such a tax would undermine the farming sector and cause chaos in rural areas.

Van Schalkwyk and Louw explained that they had studied the effect of a land tax on typical farming systems in the southern part of the Western Cape, where more short-term crops were produced on dry land, and the Olifants river basin, where crops were long-term and irrigated.

They stressed their findings were at this stage preliminary, because further studies were still being conducted in other provinces to give a more complete picture.

What they had initially concluded from their studies in these areas, though, was that the introduction of a land tax — especially if it was based on market-related land values — would place additional burdens on the overhead costs of the farming industry, forcing farmers to incur more debt to operate farms at an optimal level.

This, in turn, could cause structural changes in the industry as farmers may turn to more intensive and risky crops to cover their expenses, as well as a decline in agricultural growth and production because of a decrease in capital as a production factor.

Heavy taxes would cause an outflow of capital from agriculture to other sectors in the economy more attractive to investments, affecting job opportunities.

Conceding that agriculture had to "make its contribution to the state like all other sectors", Van Schalkwyk and Louw recommended the implementation of a land tax based on agricultural land use as well as measures to "soften the burden".

This could include a land tax deductible from income tax, or a provisional tax deductible from taxable income.

"The decision which government faces is one of no tax with more job opportunities but little state revenue, or a land tax with less job opportunities but more state revenue. This is a difficult decision if funds are needed ... to improve the position of disadvantaged communities and one which will be determined politically," their paper said.

Limited autonomy for revenue service

debated BD 6/8/97 (320)

Linda Ensor

CAPE TOWN — SA revenue services former CEO Piet Liebenberg had not resigned because of disagreements over the degree of autonomy to be given to the tax-collection body, Finance Minister Trevor Manuel said in an interview yesterday.

However, he would not disclose the reason for Liebenberg's departure, saying that this was a "proprietary matter between an employer and an employee".

Manuel's comments followed his introduction before Parliament's joint standing finance committee of the SA Revenue Service Bill, which gives a limited autonomy to the service, although the minister of finance is given strong powers.

The bill, due for debate in Parliament on August 19, was broadly supported by all parties, although the SA Institute of Chartered Accountants argued that the revenue service's autonomy was "cosmetic", being undermined by the finance minister's policy and budgetary control over it. The Democratic Party felt likewise.

In terms of the proposed legislation, the revenue service would remain within the public service but outside the confines of the public service administration which had constrained its ability to attract highly qualified staff by offering competitive salaries. It would also be freed from the control of the public works department in its acquisition of property.

Manuel justified the limited autonomy, saying the issue was not about the "privatisation" of the revenue service, an organ of state accountable to Parliament for its actions and its budgets.

"The power to raise revenue is one of the fundamental powers of government. Tax policy is a central responsibility of government exercised through the finance department. This is where the responsibility should remain," he said.

He said there were a number of ways in which the finance minister was bound to consult with other bodies. For example, the minister had to consult cabinet on the appointment of the eight members of the revenue service's advisory board which would oversee its activities.

Manuel said the board, which would play an important role in applying taxation principles, would be drawn from a cross-section of society, with representivity balanced by the need for expertise.

However, the institute believes the board should be appointed independently, not by the minister, and that it should have greater powers.

While it was originally proposed that the revenue service be funded by taking a percentage of revenue collected, this idea had been scrapped, Manuel explained, because of the vast capital requirements of the organisation to address its backlogs.

Even at the upper limit of percentages considered, the revenue service would have been worse off than if it received appropriated funds, he said.

Democratic Party finance spokesman Ken Andrew was disappointed by the limited independence given to the revenue service, arguing for a distinction between tax policy and administration policy. Control of the latter should reside with the head of the revenue service so that he could have full management control.

But Manuel said it was not possible to construct a wall between tax policy and tax administration. Nowhere in the world was revenue collection simply that alone without involving policy issues as well.

The representative of one large banking institution had informed him that it had not been assessed in six years. Was this a question of administration or not? Manuel asked.

VAT status 'is complex' (320)

The issue of VAT and nonresidents is complex and interpretation of legislation is often subjective, writes Anne Jenkinson

06/8/97

THE newly promulgated Taxation Laws Amendment Act contains a fairly well publicised provision which requires any nonresident business providing telecommunications services to customers in SA to register and account for VAT in SA. What is less well known is that there has always been some confusion and difficulty over the issue of the VAT status on nonresident companies doing business in SA.

Many such companies are unaware that they may be required to register for VAT, and others inadvertently create costs in business transactions because they are unable to register, but incur VAT on various local costs. The amended VAT act clarifies some, but by no means all, of the issues that arise.

In simple terms, any person or business that carries on an enterprise or activity in, or partly in, SA on a continuous or regular basis, may be required to register and account for VAT in SA if, in the course of the activity, taxable supplies of goods or services are made for a consideration. The question arises as to what exactly constitutes "continuous or regular" for VAT purposes.

The main area of contention for nonresident companies relates to supply and install or turnkey type contracts.

A typical supply and install type contract will include a design and manufacture element, normally conducted offshore in, for example, Germany, delivery of the goods to site in SA and an erection/supervision/commissioning arrangement. Local subcontractors may be used to perform the bulk of the local element of the contract, but the nonresident will normally send at least one employee to SA for a short period to oversee the contract.

In many instances, the nonresident will only be involved in one such contract and the assumption is that the activity is therefore neither continuous nor regular and no VAT registration is necessary.

However, it may be said that, even under one contract, goods and/or services are supplied continuously for the duration of the contract and, thus, VAT registration is required if the value of those supplies exceeds R150 000. This is in line with the practice of the SA Revenue Service.

It is also worth noting that, in any event, VAT registration may be advantageous, since it will allow the nonresident to recover the VAT incurred on local costs, for example on charges for subcontractors.

Just as there is an assumption that the nonresident need not register for VAT, the other side of the coin is the assumption that the services provided by subcontractors engaged by the nonresident to perform the local portion of the work, are zero-rated. Again, this is not necessarily the case.

Services provided for and to a nonresident may be zero-rated, provided the nonresident is outside SA at the time the services are rendered. In addition, the services must not directly relate to land or improvements in SA, or to movable property in SA, unless that property is to be exported to the nonresident, or forms part of a supply by the nonresident to a VAT-registered vendor in SA.

The situation is further complicated by the recent VAT amendments which require that the service be provided "for the benefit of and contractually to" the nonresident before zero-rating can apply.

The amendments attempt to legislate for the current SA revenue service practice which, in some instances, has been taken to the extreme, whereby if any party in SA receives a benefit from the supply rendered to the nonresident, zero-rating cannot apply.

Beneficiaries

This practice appears, strangely enough, to follow from a New Zealand Court of Appeal case, (Wilson & Horton v CIR), in which the same argument was considered and rejected.

There are often several beneficiaries in any given business scenario and consequently a benefit test is certain to be subjective. It is therefore likely that the amendments will confuse, rather than clarify, the issue.

For example, in the supply and install scenario, if the nonresident is not registered for VAT, the services of the subcontractor may be disqualified from zero-rating on the grounds that although the services are clearly contractually provided to the nonresident, the local customer of the nonresident also receives a benefit from the subcontractor's services.

This situation could result in a significant VAT cost on such projects. In addition, VAT will be incurred on any goods acquired locally by the nonresident and there is no scope for zero-rating unless the goods are exported.

Assuming that the nonresident is conducting a continuous activity in SA, which is more likely to be the case, the practical requirements for obtaining VAT registration can be frustrating in the extreme.

In the first place, the practice in local SA Revenue Service offices can differ widely in relation to documentation and information required. In addition, new requirements in the VAT act mean that a nonresident will not be allowed to register unless he has appointed a local representative or agent to act on his behalf and has opened a bank account in SA. Since the representative will be held liable for VAT, it may be assumed that any person willing to be appointed in this capacity will first require fiscal guarantees of some description.

Secondly, a nonresident may currently only open a nonresident bank account and it is not clear at this point whether such an account will be acceptable to the SA Revenue Service for registration purposes. These practical problems will also affect any telecommunications providers required to register in SA as a result of the changes.

The amendments also introduce one light at the end of the tunnel for nonresidents not registered for VAT, who are importing goods as a principal. This situation may arise when the nonresident wishes to retain title to the goods until the point of ultimate delivery or payment.

Normally the importation is handled by an agent who will actually pay the import VAT on behalf of the foreign principal. Prior to the amendments, only the principal could claim the input credit on the importation. If the nonresident is undertaking the transaction on a "one-off" basis, he cannot register and recover the VAT, which forms a cost to the nonresident.

Following the amendments, the nonresident may in future appoint an agent to act on his behalf and that agent, provided he is a registered VAT vendor, may claim the input credit. The agent is deemed to make the supply to the recipient of the goods and must account for output tax in the same tax period as he claims the input credit. The nonresident must agree not to reimburse the agent for the import VAT paid on his behalf.

As can be seen, care should be taken when structuring agreement to avoid unnecessary VAT costs.

□ *Jenkinson is VAT director at Coopers & Lybrand.*

Revenue service computer to keep an 'electronic eye' on taxpayers

BD 7/8/97

(320

Belinda Beresford

THE SA Revenue service is about to get a new weapon in its struggle against tax evasion — a computer system which could make taxes and death equally certain.

SA revenue service spokesman Christo Henning said a tax assessment in the present system took an average of six months, while it took about a month for a transaction to register. The new system should reduce the average assessment time to one month, with urgent cases being done in a day.

The total cost of the computer system upgrade would be about R100m, he said.

The R43m tender for software and one year's maintenance for the new system was won by a joint venture of Altech subsidiary Isis Information Systems and Information Technology and Telecommunications Corporation. The system would go live by the end of next year.

The new income tax administration system would operate in real time — allowing immediate updating of files — and had been designed to cope with any legislative changes.

The system would also interface with other networks and databases. Henning said 20 interfaces had been contemplated initially, although any number could eventually be added.

One important interface from a payback standpoint would be with financial institutions. For example, information on a lump-sum payment made by a pension fund would automatically be added to the individual's tax file.

Other interfaces would include a connection to the registrar of companies and the customs services. The revenue service's aim was to have one reference number for an individual which would track, among others, pay as you earn, value added tax, income tax and customs declarations.

All employers would be linked to the system, so IRP5 employee tax certificate copies would automatically be pulled into the system. "So we will pick up those people hiding an IRP5."

The system would cross reference information from different sources and discrepancies would cause the file to be flagged.

Foreign exchange applicants' standing on tax matters could be monitored by the system, and it could allow redeployment of revenue service staff withing the organisation, thus helping to relieve its chronic staff shortage.

Although South Africans were liable for tax from birth, most people would be netted by the revenue service when they first earned more than the R60 000-a-year tax threshold.

(020)
FM 15/8/97

SA REVENUE SERVICE BILL

Autonomy for the taxman

Staff transfers from civil service to revenue service become an issue

Finance Minister Trevor Manuel has introduced to parliament the declaration of independence for SA's tax collecting machinery — the SA Revenue Service Bill.

The Bill provides substantial administrative autonomy to the SA Revenue Service, though retaining ministerial control.

The enactment of a separate statutory status for Revenue will enable it to break away from general public service requirements and rules — allowing also for higher salaries and the right to buy or rent its own buildings and outsource infotech needs.

A delicate issue remains, however, the precise way of transferring existing staff from the civil service to Revenue.

Revenue spokesman Kosie Louw says further discussions over this issue should result in one significant amendment to the Bill. Initially the intention was to offer staff at Inland Revenue and Customs & Excise a choice: retain employment within the public service or accept full transfer to the new revenue service.



Richbie Tshabalala

Trevor Manuel

This proved unacceptable to the unions, so it was decided to resort to Section 197 of the Labour Relations Act. This provides for the block transfer of all employees from a previous employer on identical terms and conditions of employment. It usually applies when a business is sold as a going concern, unless employees and the new employer agree otherwise.

Using this Section requires the immediate establishment of an interim bargaining forum to allow collective bargaining on subsequent changes to the terms and conditions of employment. Eventually, the President will be asked to make Revenue a separate sector of the public administration. Hence the need to amend the Bill.

The proposal has already received informal support within the Parliamentary Portfolio Finance Committee. It was due to come before the committee for formal approval this week.

Robin Friedland

R1,5bn in tax penalties written off by revenue

BD 18/8/97 (320)

Belinda Beresford

THE latest tax amnesty resulted in more than 32 000 tax payers being found and close to R1,5bn in penalties being written off, the SA revenue service said at the weekend.

The revenue service has estimated that the approximately 240 359 tax defaulters eligible for the programme owed about R2,6bn in taxes, including interest and penalties. More than R2,4bn was owed by just 7 586 of tax debtors.

Revenue service spokesman Christo Henning said the amnesty had been successful, since it had raised general awareness of tax. The advertising campaign "hit close to home for most people, a general awareness of taxation was created, which was the main aim".

In category three — registered individuals who qualified for relief on penalties, interest and additional tax — the campaign had achieved "a very fair figure", Henning said. More than R1,6bn in penalties and interest was written off. Of payments processed in this category up to April 2, 54 271 people had made payments totalling more than R342m.

By the end of May 20 826 new taxpayers had registered, while 11 542 had disclosed their whereabouts.

In category two — people applying for amnesty for undeclared details or income — there had been 194 applications revealing more than R7,95m in undeclared income.

Henning said the number of "grudge calls", where conflict between individuals led to one spilling the beans on the other's tax affairs, had risen during the campaign.

Press articles about tax informants during the amnesty campaign, especially those in You and Huisegenoot magazines, had resulted in "our phones being inundated with that type of call", Henning said.

Tax experts have blamed the low takeup rate in the tax amnesty on low tax morality in the country and people's expectation that they can continue to evade the notoriously understaffed revenue service.

However, this is likely to change with the introduction of a new computer system which will interface with other databases and networks to electronically track taxpayers and defaulters.

Sacob blows whistle on state plans for 16 new taxes

ET(BR)18/8/97 (320)

RICHARD STOVIN-BRADFORD

Johannesburg — South African taxpayers are facing at least 16 possible new charges and levies in the near future, Raymond Parsons, the director-general of the South African Chamber of Business (Sacob), said last week.

He said taxpayers were already groaning under the weight of one of the heaviest tax burdens in the world. "In this life, we know that only death and taxation are certainties. Whatever the crime rate may be doing to the former, it seems burgeoning new tax proposals are determined to rub our noses in the latter."

Parsons said Sacob had identified the possible new taxes through its own research. Sacob said the government must not let things get out of control.

The recent rise in rates in towns and cities across the country was evidence of the government's tendency to add to the tax burden of both business and individuals at national, local, metropolitan and provincial levels, Sacob said.

Parsons ascribed the new taxes to an attempt by some departments to offset the government's inability to control expenditure by finding new ways of raising revenue. The "far-from-sweet 16" possible new taxes would include levies on land, job training, house values, health, fuel, electricity and liquor.

Other taxes in the pipeline included charges on waste water, water catchment and water management, an airports tax, capital transfer tax, a provincial income tax surcharge and a Truth and Reconciliation Commission victims' restitution tax.

There were also plans to raise funds to subsidise Telkom tariffs for the needy and to provide maternity benefits through increased Unemployment Insurance Fund contributions, he said.

Sacob said the government had already exceeded the long-term overall tax rate target of 25 percent of gross domestic product to which it had committed itself in its growth, employment and redistribution strategy.

Michiel Bester, the senior economist at Econometrix, said he could not see how the government could meet its tax target in the short term because it was so desperate for revenue.

Jacob de Villiers, the executive director of the Afrikaanse Handelsinstituut, said the institute had been looking at how the government's initiatives affected the cost of doing business. "We're particularly perturbed tax increases will result in lower entrepreneurial activity and higher unemployment," he said.

Parsons said a tax regime out of kilter with that of South Africa's competitors would seriously hamper the country's potential for creating growth and jobs.

New taxes identified by Sacob 'not part of state's policy'

Fear of new tax glut is quelled by Ramos

CT(BR) 21/8/97 (320)

RICHARD STOVIN-BRADFORD

Johannesburg — The 16 possible new taxes identified by the South African Chamber of Business (Sacob) last week were proposals by various departments that had not been approved by the government and were therefore not part of government policy, Maria Ramos, the director-general of finance, said yesterday.

But she did not say that these taxes would not be implemented.

"It makes perfect sense to impose user charges, but they can't be treated as general taxes," she said.

Her major concern was that Sacob had portrayed the taxes as if they were in the pipeline and as if the government had not paid attention to the integration of the fiscal system.

"Sacob is looking at all these things and being unnecessarily alarmist, yet it is not alarmed about taxes which are already on the statute book," she pointed out.

The 16 wide-ranging taxes Sacob had uncovered in its research include levies on land, job training, house values, health, fuel, electricity and liquor. They also extend to waste water, water catchment and management, an airports tax, capital transfer tax, a provincial income tax surcharge and a Truth and Reconciliation Commission victims' restitution tax.

Unemployment Insurance Fund contributions are also expected to rise to defray the costs of subsidising Telkom tariffs for the poor and of providing maternity benefits.

The taxes are emphatically "not taxes being implemented by the South African Revenue Service (SARS)", said Christo Henning, the service's media liaison spokesman. "The moment that people see (the word) taxes they think of the SARS, but we're just innocent bystanders in this case," he explained.

"It's fine for other departments to levy taxes, but taxpayers should not view these as SARS taxes — they are not even SARS-related issues," he added.

IS THIS HOW YOU

Email: fmeco.bus@tml.co.za

TAXATION POLICY

Difference between death and taxes

(320)
FM 5/9/97

The grim reaper only gets you once, while government is constantly scratching in your wallet

The SA Chamber of Business pointed out recently that there are 16 new taxes germinating in various corners of government.

The Finance Ministry replied that Sacob was being alarmist and the taxes hadn't been approved by government.

But it's striking how many proposals there are, and how many ministries are proposing them. The temptation is understandable. Fiscal discipline is putting the squeeze on departments, and levies and taxes are an easier solution than organisational and management restructuring.

Business people are afraid that additional levies and surcharges will slip through parliament unnoticed. They also fear that new taxes will be introduced without any balancing reductions in the existing burden.

But the Finance Ministry says it won't happen — no department would be able to move such a Bill through parliament without Finance's knowledge or approval. And Finance Minister Trevor Manuel has acknowledged the present tax burden (at about 25% of GDP) is pushing the limit.

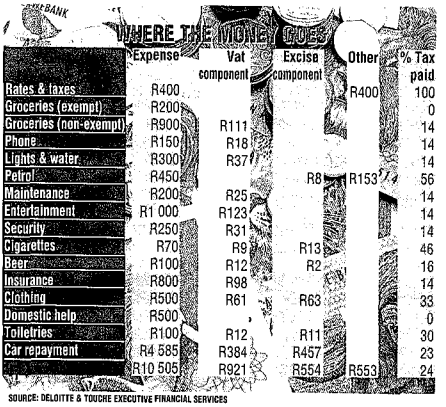
SA's 45% maximum marginal rate may look reasonable compared with those of other countries (US: 39,6%, UK: 40%, Japan and France: 50%, Germany: 53%.) But taxpayers in those countries are getting better value for money in terms of, for example, State health care and law and order.

The 45% marginal rate tells only part of the story, says Deloitte & Touche senior consultant Tanya de Souza.

She estimates consumers could be spending about 65c of every rand they earn over R100 000 on tax. That's a marginal tax rate of 45%, plus about 20% of income spent that goes to Vat, excise duties, levies and other taxes.

She illustrates this with an example of a consumer who has a monthly disposable income of R11 045, saves R540 of that and uses the remaining R10 505 for various expenses (see chart).

The roughly 3% saving rate is low, but consistent with Reserve Bank figures on SA's spending habits.



SOURCE: DELOITTE & TOUCHE EXECUTIVE FINANCIAL SERVICES

De Souza's hypothetical consumer spends R400 a month on rates and taxes, (low by Johannesburg standards), and about R5 000 on car repayments (assuming the car cost R150 000, paid off over 48 months). Various facts emerge:

- The consumer pays Vat on almost all items, including phone, lights and water, and insurance;
- Assuming half the clothing purchased is imported (with import duties at 40%), the tax component comes to about 33%;
- Of R100 spent on toiletries, R23 goes to Vat and excise duties. There's a 15% duty on items like shampoo;
- The sin taxes add up. A R70 cigarette bill includes R22 in Vat and excise duties. Duties come to about 3,5c per beer;
- The car repayment of R4 585 includes excise duty (at 20% assuming it's locally assembled) and Vat on the price of the car. That makes up about 23% of the instalment; and
- A petrol levy of over 80c/l, added to excise duties, means the consumer pays a rate of about 56% tax on petrol.

The message, to quote US President Ronald Reagan, is: No new taxes. Please.

Adrienne Roberts

Katz report may hit firms

Sowetan 5/9/97 (320)

Business reporter

EMPLOYERS who pay full medical aid contributions for their employees will have to negotiate new service conditions with their employees if the latest recommendations of the Katz Commission's investigation into the tax structure in South Africa are accepted.

In the latest *Insight* from Santam Group Benefits, one of the actuaries Roger Veneall, says the recommendations in the Commission's sixth report could create problems for employers who pay full medical aid contributions for their employees.

The recommendations could, inter alia, result in an increase in salaries to make provision for a member's contribution of 50 percent, with an increase in tax liability.

The commission's view is that the existing tax concessions create opportunities for salary forfeiture and that permissible deductions must be limited.

According to Veneall the recommendations could have serious repercussions because employers' contributions to medical aid schemes are deductible from taxable income and "this will limit opportunities for employers to structure their packages in a tax-efficient manner".

Sowetan 15/9/97

Nowhere to hide for tax dodgers

(320)

Rafiq Rohan
Political Correspondent

MANY people who do not pay their taxes harbour the illusion that they can escape the arm of the South African Revenue Services (SARS) by not submitting their returns, but the money can be withdrawn from their bank accounts without them even being informed.

Finance Minister Mr Trevor Manuel said the tax office could withdraw money out of a taxpayer's bank account.

"If a taxpayer owes any tax or interest, the Commissioner may appoint any person in terms of section 99 of the Income Tax Act to act as the agent of such taxpayer and such agent may be required to pay over taxes or interest due by the taxpayer from money which the agent holds on behalf of the taxpayer."

Manuel said the affected taxpayers need not have to be forewarned by the commissioner that the money would be withdrawn from their accounts.

"It would defeat the purpose of the garnishee order if the taxpayer was informed in advance that it was the intention to withdraw money from the account as he or she would ensure that there was no money in the account," he said.

However, the garnishee order was the last resort in a long process to collect the due tax.

Manuel said that while he had no exact statistics on how much money had been collected by going directly into offenders' bank accounts, he could confirm that "many millions of rands of tax are collected in this manner".

50% of West Cape firms don't pay tax

ARG 18/9/97

Businesses not registered – survey

Cape Town – Up to half of all businesses in the Western Cape are not registered for tax, says South African Revenue Services (SARS) head Trevor van Heerden.

The estimate was based on a door-to-door survey conducted by SARS personnel, who had been sent into the province's streets to find out which businesses were registered and for what type of tax.

"The results were astounding; up to 50% of businesses in the Western Cape were not registered for any tax at all," Mr Van Heerden told the National Assembly's standing committee on public accounts yesterday.

'In the past inland revenue concentrated on soft targets, the ordinary taxpayer'

The survey had resulted in positive spin-offs, with an increase of 4 089 Western Cape businesses having registered for tax.

In Gauteng, only 45 000 employers had registered for tax, "which clearly is not the right number".

Mr Van Heerden acknowledged that in the past inland revenue had concentrated on "soft targets" – the ordinary income taxpayer – but said that action was now being taken to ensure that all businesses paid tax and revenue collection was improved.

Progress was being made under the revamped SARS in spite of staff shortages and budgetary constraints. For example, the income tax system had grown substantially. The total of 300 000 registered VAT vendors in 1991/92 had increased to more than 580 000 at the last count. – Sapa

Taxman to target rogue businesses

(328) CTBR 18/9/97

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The South African Revenue Service (SARS) would launch a campaign next month to track down the thousands of businesses not registered for tax, Trevor van Heerden, the commissioner, said yesterday.

He told the parliamentary public accounts committee more staff would be assigned to visit businesses individually, to check whether they were registered for VAT or PAYE. Some staff would also cross-check telephone directories with the tax register, he said.

"We believe there can be astounding results because of this," he said.

In a recent test run in the Western Cape, for instance, staff netted more than 4 000 new businesses on to the register in two months, simply by going out into the streets and moving from shop to shop, asking owners what taxes they were registered for.

"The results were, to say the least, astounding," Van Heerden said. "We found that up to 50 percent of the businesses were not registered for any taxes at all."

He said the new programme would be SARS' contribution to the Masakhane campaign, aimed at ensuring that all South Africans paid taxes.

But it was also part of a long-overdue drive to broaden the tax base, he said. Only 45 000 employers were registered for tax purposes in Johannesburg, which was clearly no reflection on the number of employers actually in the city, he said.

"It is where our future lies," Van Heerden said. "In the past we concentrated on soft targets. It is now the time to widen that base to make certain that everybody contributes."

He said there had been a gradual change in the mindset of tax officials, who formerly relied mainly on the yearly assessments to collect taxation income.



DUE BY ME *Trevor van Heerden, SARS commissioner*

They now regard PAYE and VAT collections as their main priority. These tax systems have, in fact, become their biggest single source of taxation income.

Until a few years ago, there had been no posts for PAYE inspectors but today, although there were now 150 posts, this was not enough, Van Heerden said.

The speeding up of the processing of tax assessments over the last year has freed up more existing staff to do PAYE inspections, he said.

More training was being provided for these staff, while resources, such as more cars to allow staff to visit companies, had been made available.

Van Heerden said although there were still staff shortages in key areas and problems with out-of-date computer equipment and programs, much had been done to improve tax collection over the last year.

"We can say with some pride that in 1997 we have issued 3,1 million returns, as opposed to 2 million last year, just by doing things smarter," he said.

In the process, SARS has met its 1996-97 revenue collection target of R1,5 billion and, on top of that, has collected a further R1,7 billion.

SARS hopes transformation will improve its service to more taxpayers

Belinda Beresford

BD 1/10/97 (320)

THE SA revenue service (SARS) today enters an era of administrative autonomy it hopes will improve service to existing — and future — taxpayers.

Within three years the agency aimed to decentralise, with power devolved to provincial offices and the head office concentrating on policy issues, commissioner Trevor van Heerden said yesterday.

The SARS was starting a campaign to expand SA's tax base, Van Heerden said. This would involve a range of methods for gathering information, including some as basic as walking the streets and watching traders. Van Heerden admitted the recent amnesty campaign had not been as successful as hoped in broadening the tax base. He intended to use the Masakhane campaign to encourage tax payment.

Restricted resources meant the revenue service had been forced to concentrate up to now on softer targets, but administrative autonomy would allow it to broaden its scope, he said.

The service was undergoing transformation to develop a corporate culture and structure to improve efficiency and service. The management structure had been flattened and the customs and inland revenue functions combined. The SARS would be divided into functional divisions similar to a private sector corporation, such as human resources and management audit.

The service eventually hoped to have one tax reference and file for each client. A statement from the revenue service would include all an individual's tax obligations, whether personal or business.

One of the most public signs of the changes is an advertisement seeking applicants for four top jobs in the SARS. A wide range of people had applied for the posts, Van Heerden said. He hoped they would be filled by the end of this month or early November.

The highest job was that of deputy commissioner, who would function as second in command to Van Heerden at a salary of about R450 000 a year. Van Heerden said the salaries were reasonably competitive within the private sector.

The commissioner said the revenue service had "taken a bit of a knock" when it lost about 1 200 people as a result of government's severance package scheme.

It would take some time to build up the service and to make substantial improvements in training. A major achievement would be to retain trained staff long enough to get a return on the investment, rather than "training for the private sector", he said.

Revenue service gets administrative autonomy

SARS launches campaign to widen tax base

CT (POR) 2/10/98 (320)

ROY COKAYNE

Pretoria — The South African Revenue Service (SARS), which yesterday gained its long-awaited administrative autonomy, has launched a tax-base broadening campaign, said Trevor van Heerden, the commissioner of SARS.

Van Heerden said the campaign aimed to trace and register people, businesses and employers who were not yet registered.

"Now is the time to widen that base to make certain that everybody contributes. The tax-base broadening project will be SARS's contribution to the Masakhane Campaign, which is aimed at ensuring that all South Africans pay their taxes," he said.

He said initial checks on the registration of individual taxpayers in the Western Cape revealed that 50 percent were not registered. A computer check against the VAT register on some smaller importers in the Western Cape revealed 34,8 percent were not registered for VAT purposes.

He said a national task team of 13 members, comprising eight from head office and five from the regions, was officially established at the beginning of September this year in preparation for the campaign.

The granting of autonomy to SARS, he said, would have "a drastic impact and change the whole face of tax collection and broaden the (tax) base in South Africa.

"Our aim is to be an efficient, friendly, professional and customer-orientated service. SARS will strive towards becoming a force to be reckoned with in the financial industries with our new approach," he said.

Van Heerden added that the tax-broadening campaign would be supported by an extensive communications drive from SARS's new communication and client service division in the form of a tax education campaign.

Van Heerden stressed that with autonomy came accountability. It was now SARS's responsibility to become an efficient and effective service.

He said SARS had registered for VAT because it was now an independent organ of the state.

Practicality of Katz proposals under fire

BD 7/10/97 (320)

Linda Ensor

CAPE TOWN — The practicality of the Katz commission proposals for a capital transfer tax was questioned yesterday by SA revenue service (SARS) CEO Trevor van Heerden who said they would be extremely complex to administer and difficult to legislate for.

After a hearing by Parliament's finance standing committee on the fourth interim report of the Katz commission, Van Heerden pleaded for a simpler system to the proposals, which represented a "dramatic change".

Van Heerden said the problem of a suitable capital transfer tax had perplexed SA tax planners as far back as the Margo commission, as well as international ones.

However, he would not comment on whether the envisaged difficulties were justified in the light of the historically low yield of these taxes, saying this was a policy issue.

Finance committee chairman Ken

Continued on Page 2

Transfer tax

Continued from Page 1

Andrew of the Democratic Party also doubted SA's ability to overcome the universal problems involved in collecting estate duty — especially given SARS's capacity problems — when sophisticated countries such as the US had not succeeded in doing so. He also questioned whether giving effect to the proposals would not mean too much effort was being devoted to such a cost-ineffective tax, which in the 1995/96 fiscal year yielded a nominal amount of R181m, or 0,15% of total tax revenue.

Commission chairman Michael Katz conceded before the committee that wealth taxes were notoriously low yielding, but said they were a necessary redistributive element in any equitable tax system.

In terms of the commission's proposals, generation skipping by the use of trusts as a means to avoid paying estate duty would be dealt with by valuing and taxing the assets in the trust every 25-30 years. The proposals aimed to close loopholes in estate duty and donations tax legislation, which made them almost voluntary taxes.

But Van Heerden was concerned about having to keep records for such a long time; about the dangers of double taxation; and about how to determine equitably the date on which the valuations would begin.

Moreover, if generation skipping by the use of trusts was prevented, other means of achieving this through the use of preference shares in companies would be increasingly opted for. This would be extremely difficult to tax.

Van Heerden also believed a proposal to allow a bequest to a socially beneficial organisation to be deducted from the estate duty payable — instead of from the value of the estate as at present — was "very generous" and could result in no donations tax being received. This would mean the taxable value of the estate would be four times the value of the donation.

Another area of contention was the commission's proposal to retain the tax exemption on bequests to a surviving spouse. While Katz conceded that this was probably unconstitutional on the grounds of discrimination and flew in the face of SA's individual-based tax system, the commission urged its retention on pragmatic grounds.

But Life Offices' Association representative Abri Meiring said while the association approved of a capital transfer tax it believed the exemption in respect of bequests to surviving spouses should be abolished.

The SA National Nongovernmental Organisation Coalition opposed the idea of government proclaiming NGOs as beneficial, thereby allowing their donors to qualify for tax deductions, saying that tax deductions should be targeted to promote and support priority areas.

Katz in public spotlight over capital transfer tax proposals

(320) BT(BR) 8/10/97

CHARLOTTE MATHEWS

Public reaction in parliamentary hearings on the Katz Commission proposals on estate duty and donations tax this week ranged from comments on the detail to an outright rejection of capital transfer tax from the SA Agricultural Union (SAAU).

The Katz proposals on estate duty and donations tax, which were published several months ago, in fact only made two recommendations that deviate significantly from the existing legislation.

These are that the assets of trusts should be valued and taxed every 30 years or so to prevent tax-free build-up and that there should be incentives to encourage donations to socially and economically desirable objectives.

South Africa currently has two distinct taxes which are classified as capital transfer taxes. Estate duty is levied at 25 percent of assets over R1 million in a deceased estate and bequests between spouses are exempt from estate duty. Donations tax is also levied at 25 percent. The first R25 000 a year in donations is exempt from tax. These two taxes are contained in separate pieces of legislation.

Professor Michael Katz told the Portfolio Committee on Finance that the Commission considered a capital transfer tax, as a wealth tax, was appropriate for South Africa; estate duty, levied on the estate, rather than an inheritance tax levied on the heirs, should be retained; the existing two separate pieces of legislation should be kept rather than combined into a single Capital Transfer Tax Act; and the exemption from estate duty of bequests between spouses should be continued.



TAXPLANATION: *Professor Michael Katz explains the thinking behind the Fourth Interim Report of the Tax Commission, addressing estate duty and donations tax, to Parliament's Portfolio Committee on Finance.*

PICTURE: DOUG PITHEY

The rate at which these taxes were levied was the prerogative of government, but when they became too burdensome there was a negative impact on collection.

Spokesmen for the Non-governmental Organisations (NGO) Coalition said they were concerned that the Katz Commission recommended retaining current regulations on donations tax, but not extending incentives to other sections of the law dealing with donations, such as Section 18A of the Income Tax Act, where only a narrow band of donations was tax-deductible.

Tax deductions should be allowed for donors to promote areas defined as priority areas, the NGO urged.

The Life Offices Association (LOA) agreed that a capital transfer tax was the most appropriate form of wealth tax for South Africa. But it recommended that remedial legislation to close loopholes should be in place before capital transfer tax laws were revised.

It said the exemption from tax of bequests between spouses seemed likely to be abolished for constitutional reasons but this should be accompanied by a raising of the rebate to at least R2 million and there should be at least a year's warning. Current complex treatment of life policies in the legislation should also be simplified.

The SA Institute of Chartered Accountants (Saica) agreed it would be unwise to abandon the current system of estate duty and donations tax despite some of its shortcomings.

Saica's spokesman expressed concern about areas that had not been addressed in the report, particularly generation skipping. It was felt that the administrative burden on SA Revenue Services made it an inappropriate time to legislate generation skipping laws.

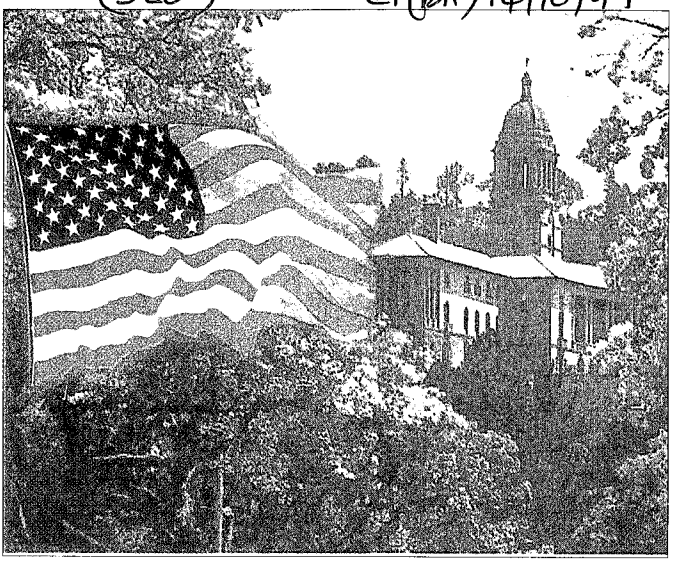
The SAAU said lack of liquidity was a serious problem in agriculture. The SAAU was opposed to estate duty because it put the heirs to an estate in the position of having to incur further debt to pay taxes. At present the majority of farmers were sole proprietors but the impact of a capital transfer tax could be to increase the move towards farming companies.

INTERNATIONAL RELATIONS *Protocol expected to encourage economic ties*

Pretoria in line for US tax treaty

(320) ET(BR) 14/10/97

RICH MKONDO



Washington, DC — The US's International Tax Counsel has recommended that legislators approve bilateral tax treaties with eight countries, including South Africa.

The counsel, operating under the US treasury department and headed by tax expert Joseph Guttentag, said in the department's recommendation to the US congressional Committee on Foreign Relations that such treaties would provide significant benefits to the US, as well as to treaty partners.

"I am pleased to recommend on behalf of the administration favourable action on eight bilateral tax treaties and protocols that the president (Bill Clinton) has transmitted to the Senate and that are the subject of this hearing.

"Treasury requests the committee and the Senate to take prompt and favourable action on all of these agreements," Guttentag told the committee.

"The treaties and protocols before the committee represent a cross-section of the US tax treaty programme. There are new agreements with five of our oldest treaty partners, Austria, Luxembourg, Switzerland, Ireland, and Canada," he said.

"Two agreements are with new treaty partners of growing economic significance, Turkey and Thailand.

"The eighth agreement, the treaty with South Africa, brings that important country back into our tax treaty network after its change in government.

"The new agreements will generate substantial benefits for US taxpayers and tax authorities, and will serve to expedite and increase desirable international economic activity," he said.

The Committee on Foreign Relations will schedule the treaties for a vote in the US House of Representatives and Senate. Once approved, the treaties will be ratified by representatives from the countries and the US, presumably by Robert Rubin, the US secretary of treasury, and Trevor Manuel, the finance minister, or US Vice-President Al Gore and Deputy President Thabo Mbeki, co-chairmen of the US-South Africa Binational Commission, the centrepiece of the two countries' trade and development.

For their part, South African parliamentarians will have to ratify the treaty.

The agreement will cover aspects of the taxing of American companies doing business in South Africa and those South African corporations trading in the US. Among many other details, the agreement creates safeguards that corporations should not be taxed twice, at home and abroad.

In the past four years the US Senate has considered and approved treaties with five countries, the Russian Federation, the Czech Republic, Slovakia, Kazakstan and Ukraine. Other treaties initialled but not yet signed are with Estonia, Latvia and Lithuania.

"The existence of a treaty will help remove tax impediments to trade and investment in such countries and thereby help establish economic ties that will contribute to the country's stability and independence, as well as improving its political relationships with the US," Guttentag said. — Independent Foreign Service

Cosatu, insurers not happy with Katz tax

BD 14/10/97 (320)

Linda Ensor

CAPE TOWN — Proposals by the Katz commission to abolish the tax advantages of benefit funds did not win the support of the Life Offices' Association (LOA) and the Congress of SA Trade Unions (Cosatu) yesterday.

Cosatu was also concerned that the commission's sixth interim report dealing with medical aid schemes, medical insurance and friendly societies had not integrated government proposals on the restructuring of the health insurance system, particularly the proposed introduction of a system of social health insurance.

Katz commissioner Jan de Villiers Graaff told Parliament's joint finance standing committee yesterday during a public hearing on the report that an estimated 20 000 benefit funds, providing sickness, accident or unemployment benefits for members, were believed to exist.

These funds — the creation of their own trust deeds — did not fall under either the Medical Schemes Act or the Insurance Act, were unregulated and known to operate very close to the boundaries of illegality, yet benefited from a very favourable tax regime.

The commission therefore proposed that the benefits enjoyed in terms of the Income Tax Act be abolished and brought under prudential guidelines so that they could be monitored.

This would mean they could operate without special tax privileges, wind up, or register as pension funds, medical schemes, friendly societies or insurers.

However, Cosatu's Neil Coleman noted that benefit funds were a cheap and flexible device which enabled beneficiaries access to money when they were ill. He argued further research was needed before abolishing the tax advantages of these funds.

Marilyn Gottlieb, director of health care financing consultancy Medwise, made a strong plea for the retention of benefit funds which offered benefits to low income earners who could not afford medical aid membership.

LOA executive director Jurie Wessels argued for the retention of paragraph (c) which was the only place in the Income Tax Act which provided for so-called "new age" medical insurance funds which offered a fixed, cash-value benefit instead of the indemnity provided by medical aid schemes. The attractiveness and competitiveness of these funds would be significantly undermined if the proposal to abolish the pretax deductibility of contributions to them was abolished.

They should remain as they were, subject to partial regulation.

Wessels called for a levelling of the playing fields between medical insurance, medical aids and benefit funds by allowing the same tax deductions for medical insurance as for medical aid schemes. The commission's tax proposals for medical aid schemes would make medical insurance uncompetitive, he said.

SA Revenue Service law administration chief director Kosie Louw welcomed the commission's proposals on benefit funds, saying it was not the task of Inland Revenue to act as the regulator of these funds.

proposals

Small Business Project argues for VAT reforms in micro sector

LT (BR) 15/10/97 (25) (320)

NCABA HLOPHE

Johannesburg — The Small Business Project (SBP), an independent campaigner for fair legislation for the small and medium sector, has called for reforms to simplify the tax system, including increasing the value-added tax (VAT) exemption threshold.

Keith Herrman, a legal and economic researcher at SBP, said small, medium and micro enterprises were unfairly tasked to act as unpaid tax collection agents. He said the simplification of tax rules should include a shift from the traditional accrual taxation method to cash accounting.

The accrual method taxes the amount of sales instead of actual cash received, while the cash accounting method would tax only cash received.

"This difference could be put back into the business, paying off creditors, reducing the overdraft at the bank or purchasing new equipment and generally improving the cash flow of the business," he said.

Herrman also took a swipe at the regional service councils, which generate R2,1 billion countrywide, as an administrative burden to the sector. He deplored the fact that the exemption threshold for VAT has tended to induce larger firms to split their businesses to qualify for the R150 000 annual turnover threshold, and called for it to be raised to R500 000. This is above the R300 000 recommended by the Katz Commission.

"The loss to the fiscus by lifting the VAT threshold might be negligible given that some 90 percent of the total revenue collected from companies is collected from 8 percent of the total number of companies, which would exclude those with less than R7,5 million in annual turnover."

MIDWEEK
PERSONAL FINANCE

Wide criticism for Katz Commission proposals to close tax loopholes

Medical schemes in firing line

CT (BR) 15/10/97 (320)

ESANN DE KOCK

The Katz Commission has come under fire from the private sector, Cosatu and other institutions for some of its proposals aimed at closing tax loopholes where medical benefit funds are concerned.

Parliamentary hearings took place this week on the commission's sixth interim report on benefit funds such as medical aid schemes, medical insurance and friendly societies.

There were clear gaps of understanding, though, between health care experts, tax experts who want to see a levelling of the playing fields as far as regulated and unregulated medical benefit funds are concerned, and private sector players who want to see the delivery of affordable health care to a broad range of the population in an environment where they have freedom of choice.

The Department of Health supported many of the Katz recommendations. It cautioned, however, that there should be no deductibility for medical insurance products that are simply age and risk related.

The commission faced particularly strong opposition to the proposal to abolish the tax benefits of largely unsupervised paragraph (c) benefit funds that often provide cheaper medical benefits to lower income employees.

Parliament's finance committee heard that about 20 000 of these funds exist. The Life Offices' Association said this was proof enough that there was a need for them.

The commission stood firm in its view that paragraph (c) funds should not be allowed to be largely unsupervised and that they should not be allowed to enjoy a favourable tax situation.

The funds are currently exempt from tax as is investment income derived from them.

Katz commissioner Jan de Villiers Graaff said while the commission recommended the elimination of the paragraph (c) category, it did not suggest the elimination of the benefit funds as such.

These funds can and are often used to create tax shelters and salary sacrifice schemes whereby you accept a lower salary in return for your employer paying the same amount to a benefit fund so your tax is lower.

The commission has proposed that employer contributions to medical schemes be limited to a rand-for-rand basis – a move which should reduce the attractiveness of salary sacrifice schemes.

In addition, it has said that self-employed taxpayers should be able to deduct 50 percent of their contributions. It wants to see tax charged on interest and withdrawals from medical savings accounts as well as on cash bonuses paid for low medical claims.

A strong argument in favour of retaining paragraph (c) benefit funds came from Medwise, a private company specialising in the restructuring and re-engineering of medical financing.

Medwise director Marilyn Gottlieb said the elimination of these funds would adversely affect lower paid employees who are unable to afford membership of traditional medical schemes.

It would discourage them from making any provision for healthcare costs.

Yet, Graaff, said lower income employees are often not severely affected by changes to the income tax system.

Cosatu spokesman Neil Coleman argued that insufficient research had been done into paragraph (c) benefit funds.

Cosatu was concerned that the report did not take into account the impact of other government proposals concerning the restructuring of the health insurance system.



Health department backs tax proposals

Linda Ensor

CAPE TOWN — The health department has come out strongly in support of a Katz commission proposal not to extend the tax deductibility of medical aid contributions to nonindemnity, risk-rated medical insurance products offered by life insurance companies.

It also endorsed the commission's recommendation that contributions to registered medical aid schemes continue to enjoy tax deductibility.

Deputy director-general Ayanda Ntsaluba highlighted severe distortions within the medical aid industry in a submission to Parliament's standing committee on finance yesterday. The committee has been hearing submissions on the sixth interim report of the commission on medical aid and benefit funds and friendly societies.

"The health department is of the view that the tax subsidy on contribution to medical care should be applied only where its application best serves the broader interests of health policy. Such tax concession should not be extended to medical insurance products that are simply age and risk rated."

Since 1989 when legislative amendments abolished compulsory community rating of medical schemes, medical insurance policies which charged highly competitive premiums specific to the policyholder's age, gender and claims patterns, had emerged.

These risk-rated, nonindemnity

Continued on Page 2

Health

Continued from Page 1

products had "cream-skimmed" young and healthy people out of medical aid schemes while excluding the sick and elderly from membership. This had fractured the cross-subsidisation of the elderly and chronically ill.

As a result, medical aid schemes had been burdened by higher claims and had to increase premiums.

Ntsaluba said the department wished to revert to the pre-1989 situation and had proposed steps to reinforce community rating and cross-subsidisation. "Medical schemes would be obliged to offer cover to all those who seek it and could use only income and/or number of dependants as the basis for determining rates."

It agreed with the principle of avoiding salary sacrifice, but was concerned that the proposed "rand for rand" regime might result in reduced cover or benefits as many schemes operated on a two-thirds to one-third basis.

The department supported the view that existing retirement vehicles and not medical schemes were the appropriate vehicles for prefunding post-retirement medical schemes contributions. The 22,5% deductibility limit for the retirement industry was adequate.

The department agreed with the commission's recommendation that tax advantages of benefit funds should be abolished.

Zimbabwean funds to discuss govt's new 15% tax on profit

Michael Hartnack

BD 15/10/97 (320)

HARARE — Zimbabwe's Association of Pension Funds plans to meet on October 31 to discuss the government's new 15% tax on members' profit and a directive to divert a portion of their portfolios to a private company aimed at financing black business.

A spokesman said a three-member task force representing the funds had already met officials of the finance ministry.

It had produced a report on effects of the 15% tax due for debate when fund managers meet. The societies hoped to make joint representations to Finance Minister Herbert Murerwa about the tax, which economists said could have drastic effects on capital formation and investment.

After Murerwa's announcement of the tax in his July budget, trade unions, industrialists and tax experts said it reflected government's "reckless hunger for revenue regardless of fiscal consequences".

According to World Bank estimates, the government's tax base has contracted by 5% since 1991 when it launched an economic liberalisation programme that failed to generate economic growth and employment due to unchecked state spending.

At a meeting at the finance ministry in September, fund managers said they were told 2 000 funds with more than Z$25m in assets would be required to invest 10% of their portfolio in African Resources Investments. This was denied by the company, which said funds were merely invited to support it, in the wake of the Reserve Bank action in May, reducing funds' prescribed asset ratio from 55% to 45%.

US tax treaty 'benign to SA system'

BD 15/10/97 (320)

Linda Ensor

CAPE TOWN — The avoidance of double taxation treaty negotiated with the US was very accommodating of the SA source-based tax system, SA revenue service director Ron van der Merwe informed Parliament's standing finance committee yesterday.

Van der Merwe said it was a "good" treaty which included all the SA positions and would enhance co-operation between the two countries. The treaty's effect was that SA's government was able to retain its taxing rights over its citizens.

For instance, the US — unlike most of its treaties which provided that the country which was the source of a pension be allowed to tax it — had agreed to allow SA to retain its right to tax pensions.

And in a highly unusual concession — made to only one other of its 120 treaty partners — the US had agreed broadly that if an annuity was purchased in SA prior to the purchaser's emigration to the US, it would be taxed in SA.

At the insistence of SA's government, the treaty included a clause providing for exchange of information between the respective tax authorities on all taxes administered by SA — not just those designated by the treaty. This was very important to SA.

Among the provisions which SA was able to negotiate was that the profit of SA companies involved in the international use or rental of containers would be taxed only in SA.

This followed the provisions on source in SA's domestic law which the US had agreed to include.

The finance committee also approved avoidance of double taxation agreements with Ireland, Egypt, Singapore, Malta, India, Croatia, Indonesia, Uganda and the Czech Republic.

Major tax crackdown on unregistered firms

'Amazing number' in W Cape

ARG 16/10/97 (320)

BUSINESS EDITOR

Thirty inspectors from the Western Cape office of the South African Revenue Services (SARS) have been walking the streets this week as part of a nationwide clampdown on unregistered businesses.

Tuesday's operation in Cape Town, part of a SARS national tax day, netted "an amazing number" of would-be tax evaders, said Stan Shrosbree, regional manager for the Western and Northern Cape.

Receivers of revenue from each region called on businesses in their areas on Tuesday to track down unregistered taxpayers. The campaign was launched on October 1.

'The sooner we get these people on the books, the sooner we can try to bring tax rates down for all'

It is part of an SARS move to counter criticism that so far the revenue service has concentrated on salaried employees, whose tax is deducted through the PAYE system, rather than on businesses, which can more easily escape the tax net.

Measures to be used to track down tax dodgers included street searches, searches of the Yellow Pages and the telephone directories, import records, classified advertisements, tender records – and even new car sales, said Mr Shrosbree. A recent spot check of major importers in the Western Cape had shown that nearly a third were not registered taxpayers.

"The sooner we get all these people on the books the sooner we can try to bring tax rates down for everyone," he said. More street checks were planned "in the near future".

Southern's Futuregrowth assets top R2-billion

BUSINESS EDITOR

Boosted by contributions from new retirement funds, assets managed by Southern Life's Futuregrowth topped the R2-billion mark in the third quarter.

Assets grew to R2 029 million, as new clients including the Bus Operators Retirement Fund, the Putco Provident Fund, the Cape Joint Pension Fund, the Macsteel Group Provident Plan, the Post Office Pension Fund and the M-Net Multichoice Defined Contribution Fund joined the scheme, which places retirement fund money in reconstruction and development projects.

The four funds in the scheme posted returns ranging from 20,5% to 52% over the past year.

During the quarter, Futuregrowth pumped R185,5 million into new investments, including a R43,7 million stake in New Africa Investments and R30 million in education and resource company Educor.

BD 27/10/97

Plan to help train tax officials mooted

BUSINESS should help train officials from the newly autonomous SA Revenue Service.

This suggestion comes from the chairman of Sacob's taxation committee, Ernie Lai King, who says it will benefit business in two ways.

Firstly it will improve tax collection: the Katz committee has estimated the "tax gap" — potential revenue not collected — at R21bn a year, and inefficient collection contributes to the pressure for additional taxes.

Secondly, it will give tax collectors a better understanding of how business works and the implications of some of their requests for additional information.

"Some of our members receive requests to analyse their cost of sales; there is clearly no appreciation of the huge task involved."

Lai King, who is group tax consultant at Sentrachem, says the revenue service will need additional staff. New employees will need training in highly technical areas such as new legislation on "source" financial derivatives and foreign exchange profits and losses.

"Business can contribute by having respected tax practitioners giving two hours a week to participate in the revenue service training programme.

"It is in everybody's interests to have a well trained and skilled revenue service.

"If we could close the tax gap by 50% government would have an extra R10bn to solve its many pressing problems without raising tax rates."

Lai King intends taking his suggestion to the parliamentary standing committee on finance.

SA revenue service on mission to tax

BD 27/10/97 (320)

Belinda Beresford

AS TILLS ring merrily in the run-up to Christmas, SA revenue service employees will be preparing to spread a little cheer as they engage on "search and register" missions to catch tax dodgers.

Personal visits form part of a campaign to extend SA's limited tax base which started at the beginning of the month and is due to continue until March next year.

Revenue service spokesman Christo Henning said so far almost 15 000 people had enjoyed personal attention from about 900 inspectors.

"The visitors have a letter of introduction and identify themselves; then we ask the individual if they are registered and if not, why. Then we ask them to complete a form to assist with registration and further queries. We are trying not to make this a witch-hunt, but an information visit to help the individual."

Henning said the tax dodger receiving the questionnaire had 14 days to reply before being scheduled for another visit. "Then we have to go and check what the problem is ... we are going to interact with the individual until we get a response," he said.

Failure to respond to a written query contravenes the Income Tax Act, which exposes the transgressor to a range of penalties. Henning said the most severe monetary sanction "and the one we'd like to use most", allowed the revenue service to calculate the taxes owed and add a 200% penalty.

Prospective targets were identified by a revenue service team which poured through publications to find unregistered businesses and individuals. "If you advertise you're likely to get a visit, so from our point of view it pays for you to advertise," Henning said.

All sectors of the economy were being targeted and the revenue service would also use more active ways to find tax dodgers, such as visiting flea markets, "especially on weekends".

Henning said the overall response to the campaign had been positive and "in some cases people were expecting us". However, there had been "one or two who were not really as friendly as they should be on this issue".

For protection, revenue inspectors move in twos and call on the police in particularly dangerous areas. Henning said a persistent lack of co-operation would lead the revenue service to apply to seize the records of nontaxpayers, which would then be used to calculate tax arrears and penalties.

So far, nobody had attracted such sanction since the tax-base campaign was still in its early stages. However Henning said the service would "clamp down severely if people fail to respond to our outreach (programme)", with serious action expected to start towards the end of the year.

SOCIAL HEALTH INSURANCE

New wage tax could squeeze work force

Legislation is on the drawing board for a 2%-4% tax on companies' payrolls to fund hospital care for uninsured workers

Companies are up in arms over the Health Department's plan to introduce a dedicated payroll tax of 2%-4% to provide public hospital care to workers who don't have medical aid.

"We believe off-Budget levies of this kind stand to have a serious effect on job creation, especially in smaller businesses," says the SA Chamber of Business (Sacob), which is fundamentally opposed to any dedicated payroll tax engineered to escape fiscal controls or discipline.

Details of government's social health insurance plan are outlined in a detailed discussion document that is being circulated within the Health Department and trade union movement ahead of the drafting of legislation later this year.

According to the plan, the business levy will be fixed at 2%-4% of payroll. This will cover the R3bn in annual costs to provide public hospital care to 2,2m workers — that portion of the work force which pays tax but does not have medical aid.

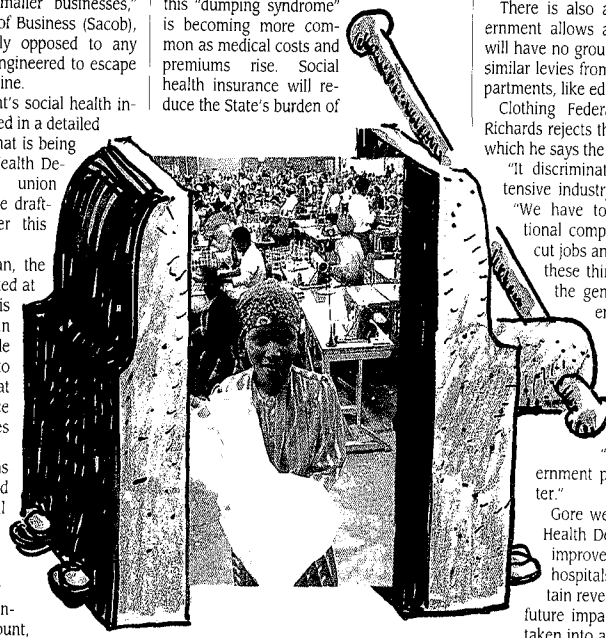
Annual contributions of between R600 and R1 200 per worker will be shared by employers and employees depending on whether the tax is set at 2% or 4% of payroll. Taking beneficiaries into account, about 6,9m people will be provided with health insurance for the first time (see table on page 36).

In addition to this group, anyone will be able to obtain social health insurance to cover basic public hospital care.

Until now public hospitals have provided virtually free care to uninsured patients, but the department says this is no longer sustainable.

Public hospitals are in the grip of a funding crisis. Resources are being diverted towards primary health care at a time when demand for hospital services is increasing, as those who have exhausted their benefits or can no longer afford medical aid turn to the State.

The department says this "dumping syndrome" is becoming more common as medical costs and premiums rise. Social health insurance will reduce the State's burden of paying medical costs for the old, the poor and those the private sector finds unprofitable to insure.



The department estimates that social health insurance could raise up to R4bn in desperately needed funds for the public health service.

It says State hospitals are losing out on about R1bn in fee revenue from patients each year, either because they fail to reveal that they have insurance and so are charged minimal fees, or because of inefficiencies in hospital fee collection.

To remedy the situation, government is proposing that medical schemes pay R1bn up front to State hospitals to cover their members' possible use of the hospital system during the year — this in addition to the payroll tax.

The medical schemes may, however, choose the option of paying only when their members actually make use of State hospitals. They will be charged more than schemes which pay up front. But this option will probably appeal to groups with a large proportion of high-income earners who are unlikely to use public facilities.

"It is really a dedicated tax to provide revenue for the public hospitals and it will add to the cost of employment," says Momentum Health CEO Adrian Gore.

There is also a danger that once government allows a dedicated health tax it will have no grounds to resist demands for similar levies from other cash-strapped departments, like education.

Clothing Federation president Bernard Richards rejects the notion of a payroll tax, which he says the industry cannot afford.

"It discriminates against a labour intensive industry like clothing," he says. "We have to compete with international competition. We have already cut jobs and have no money to fund these things. It must come out of the general revenue fund. Government has said it doesn't want to increase the tax bite."

Finance Minister Trevor Manuel chose not to elaborate on the issue, saying only: "There is no national government position yet on this matter."

Gore welcomes the fact that the Health Department is planning to improve fee collection at State hospitals and allow them to retain revenue. But he fears that the future impact of Aids has not been taken into account in calculating the cost of the scheme.

Ginsburg Malan & Carsons director Gavin Watkins also disputes aspects of the scheme's costing. "Employers' costs will rise," he says, "but they need to see the payroll increase in relation to a possible increase of 10%-15%, which is what it would cost to provide full private cover to these employees.

"If I were an employer I would be happy to accept it. But of course the unions and

employees may not be at all satisfied with this low level of cover. What is much more likely to happen is that employers will be pressured by unions to provide more comprehensive cover to employees across the board."

A payroll tax would have most serious implications for the State, SA's largest employer. The document says the State will have to pay R100m-R200m annually to provide social health insurance to nearly half of its 1,2m employees who are without medical aid. But it says the cost cannot accurately be gauged as the actual medical scheme membership of government employees is unknown.

Watkins points out that employees who already have medical aid will also experience a rise in costs as medical schemes are forced to pay either upfront or loaded fees for public hospital care.

The tax will probably be resisted initially by workers accustomed to free hospital care. Many of these workers voted for the ANC. However, Watkins believes that they may accept the deal if they believe the quality of hospital care will improve in the long run.

If the plan does improve hospital conditions, medical schemes that fail to lower their premiums could find many of their members deserting for the cheaper social health insurance cover, warns Sanlam Health's Dr Martin de Villiers.

Large medical schemes and administrators also stand to gain from the plan. The department says they will probably be used to collect social health insurance contributions — a market of at least 6,9m people.

"We are very excited and will make a big pitch for the business, probably against three or four mass market players, consortia or maybe even banks," says Garry Taylor, spokesman for SA's largest administrator, Medscheme.

He does not view the department's figures as fundamentally flawed. Though the 4% administration fee allowed for is low compared to an industry average of about 6%, he thinks it is probably fair for the type of record-keeping work involved.

Social health insurance legislation is expected to be drafted later this year. It will establish a new statutory body, the Social Health Insurance Authority, to manage the social health insurance fund.

Its board of trustees will comprise health industry experts from the private sector and trade unions. They will be appointed by the Health Minister on the advice of the Health MECs, labour and business. **Claire Bisseker**

ZUMA'S SOCIAL HEALTH INSURANCE SCHEME:

Would cost: R444 per beneficiary X 6,9m beneficiaries = R3,06bn

Would be financed by:		
Direct payroll tax	R1,5bn (from 2% contribution)	R3,0bn (from 4% contribution)
	OR	
Indirect participation by reinsured medical schemes	R1,0bn	R1,0bn
Total revenues	R2,5bn	R4,0bn

estimates based on 1997 prices SOURCE: DEPARTMENT OF HEALTH

CELLULAR INDUSTRY

Jostling for pole position

Intense negotiations are under way behind closed doors as black businesses position themselves for a stake in the lucrative cellphone market. The sensitive nature of the talks is highlighted by the angry response to the *FM*'s article last week that identified some of the firms said to be eyeing SBC's 15,5% stake in MTN (*Focus* October 24).

Telecoms group Vula vehemently denies it wants the SBC stake, worth about R1bn. "It's a lie," says Vula's Mark Headbush, adding that his group is interested in bidding for a new cellular licence.

The SA Telecommunications Regulatory Authority (Satra) has commissioned a R2m study to find out if there is room for additional cellular networks. Recently awarded to a consortium headed by International Technology Consultants and to be completed by February, the study must consider how further licences can aid the "empowerment of previously disadvantaged groups."

Deputy President Thabo Mbeki's economic adviser Moss Ngoasheng says he is not the head of Safika, as stated last week, but a shareholder in the firm. Safika executive chairman and CEO Vuli Cuba declines to comment on his company's position.

One of the few players to openly express interest in SBC's 15,5% equity in MTN is the Rethabile Group. "We will not bid for the third cellular licence because of the high cost of entry," says Rethabile Group CEO Moss Ngwenya, who is putting together a broadbased consortium that includes Khotso Investments, Savuka, Maru Investments, Umbombo, women and black investment groups from all the provinces.

Ngwenya says Rethabile, an equipment supplier to both MTN and Vodacom, will be a minority shareholder in the consortium because of potential conflicts of interest.

SBC's stake is likely to be contested by existing MTN shareholders, who claim pre-emptive rights on the shares. They say government waived its rights when the deal with SBC was signed. Communications director-general Andile Ngcaba, who is said to be championing the black empowerment initiative, was unavailable for comment.

Opting for a stake in either of the two existing cellular networks, as opposed to tendering for a new licence, is an attractive low-risk option that would provide new investors with an immediate entry into the cellular market. With MTN and Vodacom having invested between R3bn and R4bn each on their network infrastructure, setting up another national network would take guts and deep pockets. As a result, some players suggest the issuing of regional licences, with national roaming on the existing networks. But this is unlikely to go down well with MTN and Vodacom.

"The regulator would be well advised to exercise caution in allowing newcomers to piggy-back on the considerable investment and risk that has been exercised by incumbent operators," says MTN spokesman Jacques Sellschop.

Vodacom, which is half-owned by Telkom and is expected to generate R4bn in revenues this financial year, could also come under pressure to open up its shareholding structure to more black partners, say industry sources. However, Vodacom Group CEO Alan Knott-Craig says it is already 55% black-owned.

Meanwhile, local SBC executives have loosened their ties with MTN because of possible conflicts of interest. Through its 18% equity in Telkom, SBC is an indirect shareholder in rival Vodacom.

MTN CE Bob Chaphe resigned as an SBC employee three months ago and locally based SBC executive Jim Myers recused himself from MTN's board. SBC is now represented on MTN's board by Texas-based Terry Baker. **Marina Bidoli**

Parties differ over Katz wealth tax proposals

Star 5/11/97 (320)

Cape Town – Parliament's finance committee is divided along party political lines over the Katz Commission on Taxation's wealth tax proposals.

The committee, after holding hearings on the Katz Commission's recommendations, yesterday adopted a loosely worded report stating that members held strongly differing views on estate duty and donations tax.

The Democratic Party's Ken Andrew and Dr Theo Alant of the National Party pointed out that no country in the world had collected these taxes efficiently.

"There were differing views on whether there was a need to review the existing donations tax and estate duty regimes, but it would be of benefit to review the commission's recommendations in this regard, in the context of their final integrated report," the finance committee's report said.

It also raised the concerns of committee members who felt that the Katz Commission's efforts at addressing the issue of curbing avoidance of wealth taxes were too narrow.

Dr Gavin Woods of the Inkatha Freedom Party (IFP), who co-ordinated the drafting of the report, said the differences over the proposals could be likened to recent disputes over several controversial pieces of legislation.

The African National Congress, IFP and Pan Africanist Congress supported proposals based on what they were intended to achieve and on moral grounds.

The NP and DP raised objections based on legitimate technical or practical considerations, Woods said.

In its report on the Katz proposals, the finance committee opted to make general comments, and in effect pushed the differences in opinion under the carpet, Woods said.

Committee members said this was the first time since 1994 that the committee had failed to reach broad consensus on any issue. – Sapa

Home Affairs Minister Mango- DP spokesman

Simon Barber (320) BD 5/11/97

Senate ratifies US-SA double-tax treaty

WASHINGTON — A new US-SA double-taxation convention, replacing one ripped up by congress in 1986 to help deter US investment in SA, is set to go into effect on January 1 next year following ratification by the senate last Friday.

"We are delighted," said Emily Solomon, executive director of the US-SA Business Council, which represents US companies operating in SA. She said the treaty would make doing business in SA "a little less costly" for US firms.

Signed in by Deputy President Thabo Mbeki and US Vice-President Al Gore in January after protracted negotiations, the treaty had been threatened with further delays last month when Senator Jesse Helms, chairman of the foreign relations committee, was asked by the US pharmaceutical industry to withhold it from the senate floor as a sign of displeasure over SA medicines legislation which drug companies see as a threat to their intellectual property rights.

Drug manufacturing giant Glaxo Wellcome is a major employer in Helm's state, North Carolina.

The senator responded by seeking inherently impossible assurances from the treasury that the treaty did not threaten US patent rights.

It is understood that, following the passage of the offending medicines legislation through SA's Parliament, the US drug companies decided to soften their previous high-pressure tactics against the measure, and asked Helms to release the tax treaty.

The treaty was one of eight tax conventions and protocols ratified by the Senate en bloc and without debate.

It defines which of the taxes paid by US companies in SA may be credited against their US taxes, and vice versa, and commits the parties to share information to prevent tax evasion.

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Marcus to oppose new taxes until collection improves

ST(BR) 5/11/97 (320)

BRUCE CAMERON

Gill Marcus, the Deputy Minister of Finance, has personally committed herself to opposing the introduction of any new taxes until the taxman can track down and get everyone possible to pay existing taxes.

Marcus, who was speaking at the Saturday Argus/Seeff Trust Investors Club meeting in Cape Town, said she may not be successful in opposing new taxes but she was committed to doing so.

She said taxpayers were "paying for" the neglect of the tax office over the past 25 years. This neglect had resulted in the taxman's inability to collect taxes due.

Marcus said in some cases people deliberately evaded paying tax but there were a lot of people who did not pay simply because they did not know how to fill in the forms.



MARCUS: *Opposing new taxes*

She said the government had to ensure that everyone was paying their fair share before decisions such as ratios between individual taxpayers and company taxpayers or direct and indirect taxes could be adjusted.

Referring to the recent turmoil in the markets, Marcus said this underscored the fact that South Africa "is part of the global market whether we like it or not".

What had happened in East Asia to spark the current crisis was not a new experience. Mexico had been tested by the markets, as had South Africa and a few European economies in 1996.

The message then and now from the markets is that macro-economic equilibrium must be restored. South Africa was vulnerable because of its need for foreign investment.

Marcus said she believed that the government's macro-economic policy was positioning South Africa correctly to deal with the challenge of being part of the global economy and the targets of the GEAR plan were now being met.

No tax relief yet for NGOs

(320)

MPHO MANTJIU

CT (MR) 11/11/97

Johannesburg — Tax deductibility for non-governmental organisations' (NGOs) donors was unlikely to be ushered in with the enactment of the Non-profit Organisations Bill now before parliament, Andrew Fulton of the South African Institute of Race Relations said yesterday.

The cash-strapped NGOs were counting on the new law to introduce a liberalised donations tax system. Fulton said the Katz commission had recommended there should not be an amendment to Section 18A to extend tax benefits to the broader range of NGOs.

The NGOs have suffered funding cutbacks since the new government was elected, which has weakened the organisations. But the bill would allow NGOs to register voluntarily with the department of welfare, Fulton said.

A spokesman for the department of welfare said the department had pushed for the benefits and allowances for the NGOs to be prescribed by Geraldine Fraser-Moleketi, the welfare minister. The government had endorsed proposals for NGOs to take part in social and economic development projects.

The spokesman said the bill would provide a boost to small and emerging NGOs. The voluntary nature of registration for NGOs and the scrapping of the Fundraising Act would ensure a free climate for the organisations.

Fulton said the government needed to work with the NGOs as they could provide services more efficiently and had the capacity to introduce new projects.

Professor calls for 0,5% wealth tax

BD 12/11/97 (320)

Pule Molebeledi

STELLENBOSCH University economics Prof Sampie Terreblanche called yesterday for the imposition of an annual 0,5% wealth tax for 10 to 20 years on all people with net assets of more than R2m, to attain a satisfactory degree of "systematic justice" for the poorest 40% of South Africans.

In his submission to the truth commission hearing in Johannesburg on the role of business under apartheid, Terreblanche said the levy for redistributive purposes should be in addition to other forms of taxation.

"Such a tax would be levied on wealth accumulated during the long period when the structures of white political supremacy and racial capitalism enriched a relatively small white elite to the detriment of the oppressed majority," he said.

Terreblanche said that in order to understand SA socioeconomic problems, it was necessary for whites to acknowledge the exploitative nature of "white political supremacy and racial capitalism". A first step towards identifying beneficiaries and victims, he said, was to focus on the very unequal distribution of income in SA.

He said the richest 20% of households, which consisted of whites and a minority of blacks like homeland leaders, received almost 70% of total income in 1993, while the poorest 40% of households — most of which were African — received less than 6%.

"Although white political supremacy has been ended, a large part of the structures of racial capitalism are still very much in place, and with it, the concentration of huge economic power and privilege in very few white hands", he said. Terreblanche cautioned that transformation would remain incomplete as long as the wealth that was accumulated through racial structures remained unchanged.

Sapa reports that commission chairman Desmond Tutu said businesses operated within the milieu created by government policies, in which they enriched themselves through cheap labour, the pass laws and job reservation for whites. Some businessmen protested against apartheid, but many acquiesced and co-operated with the government of the day.

However, Tutu said the hearing had not been called to pillory or ridicule anyone. When businesses asked to be forgiven it did not mean the end of the process, as there was the question of restitution and repairing the wrongs.

While some businesses had contributed through the building of schools and clinics, Tutu said he would appreciate if they each announced a contribution to the President's Fund.

"It will be wonderful to have someone here saying 'we did this and we did that' ... and we want to rub some oil on the wounds, here is R10m for the President's Fund." While money could not replace loved ones, it would go a long way if people who could afford it said they wanted to be part of the future of the country, he said.



An Eskom delegation at the truth commission hearing yesterday are, from left, legal advocate Willie du Plessis, executive finance director Willem Kok, executive corporate affairs director Dolly Mokgatle and corporate industrial relations consultant Bob McIlwaine. Picture: LORI WASELCHUK

Apartheid wealth tax idea gains momentum

ET 12/11/97 (320)

JOHANNESBURG: The concept of a wealth tax and lump sum payments to repair the socio-economic damage caused by apartheid gained momentum at the Truth and Reconciliation Commission's business hearing yesterday.

Stellenbosch economics professor Sampie Terreblanche proposed that a special annual "reparations" tax to pay for economic upliftment be levied for up to 20 years on individuals with more than R2million in net assets.

And TRC chairperson Archbishop Desmond Tutu called on business to make "substantial" contributions to the President's Fund, from which compensation to individual victims of apartheid will be paid.



Terreblanche's proposal is likely to cause controversy as his definition of net assets includes pensions, endowment policies, and the value of shares.

He would like to see anyone with R2m paying an annual tax of 0,5% for between 10 and 20 years, an amount of about R10 000 a year. People with higher assets would pay proportionately more.

Terreblanche said that although white political supremacy had ended, the concentration of wealth in "very few white hands", which had come about as a result of the "racist capitalism" of apartheid, had not.

"The transformation process will remain incomplete as long as the economic power and wealth that were accumulated through racial structures remain undisturbed," he said.

"I am in full agreement with Deputy President Thabo Mbeki that the stability of the new South Africa can be at stake if we fail to find satisfactory solutions to inequality and poverty."

Mbeki recently mooted the idea of a wealth tax on individuals to address socio-economic inequalities.

● Armscor chairman Mr Ron Haywood told the commission yesterday that Armscor had used clandestine methods under apartheid but had not committed human rights violations.

He said Armscor's 25 000 employees in the early 1980s saw their work as combating communist-linked states such as Cuba and Russia. The company did not anticipate that its weaponry would be used against black activists at home.

● Eskom apologised at yesterday's hearing to all black South Africans, particularly black Eskom employees, for entertaining apartheid policies and, in so doing, perpetuating oppression.

The apology was made by chief executive Mr Willem Kok. — Own Correspondent, Sapa

Business sees no justification for wealth redistribution tax

Sample Territblanche, a Stellenbosch economics professor at the start of the TRC's special hearing on the role of business during apartheid, suggested that those who held net assets on all individuals 10 and 20 years on all individuals pay multimillion as a way of reducing "the necessary degree of social justice and social stability".

ROBERT BAIRD

johannesburg — Businesses that testified before the Truth and Reconciliation Commission (TRC) this week pounded cold water on a proposed wealth tax to uplift the disadvantaged. The idea was floated by Finance Minister Trevor Manuel in his budget speech last week.

Manuel said the tax would be a once-off levy on wealth for redistribution purposes. He said it would not affect "ordinary South Africans who own houses, cars and furniture".

Manuel said the tax would be levied on individuals and companies with assets of more than R1-million, excluding the value of primary residences.



Wealth tax is one form of atonement

(320) Star 14/11/97

Repentance and sacrifice are preconditions for stability and justice, says Sampie Terreblanche

The system of white political dominance, the system of racial capitalism and the close symbiotic relationship between them, brought about the empowerment and enrichment of (mainly) whites and a disempowerment and impoverishment of (mainly) Africans.

When racial capitalism is evaluated today, the really important questions are whether it was a moral system and what has been its distributive effect. I get the impression business believes that when capitalism produces high economic growth, it must be regarded as *ipso facto* a (morally) good system. Consequently business finds it difficult to understand the immorality of capitalism when it produced a high economic growth, as it did from 1933 to 1973.

Business is also vague on the distributive effect of the racist system. Business should have acknowledged that the power structures underpinning white political supremacy and racial capitalism for 100 years were of such a nature that whites were undeservedly enriched and others undeservedly impoverished.

Africans were deprived of land on which they had conducted successful farming for centuries. White farmers had the privilege of property rights and access to very cheap and docile African labour.

For decades, millions of Africans were paid exploitative wages. Legislation not only deprived Africans of the opportunity to acquire skills, but compelled them to do unskilled work at low wages.

Perhaps the greatest disadvantage the prevailing structures had for Africans was that it deprived them of opportunities to accumulate human capital. As recently as 1970 the spending on white education was 20 times higher than on Africans!

The restriction on owning property and conducting business deprived them of the opportunity to develop entrepreneurial and professional capabilities. The position of whites was, again, the complete opposite. It was estimated in the early 1980s that the top 5% of the population owned 88% of all property, with all its advantages.

While the prevailing power structures impoverished most Africans during the first three-quarters of the century, the liberation struggle and the government's resistance to it had a devastating effect on the poorer 60%. Their income decreased by 35% from 1975 to 1991! During the period of stagnant growth and high inflation (stagflation) a large part of the creeping poverty was shifted on to the most unorganised and vulnerable 50%. That the poorest 40% (about 18 million people) cannot satisfy their basic needs on a regular basis makes it more urgent to do something meaningful.

Social justice demands that those who have been beneficiaries of the power structures have a responsibility to make a substantial sacrifice towards the victims. To understand the nature of South Africa's socio-economic problem, it is necessary for whites to acknowledge the exploitative nature of political supremacy and racist capitalism.

Although white political supremacy has ended, most structures of racial capitalism are in place, and with it the concentration of huge economic power and privileges in white hands. The transformation process will remain incomplete as long as this is the case.

I am in full agreement with Deputy President Thabo Mbeki that the stability of the new South Africa may be at stake if we fail to find satisfactory solutions to inequality and poverty.

A satisfactory degree of justice can perhaps be attained by imposing a wealth tax of, say, 0,5% annually for 10 or 20 years on all persons with net assets of more than R2-million and to use the yield of this levy for the upliftment of, say, the lower 40% of the population. A levy on wealth for redistributive purposes is preferable above any other form of taxation. Such a tax would be levied mainly on wealth accumulated during the long period when the structures of white political supremacy and racial capitalism enriched a relatively small white elite to the detriment of the oppressed majority.

Confession, repentance, conversion and sacrifice are not only a prerequisite for forgiveness, but also a precondition for promoting social stability and justice. These are, in turn, preconditions for economic growth and job creation.

■ *This is an edited version of Professor Sampie Terreblanche's submission to the Truth and Reconciliation Commission's business hearing this week.*

Income tax collection up 12,4%

ARG 14/11/97 (330)

Pretoria – Income tax collected in the first six months of the 1997-98 financial year was 12,4% higher than in the corresponding period last year, the Department of Finance has reported.

It said R41,7-billion was collected over the six-month period compared with R37,082-billion collected the previous year.

Total inland revenue from April to September this year amounted to R64,709-billion, 11,1% more than in the comparable period last year.

VAT receipts increased from R17,3-billion during the first half of 1996-97 to R18,95-billion in the current financial year – an increase of 9,8%.

But the department also said that government departments asked for 10% more in the first seven months of the 1997-98 financial year than the previous year. – Sapa

FEATURES

REVENUE *'Massive leakage' must be addressed by accountants, parliament and the media*

Turok calls for open debate on tax avoidance

(320) CT(BR) 17/11/97



TAXING CONCERNS *ANC MP Ben Turok*

LYNDA LOXTON

Cape Town — There should be a serious national debate involving accountants, parliament and the media on ways in which to crack down on the growing incidence of tax avoidance, Ben Turok, an ANC MP and academic, said last week.

And if that does not work, then parliament should consider forcing self-regulatory bodies such as the South African Institute of Chartered Accountants to discipline members who aided and abetted tax dodgers, Turok said.

He is also deeply concerned about the fact that the increasingly popular personal finance columns in newspapers regularly provide detailed advice on how to minimise tax obligations.

Turok said that paying tax on all income earned, excluding specific exemptions, was a legal obligation. Not doing so was tax evasion and punishable in terms of the law.

Less clear was the issue of tax avoidance, or deliberately planning to minimise tax obligations. International evidence showed that both were becoming increasingly common and some countries , including Canada and Argentina, were beginning to legislate against tax avoidance as well as tax evasion.

The Katz Commission had come out against the introduction of broad anti-avoidance measures, as recommended by the Margo Commission, because they would be difficult to police. But it was clear that something had to be done to halt the growing incidence of avoidance if the integrity of the tax system was to be maintained, Turok said.

'To ask a tax lawyer about... avoidance is like asking the devil to give a sermon on sin'

One tax expert he had spoken to had told him that there "is a massive tax leakage — bleeding is the more appropriate term — and when a state ceases to collect its taxes, it makes no difference whether the cause was revolution or administrative incapacity, the result is the same. Not the government, but the state itself collapses."

Others said that tax avoidance was the direct result of South Africa's very high tax rates, but the Katz Commission had found that South Africa had a similar tax to GDP ratio as countries with a comparable per-person income basis .

"I believe the level of actual taxation is not really relevant," Turok said.

"What is relevant is the culture in a particular country. It is not very helpful when a tax expert says to me that to ask a tax lawyer to talk about tax avoidance is like asking the devil to give a sermon on sin."

But he believes the professions can play a bigger role in stemming tax avoidance. The code of conduct of the South African Institute of Chartered Accountants specifically banned giving false or misleading information to the tax authorities, but this was not being enforced.

This was despite the fact, according to some legal interpretations, professionals such as accountants, who belonged to a profession that was self-regulatory with parliamentary approval, were, in effect, public officers with a degree of accountability to society — and parliament.

"We have a problem that the intentions of parliament (that tax should be paid on all income earned) are not being implemented. We need to have a debate in the open, which would include the professions and the public, and address how the intentions of the legislature can be met," Turok said.

"In the end, if self-regulation fails and if avoidance and evasion continue to increase, then perhaps parliament would have to look at statutory regulations. One does not want to move in that direction, but certainly the intentions of the legislature must be safeguarded."

Turok said Dullah Omar, the justice minister, had often spoken about the need for lawyers to disclose suspicious transactions and the previous convictions of their clients. He was sure other professions had a similar obligation too.

Sampie's wealth tax: is it redistribution – or retribution?

ARLT 18/11/97 (320)

HAVE YOUR SAY

The call for a wealth tax has been based on only one side of the most significant debate in South Africa's modern history, says Democratic Party leader TONY LEON



By proposing a wealth tax at the Truth and Reconciliation Commission hearings on business, Professor Sampie Terreblanche introduced a bad idea in the wrong place.

Even if the tax he put forward was an effective mechanism for redistribution, which it is not, raising it at this forum implied a different purpose: retribution.

The underlying message of the TRC hearings was clear: that "big business" in South Africa profited from apartheid, benefiting from artificially cheap labour.

Apartheid policies such as the migrant labour system, job reservation and Bantu Education concentrated wealth in a small number of white hands. Gross inequalities of wealth and income divided along racial lines was the result.

It is uncontroversial to say that inequality exists and was caused largely by apartheid. However, to go on to argue that business and the economy benefited from apartheid is to present only one side of the most significant debate in 20th century South African history.

The other, more compelling argument, is that in the long run apartheid hindered business and severely damaged the economy. Bantu Education created a majority of unskilled people who could be employed only in menial, unproductive jobs, if at all. Job reservation and influx control ensured an inflexible labour market that prevented business growth. The creation of parastatal monopolies such as Iscor and Eskom raised the costs of the manufacturing sector beyond competitive levels.

The bottom line is that the belief that "apartheid was functional to business" is simplistic. The relationship between business and the state was a complex one. And to refer to "big business" as a single category of "beneficiaries" of apartheid is ludicrous.

Cosatu's notion that these "beneficiaries" should somehow compensate "victims" financially is untenable. Compensating victims of gross human rights violations – torture and murder – is a completely different matter from trying to identify "victims" of a vague notion of business complicity with apartheid. Such a demand can only discredit the work of the TRC and trivialise those with real claims for redress.

We need to decide now whether to focus on building a post-apartheid South Africa or exacting retribution – from whoever can be found with money to pay – for the sins of the past. Punishing the business sector may be gratifying to some quarters, but it will not improve South Africa's future.

Taxation policy has too important a role in rebuilding South Africa's economy for it to be used as a weapon of political retribution. Unlike Cosatu's call for business compensation to workers, Professor Terreblanche's proposed annual "reparations" tax is not actually directed at the large corporations that made submissions to the TRC.

The tax is on individuals – anyone with net assets of more than R2-million would have to pay the tax for between 10 and 20 years. To make individuals pay for a vaguely conceived "collective guilt" on the part of "big business" is as absurd as expecting academics – such as Professor Terreblanche himself – to withdraw from the service of universities that received preferential and sizable funding from the apartheid government.

A wealth tax is a form of "static redistribution" – all it can really do is take away. Comparative international evidence shows that the tax system is a rather weak redistributive device and that government spending can have a greater impact.

It is thus through the spending side of the Budget that the state can best help the poor.

South Africa already has a redistributive tax system in the form of exceptionally high company taxes and progressive income tax. High unemployment and the number of people working at a low income level and within the informal sector, leave an extremely small tax base for the Government to draw on.

The task of funding government spending via taxation is a delicate balancing act. It has to consider the possibility of capital flight and emigration of taxpayers whenever their burden is raised. In the long run, increased revenues depend on higher economic growth. But before South Africa can achieve higher growth it needs a rise in gross domestic savings: the GEAR target is an increase from 18% to 22%.

A tax on wealth accumulation is a known disincentive to personal saving and will simply hold back South Africa's growth – harming in the end the very people it was supposed to help.

Unemployment, rather than race, is now the dividing line between haves and have-nots in South Africa. Any policy that genuinely seeks to uplift the disadvantaged must encourage job creation and economic growth.

If the Government wants to help alleviate poverty in South Africa, it must spend effectively and efficiently on education, health, welfare and fighting crime. The Budget should pare down the public sector to the absolute essentials.

Finally it should aim to encourage, rather than punish and inhibit South African business and free it to get on with its vital role: job and wealth creation.

■ *Tomorrow: Dr Theo Alant of the National Party has his say.*

Wealth tax 'an act of insanity'

AMG 19/11/97 (320)

HAVE YOUR SAY

Any new tax would contradict the Government's macro-economic strategy, warns Dr THEO ALANT, National Party spokesman on finance, in his reaction to the call for a wealth tax



At the recent Truth and Reconciliation Commission business hearing, retired Stellenbosch economics professor Sampie Terreblanche suggested a wealth tax be imposed on individuals to repair the socio-economic damage caused by apartheid.

This special "reparations tax" of 0,5% should be levied for between 10 and 20 years on individuals with more than R2-million in net assets. His definition of net assets includes pensions, endowment policies and value of shares.

Professor Terreblanche followed the lead of Deputy President Thabo Mbeki, who recently mooted the idea of a wealth tax on (white) individuals to address socio-economic inequalities.

This is the same Sampie Terreblanche who, during the early 1980s, spent hours hanging about Parliament in search of recognition from the powers that were.

Deputy President Mbeki and Professor Terreblanche seem to suggest a racially based wealth tax. This is in addition to the ill-considered 16 new taxes suggested by various African National Congress ministers.

Various forms of capital and capital transfer taxes are to be found in different countries. In South Africa, we have two taxes on the transfer of capital, namely estate duty and gift tax – both introduced in 1955. It is estimated these taxes will contribute in total only 0,15% of state income during the present fiscal year.

An enormous tax-planning industry has grown around these taxes and it is widely acknowledged the total cost to the country of these taxes by far exceeds the net tax yield.

Looking back on a century of estate duty ("death tax") and the associated gift tax, conventional wisdom holds that nowhere in the world have these taxes even minutely succeeded in facilitating a more equal distribution of wealth. In South Africa, the time has come for the abolition of these taxes.

Professor Terreblanche is reported to have said that a levy on wealth for redistributive purposes is preferable to any other form of taxation. He suggested that individuals declare their assets in the same way as taxpayers declare their incomes. The state should confiscate assets of individuals who fraudulently underestimated their net worth, he said.

This new tax philosophy contradicts the findings of the sterling work done by successive tax commissions.

It would be an act of insanity to give tax officials the power to decide who benefited from apartheid and to what extent individuals fraudulently underestimate their net worth.

Or does Professor Terreblanche envisage a system of wealth courts to adjudicate?

Has he considered the inevitable massive flight of capital from our country that would result from such a draconian tax measure?

Is he properly informed about the decision to abolish exchange control measures, and the working of international money markets?

This country already has lost much capital and brain power. Do we really need new measures to drain our national resources?

It is the considered view of the National Party that the Government has to focus on the following priorities:

- An effective strategy to address crime, violence and corruption in South Africa.
- Stimulation of sustainable economic growth.
- Attention to socio-economic backlogs.

The NP supports the suggestion of financial aid to victims of past political violence. The NP's proposal is to use the assets of the Sasria fund for two purposes:

- To finance the actuarial deficit of a restructured Multilateral Motor Accident Fund.
- To make available money for some compensation to victims of past political violence.

But the ill-considered wealth tax proposed by a canvassing politician and so feverishly seconded by a bootlicker must best be forgotten. Let thinking be part of our talking in the new South Africa.

The Katz Commission recently reported on the viability of a capital gains tax for South Africa.

Taking into account the level of development of South Africa, the complexity of such a tax and the ability of the South African Revenue Services to administer it, the commission advised against its introduction.

The only really successful taxes available to the Government are taxes on income (individuals), profits (companies), consumption of goods and services (VAT and the fuel levy) and customs and excise taxes.

In South Africa, the tax base for individual income tax is very small.

We have about 4,5-million individuals registered for SITE payments only and a further 2,5-million individuals who have to submit income tax returns. Income tax on individuals contributes the lion's share (more than 40%) of state income.

Tax on the income of individuals is based on the ability to pay.

In South Africa, the scale of tax on individual income is sharply progressive. Above a taxable income of R45 000 the marginal tax rate is already 41%, growing to 45% at a taxable income in excess of R100 000.

Taking into account the limited benefits they receive from the state's expenditure budget, the white taxpayers in South Africa are the most heavily taxed individuals in the world.

And yet, Mr Mbeki wants to tax this same tax base once more.

One of the cornerstones of the GEAR macro-economic strategy is that the total tax burden should not exceed 25% of the gross domestic product. But the tax burden is significantly higher and on the increase.

Any proposal to introduce new taxes obviously flies in the face of an economic strategy that wants to encourage domestic savings, enhance investment in productive capacity, increase the economic growth rate and create desperately needed sustainable job opportunities.

■ *Tomorrow: Professor Sampie Terreblanche responds to his critics*

Jewish support for wealth tax, says chief rabbi

BD 19/11/97 (320) (858)

EAST LONDON — A number of Jewish businessmen supported the idea of a wealth tax to correct past economic imbalances, SA's chief rabbi Cyril Harris told the truth commission yesterday.

Harris was testifying on the second day of the commission's special three-day hearing in East London into the role of religious communities under apartheid. He said he would throw his weight behind proposals for a wealth tax to bridge the "chasm" between South Africa's haves and have nots.

Harris said a number of businessmen had expressed support for such a tax, though they were concerned that it might be a disincentive to investment.

Harris also tendered a collective apology on behalf of SA's Jews for their failure to protest more loudly against apartheid.

"The Jewish community benefited from apartheid and an apology must be given.... We ask for forgiveness." He said fear had been a major reason for Jews' silence.

Quoting Water Affairs Minister Kader Asmal, he said the Jews had produced proportionately more heroes in the struggle than any other white group and that most Jews had voted for the United Party, the Progressive Federal Party and the Democratic Party.

Members of the Jewish community had also been members of such organisations as the Five Freedom Forums, Jews for Social Justice and the Black Sash.

In his submission to the commission, Muslim theologian Faried Esack launched a scathing attack on Muslim leaders yesterday, accusing them of betraying and marginalising the anti-apartheid struggle.

"The religious leadership, despite whatever nice words are used ... their contribution was essentially one of betrayal," Esack said.

"There was a denial of space for all those who opposed apartheid and who were part of the anti-apartheid struggle," he said.

Between 1961 and 1964 the Muslim Judicial Council issued just five statements condemning acts of apartheid and held only one public meeting.

On reconciliation, Esack said words like peace and reconciliation were empty unless they were accompanied by socioeconomic transformation.

In his submission, Ashwin Trikamjee of the Hindu Maha Sabha said there was a "significant question of economic justice" as a means to true reconciliation. "There needs to be a recommendation on economic redistribution of the resources of our land."

He said Indians had neither supported nor condoned the apartheid government: "When the tricameral system was established they did not offer any support to those who took up positions in that parliament."

But he admitted that so-called Hindu leaders had failed to protest against apartheid and that the community failed to remove the leaders, creating the impression that Hindus were part of the system. — Sapa.

Omar warns business to pay up or face wealth tax

DD 19/11/97 (320)

Stephen Laufer

JUSTICE Minister Dullah Omar has warned that an apartheid reparations tax could be introduced if business and others privileged under the previous government did not contribute voluntarily to the president's fund for the victims of gross human rights violations.

At an African National Congress (ANC) briefing on his role as a national executive committee member, Omar said proposals had been made to compel those who benefited from apartheid to make a contribution. The organisation "views these proposals with sympathy and understanding", although "what is possible and not possible is a matter that needs to be discussed and worked out".

Pressed for details on the possible legislation, Omar said the necessity for Parliament to compel companies to contribute via legislation would become less likely the more generous business was. There had so far been virtually no response from business to calls for voluntary contributions to the president's fund.

Referring to business leaders who were on record as opposing a wealth or reparations tax, Omar said: "If they say compelling business is not the route, they must put alternative proposals on the table."

Prof Sampie Terreblanche's suggestion of a special apartheid tax on assets of more than R2m had been "courageous", a "jolt" and a "wake-up call" for white South Africans, especially business, "into realising the seriousness of the situation".

There was a need for reparations and rehabilitation measures to "be real" if dignity was to be restored to the majority, and if reconciliation was to succeed.

The road to reconciliation would be more perilous if there was insufficient reparation and rehabilitation, and unless concrete programmes were implemented to restore the dignity of victims, their families, and the nation. Business, particularly big business, needed to say what it proposed to contribute towards making reparations real, Omar said.

Leading business representatives last week rejected Terreblanche's proposals for a reparations tax. They said such levies were generally unwieldy and that business had not been homogenous during the apartheid era.

Omar said there was a growing perception that blacks were the only South Africans expected to extend the hand of reconciliation. Whites, especially in the business and professional sectors, had failed in to respond concretely to proposals to promote reconciliation.

The suggestion from the Afrikaanse Handelsinstituut that reparations should be drawn from the Sasria riot insurance fund warranted consideration, Omar said. However, it was not an alternative to business looking at itself and what meaningful contribution it could make.

Asked to comment on former state president PW Botha's refusal to appear at a truth commission hearing on the state security council, Omar said he hoped the truth body was not put in the position of having to decide what to do with him if he failed to respond.

Commission chairman Archbishop Desmond Tutu had said Botha would be subpoenaed if he did not co-operate voluntarily, and that the law would take its course if he failed to respond.

See Pages 7 and 14

ANC attitudes harden after business fails to back redistributive taxes

Wealth tax is in the wind

(320) CT(BR) 26/11/97

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The parliamentary finance committee is ready to take a tougher stand on wealth taxes after the failure of business to support the idea of redistributive wealth taxes at the Truth and Reconciliation Commission (TRC) hearings on the role of business under apartheid.

This attitude emerged yesterday as the committee finalised its report on the fourth Katz commission report dealing with wealth taxes.

Like the Katz commission, the committee's report took a fairly neutral line on the issue, acknowledging that they were difficult to implement.

But several ANC members said the report also had to be looked at in the light of the TRC hearings and the "pretty damning" failure of business to support the concept of a wealth tax or to come forward with any substantial financial contribution towards the TRC's planned reparations fund. It has been estimated that about R3 billion will be needed.

'The owners of wealth in this country have got to have a change in attitude'

They were concerned that the emphasis was instead being put on the difficulties experienced by the South Africa Revenue Service in collecting taxes and the view that wealth taxes would not work because of rampant tax avoidance.

"The owners of substantial wealth in this country have got to have an attitude change and we have to try and promote that," said the ANC's Rob Davies.

"What the TRC process is actually challenging us to do is to ensure that every time redistributive measures are proposed, it does not immediately lead to a flurry of business in the anti-avoidance industry and a whole series of articles in newspapers in the personal finance columns advising people on how to do this.

"Someone must point out that it is a reasonable measure, it is necessary to promote stability in this country, otherwise nothing changes for people on the ground and it is not going to provide security for those people who have got wealth. We have to generate some kind of mindset change and that is what the TRC process is about. If we do not promote a mindset change ... we are in trouble."

The committee decided not to amend its report on wealth taxes, which said there was no urgent need for changes, but to instead earmark the issue of tax avoidance and evasion and the redistributive role of taxes as a major theme for 1998.

Committee to tackle tax avoidance

BD 26/11/97 (320)

Linda Ensor

CAPE TOWN — The high levels of tax avoidance in SA and the lack of a tax morality should be addressed by parliament's finance portfolio committee next year, African National Congress (ANC) committee members emphasised at a meeting yesterday.

During a discussion on the committee's response to the fourth, fifth and sixth interim reports of the Katz commission, ANC MP Rob Davies said unless this issue — highlighted by the truth commission's hearings on the role of business during apartheid — was addressed directly, serious problems would arise.

It was always assumed that a high level of tax avoidance was a fact of life that the South African Revenue Service (SARS) would have to constantly deal with. "If this attitude persists, and if this is the determinant of whether a tax is adopted or not, it will cause serious problems," Davies said.

Any proposal for the redistribution of wealth — vital for social security and stability — always came up against the problem of avoidance by the "owners of wealth in SA". This attitude had to change, Davies said.

"There is a high level of avoidance in SA and SARS has a limited capacity to deal with it in terms of traditional anti-avoidance mechanisms."

ANC MP Cheryl Gillwald said if business felt it could not co-operate in the process of transformation and redistribution of wealth, then it should be coerced into doing so. "Business needs to stand up and be counted as a progressive force."

The committee unanimously adopted the Katz reports, agreeing with most of the sixth interim report's proposals on the taxation of medical scheme funds. Regarding benefit funds as defined in Paragraph C of the Income Tax Act, the committee acknowledged that the lack of regulation of these funds opened the way to abuse. "Allowing these funds just over two years to find alternative ways to offer such cover does not seem unreasonable," it said.

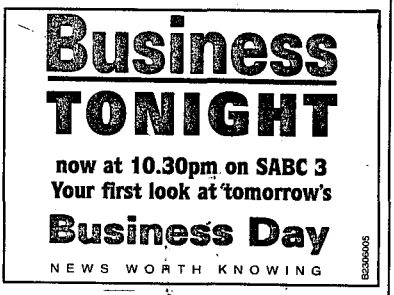
Regarding the fifth report's recommendations on the taxation of income derived from abroad, the committee gave its support to "passive" income being defined — as favoured by SARS and as currently prevailed — as opposed to "active" income, as suggested by the commission.

Meanwhile, Sapa reports that the Katz commission's proposals to limit the amount employers may claim as tax deductions for staff medical aid has received the backing of parliament's finance committee.

The commission proposes that employers' tax deductions for staff medical aid contributions should be limited to an amount equal to the amount contributed by employees.

The committee said, however, that it wanted more thought given to the possibility of such a move discouraging lower wage earners from joining medical aids.

The committee in principle backed a proposal to allow self-employed people to deduct 50% of their medical aid contributions, but noted SARS's concern over administration.





SARS launches advisory board

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ROY COKAYNE

Pretoria — The chairperson and deputy chairperson of the recently appointed SA Revenue Service (SARS) advisory board would only be selected after the minister had a further opportunity to consult with the board, Jennifer Wilson, a finance ministry spokesman, said last week.

Wilson said the first meeting of the advisory board, convened by Trevor Manuel, the finance minister, was held on Thursday.

She said the board held a briefing session and received an overview on the present situation in SARS as well as the goals and objectives set to ensure thorough transformation, maximising the new opportunities provided by administrative autonomy.

The board was appointed in terms of the SARS Act, which granted administrative autonomy to the revenue service. It forms an integral part of the government's strategy to improve the efficiency and effectiveness of revenue collection.

Its functions are to monitor, evaluate and assist in improving the administration of the revenue-collecting system and to ensure the SARS operates effectively. The board's mandate does not include tax policy matters.