TAXATION —1998

ST 4/11/98

How the taxman hits us at every turn

Big and small earners alike forced to take the pain

(320)

CHRIS BARRON

WHEN Stellenbosch University economics professor Sampie Terreblanche called for South Africa's wealthiest citizens to be subjected to yet another tax, the occupants of millionaires' row screamed that they were already being squeezed blue by the taxman, and any more pressure would make them pack their BMWs and head for the nearest airport.

They had a good point. But it is worth noting that Terreblanche's wealthy tax targets are by no means the only ones who took the pain last year.

Not only has the government's prodigious appetite for the money of its citizens shown no signs of being appeased, but its continued failure to provide the kind of services that citizens might legitimately expect for this money has forced them to pay even more to obtain these services.

This has frightening consequences.

Someone earning a moderately high salary of R12 500 a month gives more than half of it to the government in taxes of one form or another.

This includes more than 35 percent in Paye on salaries, 14 percent VAT, a 76c/l tax on petrol, government tax on bank transactions, and rates and services charges.

Tax consultants regard money spent on health and education, as well as money paid to the state broadcaster in licence fees, as additional taxes.

These are services the government should be providing out of our basic income tax, but is not.

Money spent on security is also a tax, because the government is not providing the basic security for which the taxpayer is paying billions of rands.

And so, after paying the government for security he does not get, the taxpayer has to pay private security firms to do what the police are not doing.

The results of this situation are predictable.

Accumulated household debt as a ratio of personal disposable income increased to a new high of 66,5 percent last year.

The average household spent 12 percent of its annual income servicing its debt. Household saving has dropped to 0,5 percent of gross domestic product from 3,5 percent in 1993.

Those who escape the debt trap and put something away at the end of the month have to pay tax on interest earned over R2 000.

Assuming that R500 is saved monthly, this tax is R150 a month.

People earning medium salaries of R6 000 a month pay just under half their incomes to the taxman, while those who earn R2 000 a month pay 41,56 percent in taxes, even though they are not registered as taxpayers.

The demoralising truth for most South Africans who work an eight-hour day is that four hours are devoted to keeping the taxman happy.

● The figures in the accompanying graph have been provided by Jeff Henen and Barry Bloch of Tswelopele Financial Services.

ESTIMATED COSTS OF LIVING

SALARY RECEIVED PER MONTH (No travel allowance)

	LOW	MEDIUM	HIGH
DIRECT TAX			
Gross salary	2 000,00	6 000,00	12 500,00
Taxable income [1]	2 000,00	6 000,00	12 500,00
Tax thereon	112,08	1 542,92	4 444,58
Tax percentage	5,60	25,72	35,56
Income remaining (Net income)	1 887,92	4 457,08	8 055,42
Food, groceries, entertainment etc. [2]	629,31	1 485,69	2685,14
INDIRECT TAXES			
VAT included above @ 14%	77,28	182,45	329,75
Petrol levy 78c per litre [3]	76,00	76,00	76,00
Medical and hospital costs [4]	125,00	500,00	500,00
Security costs	200,00	200,00	200,00
Government schooling (Average cost) [5]	220,00	220,00	220,00
Assessment rates and taxes	–	250,00	400,00
TV licence	15,75	15,75	15,75
Government duty on bank transactions	5,00	10,00	15,00
Tax on interest earned over R2 000 [6]	–	–	150,00
Total indirect tax	719,03	1 454,20	1 906,50
Amount remaining at end of month before bond/rent/telephone/electricity/repairs/car costs etc.	616,86	1 699,64	3 793,53
Total ALL tax per month	831,11	2 997,12	6 351,08
Percentage of tax to income [7]	41,56	49,95	50,81

Figures relating to indirect taxes were in certain cases assumed, as actual expenditure differs according to each individual's preferences

[1] Calculated by basic salary plus 40% of travel allowance
[2] Based on one third of net income
[3] Based on two fill-ups of 50 litres per month
[4] Basic hospital cover: R125, full medical aid R500
[5] Assume 2 children, depends on area, varies between R10 and R210 per child per month
[6] Assuming R500 is saved monthly by the high earner
[7] The costs associated with these indirect taxes have in some cases been fixed for all income groups

Graphic: FIONA KRISCH

INCOME TAX ACT

FM 16/1/98

Receiver pipped for first place

Racing men take line honours in short head finish

(320)

The judgment in a recent tax case involving a Cape Town racecourse — unlike Stephen Foster's famous lyrics — makes no mention of its length. But the judgment, in the Income Tax Special Court, nevertheless illustrates an important aspect of the tax law. That is the claim by a tenant to a deduction of the cost of improvements, provided they were made in terms of an obligation under the lease (Section 11(g) of the Income Tax Act).

Deloitte & Touche tax manager (Cape) Jenny Klein, writes in the latest issue of that firm's *Tax News* that the premises had been occupied by the taxpayer, a racecourse operator, for about a century in terms of various leases.

The parties signed a new lease in 1971, which obliged the taxpayer to put up new buildings, alter and improve existing buildings if required to provide adequate facilities for its patrons. The prior consent of the landlord, the Cape Town City Council, was required, but this should not unreasonably be withheld.

The taxpayer did, in the event, make improvements with the consent of the council, but its right to a deduction was challenged by the Commissioner for Inland Revenue. He argued that the relevant clause in the lease was void because it was vague as the wording was too imprecise to make it possible to determine whether the obligation arose at all.

Further, the phrase "shall be obliged" did not merely mean that the taxpayer had to bear the cost of improvements. They additionally meant that the landlord had the right to compel the tenant to make improvements once it had become apparent that they were needed.

The court rejected the commissioner's arguments and upheld the right of the taxpayer to a deduction under Section 11(g). That the clause was imprecise did not mean that it was too vague. Whether the need for improvements existed and their extent could always be determined objectively with sufficient certainty when the time came. The court accepted that the improvements were needed. **Robin Friedland**

Land tax being levied in disguise, SAAU alleges

BD 21/1/98

Louise Cook

(320)

THE proposed land tax, under investigation by a Katz commission committee, was being collected in Gauteng despite official denials, the SA Agricultural Union (SAAU) said yesterday.

Union economist Johan Pienaar said the province's newly introduced property tax was a land tax in disguise.

Legal spokesman Analize Crosby said the province's eastern and western services councils had sent accounts to rural land owners in Randfontein, Bronberg, Blesbokspruit, Elandsrivier, Pienaarsrivier and Suikerbosrand, billing them according to the value of improvements to their properties.

Crosby said the SAAU had asked Provincial Affairs and Constitutional Development Minister Valli Moosa to stall the imposition of a land tax until framework legislation was in place to guide the provinces, particularly with regard to collection.

Gauteng development planning and local government MEC Sicelo Shiceka said the property tax — set to generate R500m a year for the province — was not a land tax.

"This is a property tax introduced after the ratings ordinance was amended last year. The land tax is not yet charged in Gauteng ... we have no authority from national level to do so."

The National Maize Producers' Organisation said farmers in the Carletonville district had received property tax accounts. However, Shiceka said no infrastructure existed to collect the tax on the West Rand.

He would not name the local councils that were collecting the tax, saying merely that they covered rural districts, many of which were "former African" areas. The new tax applies to agricultural and residential land as well as commercial properties.

Last year Shiceka said a land tax in rural areas would help improve the salaries of local councillors.

The KwaNatal Agricultural Union has also complained that local councils outside metropolitan Durban have imposed a similar tax based on the value of improvements to rural land.

Revenue catches up the backlog

(320)

Staff 'working more effectively'

FM 23/1/98

The SA Revenue Service may have lost a lot of skilled staff to early retirement, but those who stayed are working harder and more effectively, says official Christo Henning. And it's showing results.

By the end of last month, most of the 1996 returns received had been assessed (see chart) and about 78% of the 1997 assessments had been completed.

Henning says the introduction of bonus incentives has boosted production in all areas, including assessments, recovery and inspections.

REVENUE GETS CRACKING

Personal Income Tax	1996	1997
Returns received by SARS	86%	65%
Returns outstanding	14%	35%
Assessments issued	95%	78%
Returns not assessed	5%	22%

SOURCE: SARS

There are still a number of taxpayers who have not submitted their returns, but Henning says most of them have extensions. ■

The Star ... Wednesday January 28 1998

Taxman in nationwide blitz on defaulters

(320)

Star 28/1/98

SA Revenue Service expects to rake in an extra R13-billion in a massive find-and-register campaign

By Ryan Cresswell
and Own Correspondent

The days are numbered for tax defaulters as task teams around the country search for more than 1,5 million businesses, informal businesses and individuals who are dodging payments.

Tax officials in Gauteng have found that about one in four businesses or individuals in the province is not paying.

In the Free State and North West this figure jumps to an astonishing one in two possible

One in four not paying in Gauteng

taxpayers, and in KwaZulu Natal and Eastern Cape one in five is not paying.

The SA Revenue Service estimates that tax records for 721 428 business taxpayers, 242 295 individuals and 627 000 informal businesses are missing.

The national default percentage for income tax is about 39%, value added tax (VAT) about 30% and PAYE about 29%. The default percentage for all unpaid taxes is just over 26%.

But not for long, because SA Revenue Service members expect to rake in an extra R13-billion annually before the end of next year in a massive find-and-register campaign.

Revenue service spokesman Christo Henning said a more client and service-oriented approach by the organisation was encouraging unregistered taxpayers to sign up, and the task teams were tracking down more tax defaulters than before.

He said teams were operating around the country and would continue to search until they were satisfied they had almost everyone on their books.

"The problem in South Africa is that the tax base is not broad enough and too few are bearing the burden. The more we manage to broaden the base, the easier it will be on individuals, Henning said.

"Our biggest income, 85%, is from employees. So our biggest concern at the moment is that about 34% of businesses in the country have not registered. Some employers are even collecting from employees and then not paying tax," he added.

But in the three months since the drive started, teams have exposed thousands of business-tax delinquents. The search is enhanced by a sophisticated new computer system which allows cross-checking and is linked to banks and assurance companies to track interest and pension payments.

SARS KwaZulu Natal regional manager Joe Britz said the "tax visits" were random and those visited were asked to supply their tax details.

"We will be lenient if they register voluntarily, otherwise we will hit them hard," he said.

Andrew Masters, an SARS chartered accountant, said they would cross-check their tax registers to ensure a business was registered for VAT and vice versa. Similarly there would be

SA tax base 'not broad enough'

cross-checks between Customs and Excise and Inland Revenue to ensure importers paid income tax.

The taxmen would look at Tender Board information; only taxpayers would now be awarded tenders.

They would also look at municipal contractors and the vehicle registration system and would check business advertisements in newspapers, magazines, telephone and Yellow Page directories to discover tax dodgers.

State's tax targets face increasing pressures

(320)

07(MR) 4/2/98

LYNDA LOXTON

Cape Town — Economists expressed mixed feelings yesterday about the government's ability to keep taxation within targets set out in its new medium-term expenditure framework (MTEF) as pressure grows for a range of new levies and taxes to fund special projects.

Three of the four economists polled believed the finance department would not let most of the proposed new taxes through — but if some were allowed, they would be offset by lower taxes elsewhere. The taxes most likely to go through would be user charges for services where government is, in effect, now subsidising taxpayers.

Old Mutual's David Mohr, Sanlam's Jac Laubser and Rand Merchant Bank's Rudolph Gouws all said the department appeared "quite adamant" about keeping taxation as a percentage of gross domestic product (GDP) to around 25 percent while instilling a greater degree of fiscal discipline in all spheres of government. This restriction was, however, proving more difficult in some cases than expected.

Ben van Rensburg, the economist of the South African Chamber of Business, was less optimistic. He said several new levies and taxes were "in the process of being introduced" and that even a level of 25 percent was "of immense concern to business", as it was a disincentive to much-needed higher savings in South Africa.

Tax as a percentage of GDP is currently at 26,2 percent. In terms of the MTEF, it is scheduled to move down to 26 percent in 1998/99, 25,8 percent in 1999/2000 and 25,6 percent in 2000/01.

However, this scenario may not materialise if current tax levels are maintained and government departments go ahead with the introduction of new taxes or levies for special projects. According to the latest tally, about 16 new taxes have been proposed.

Jennifer Wilson, the finance department spokesman, said yesterday that despite the pressure to raise extra funds for these projects, "any new taxes will be very carefully looked at. We are concerned to keep revenue within the set targets."

Mohr said it would be an "acid test" to see how many of the proposed taxes saw the light of day, but he believed many would not go through.

'Govt to introduce 16 new taxes'

BD 3/2/98 (320)

Wyndham Hartley

CAPE TOWN — Government's growth, employment and redistribution strategy had failed to keep tax revenue below 25% of GDP and a further 16 indirect taxes were being contemplated that would make the situation worse, National Party leader Marthinus van Schalkwyk said yesterday.

Firing the opening salvo of the new parliamentary year, Van Schalkwyk said the highly commendable strategy was being undermined by this very disturbing increase in tax revenue and restrictive labour legislation which would lose the country more jobs in the formal sector in the future.

He said President Nelson Mandela's opening of Parliament speech on Friday would have to "provide proof that the present government has solutions, plans and the will to execute these plans in the areas of the economy, education and crime".

He said among the 16 taxes that are to be proposed, were a land tax as proposed by the Katz commission, a national training levy of 1% to 1,5% of payroll, a national homebuilders' levy, social health contributions from the formally employed, a national road levy on fuel, a universal service fund via Telkom tariffs, a capital transfer tax, a surcharge on income tax to finance provincialism, an electricity levy, three water charges, new airport charges, a liquor levy, and the truth body's restitution tax.

He said the high tax burden looked set to rise further.

Turning to crime, he said government was "creating its own make-believe world where things were not as bad as people are proclaiming". A slight reduction in murder figures from 62 a day to 60 was not something ordinary people would feel reassured by.

Van Schalkwyk said he was shocked to discover in a recent briefing by the police that there was no central co-ordination in the criminal justice system.

The past six months had been without doubt the worst of the government's term of office, Van Schalkwyk said, and had shown a turn away from the positive mood in the country early last year.

"The presidential opening address ... is the key to changing this negative mood and the growing lack of trust among all South Africans in government's ability to govern effectively.

"South Africans will no longer be satisfied with vague promises and plans, which disappear into thin air because of government's inability to execute them. In the light of this the expectations for this opening address are therefore understandably the highest since 1994. People expect solutions and plans on Friday."

Mandela 'empowered to appoint commission'

Taryn Lamberti

AS HEAD of state, President Nelson Mandela was empowered to appoint a commission to probe the affairs of the SA Rugby Football Union (Sarfu), the Pretoria High Court heard yesterday.

Lawyers acting for Sarfu president Louis Luyt argued last week Mandela had breached the constitution by appointing the commission, as Sarfu was a private association that did not accept state funds or taxpayers' money.

Luyt, Sarfu, the Mpumalanga Rugby Union and the Gauteng Lions Rugby Union, of which Luyt was also president, had applied to the high court to have the commission invalidated and set aside.

Senior advocate Wim Trengove, acting for Mandela, Sports Minister Steve Tshwete and sport director-general Mthobi Tyamzashe, said the president's power to appoint a commission was not confined to matters of public concern.

He outlined damaging allegations made against Sarfu before the commission was appointed, saying it was in rugby's interest the criticisms were resolved or dispelled.

Luyt's opinion that the public had no legitimate interest in rugby was based on the "narrow and legalistic contention that because Sarfu and its affiliates were private associations, the state and the public had no legitimate interest in their management of ... rugby".

Rugby became embroiled in controversy about allegations of mismanagement and Sarfu and Luyt were central to the controversy. There were also claims Sarfu merely paid "lip service" to its commitment to the development of rugby in disadvantaged communities, and its "structures were not truly representative".

In an affidavit, Mandela said SA's victory in the World Cup in 1995 had "galvanised public demonstrations of reconciliation and unity.... It is accordingly idle to suggest the management of rugby is not a matter of public concern."

Net closes on tax dodgers

70 000 companies raided countrywide

(320)
ARG 11/2/98

LLEWELLYN JONES
BUSINESS REPORTER

One in three companies tested by the South African Revenue Services in the Western Cape is not paying VAT, and more than a quarter are not paying company tax or employees' tax.

This is the shock finding of the tax raids conducted by the South African Revenue Services (SARS) inspectors between October and December.

Close on 70 000 companies throughout the country received surprise visits from SARS inspectors checking whether they were registered for VAT, income tax and Pay-As-You-Earn (PAYE). In Cape Town, business areas raided included Access Park in Kenilworth, the city centre and the Waterfront.

For the country as a whole, nearly 40% of the companies surveyed were not registered for company tax, 30% were not registered for VAT, and 29% were not registered for PAYE.

SARS media liaison officer Christo Henning said the biggest area of concern was the number of companies not registered for employees tax.

"Pay-As-You-Earn represents nearly 85% of all tax receipts ... and the stunning 29% default rate represents a vast amount of money lost to the fiscus," Mr Henning said.

Another, possibly more worrying concern, was the number of companies which were deducting tax from their employees, but not paying it in to state coffers.

"At the end of the tax year the affected employees don't get IRP 5 forms to show that they have paid their taxes," he said.

Mr Henning believed that the walk-about campaign was proving to be a success.

"More and more people have been approaching us to get themselves and their companies registered for taxes.

The local SARS offices have noted a definite and growing trend towards compliance with the tax laws."

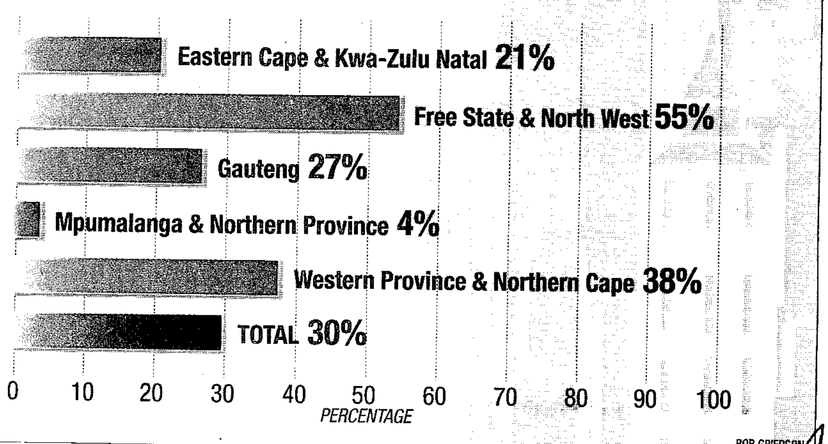
The campaign would continue until SARS was "satisfied with the results". SARS estimated that net tax receipts could rise by some R13 billion if the campaign was successful.

"Before the campaign we estimated that we were missing about 1,5 million taxpayers.

"We will be happy when we have the overwhelming majority within the tax net. The joy of this campaign is that we are en route to reducing the tax burden on current taxpayers.

"We know that the tax burden is too high, and getting more people to pay the taxes they are liable for will go a long way to reducing that burden," he said.

PERCENTAGE OF COMPANIES NOT REGISTERED FOR VAT



Tax dodgers with nowhere to hide

(320) Star 7/3/98

By JACQUI REEVES

Tax dodgers in Gauteng are about to be left with nowhere to hide.

A new supercomputer is beefing up the province's revenue service, helping staff to sniff out personal information on individuals, and finally closing the net on tax dodgers.

The showpiece of the South African Revenue Service, the so-called new income tax system will allow SARS officials to link information electronically from institutions such as the Department of Home Affairs, municipalities and banks with the tax records of companies and individuals.

All this will be done at the touch of a button, replacing the current system, which is more than 20 years old and is based entirely on paper records and clerical work.

'Interest extracts'

One way the new system will dramatically increase tax revenue is its more efficient use of the "interest extracts" that banks are legally bound to supply the taxman with each year. The system will correlate the banking information, regarding the amount of interest that has been paid to any individual or company, with existing tax details. Any discrepancies will immediately be pinpointed by the system.

"When we load the information that we will get by interfacing with other sectors against the information we have on taxpayers, we will immediately be able to see who has not declared their true income and who is not registered as a taxpayer," says project manager Philip le Roux.

Wessie Wessels, regional manager for the SARS in Gauteng, believes this improved technology will help his department to function more efficiently and to crack down on tax evaders.

"These interest extracts have always come to us automatically but we will be able to process the information better with the new system," he says.

If tax dodgers are caught out, the action could be swift and painful.

Grinning broadly, Wessels told the *Saturday Star* that the SARS could "freeze a bank account in two minutes" if the authorities felt the taxpayer was not being honest or if he owed the revenue service money.

The new system is, however, not the only strategy Gauteng SARS officials are pursuing in their fight against tax dodgers. Officials are now also literally "knocking on doors".

BRIAN CURRIN: There are limitations to a person's rights

Hitting the streets in pairs, SARS officials have begun swoops on businesses in cities and towns, taking their "tax walks" to the people.

The Pretoria branch of the SARS is already yielding results from this campaign, having increased its average number of VAT registrations from about 400 a month to a record-breaking 1 000.

In a three-month period between October and December last year, SARS officials distributed more than 16 500 questionnaires in tax walks identifying 4 000 businesses and individuals that should have been registered as taxpayers.

Swedish tax consultants are currently helping the Gauteng revenue service to formulate a plan to expand the province's revenue base and its service to the people.

One of the aspects of the Swedish system that Wessels would like to implement in Gauteng is linked to vehicle registration.

"In Sweden you cannot buy and then register a vehicle if your tax is not fully paid up. This is the kind of system we would like to see South Africa moving towards," Wessels says.

The revenue service's special investigations unit is also going to be bolstered by the new computerised system that will allow the unit to profile potential tax criminals with greater speed.

"When we pitch up on your doorstep, it is a very traumatic experience and we have the potential to cause a type of havoc. This system will allow us to do our homework into a profile more quickly and more thoroughly, and make sure we've got our facts right," says Hein Heydenrych, national head of investigations.

Heydenrych, who has been with the unit for more than 20 years, says the unit regularly makes use of interest extracts, motor registration details, and information from deeds offices and company registrations in developing its profiles.

He says one of the most common forms of tax fraud is "outsider trading". This occurs when an individual conducts business deals in the same line as the legitimate company, but outside of the business, and pockets the profits without declaring them to the Receiver.

Heydenrych's team also spends many days tracking down hidden bank accounts, fictitious close corporations and supposedly dormant companies that are still operating.

In the nine months between March and November last year, Heydenrych's team collected R208-million from tax fraudsters and is working on more than 200 other serious cases.

Over the same period, the unit identified VAT fraud worth R750-million and has collected between R200-million and R300-million of that amount so far.

Greater computer links between the taxman and banking institutions do not, however, imply that the Receiver of Revenue has full access to all the financial records of businesses and individuals.

Secure information

Stuart Grobbelaar, a general manager at the Council of South African Banks, says the Receiver generally has access only to details on interest paid, balances, names, addresses and company identification numbers. However, this right to privacy is not absolute.

"The privacy law can be overridden by a law of general application that could, theoretically, be used to secure other information," he says.

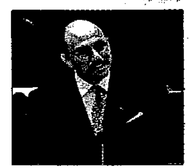
Brian Currin, a constitutional expert, says the constitution makes provision for every individual's right to privacy but that all rights are subject to certain limitations, depending on the situation.

It does, however, appear that neither the Receiver of Revenue nor the special investigating unit are the people to fear the most. Jilted lovers, ex-wives and ex-husbands, and disenchanted employees give Heydenrych and his team plenty of work.

Gautengers can expect the supercomputer to be up and running by January.

STEVE TSHWETE: Gets someone to do it for him

JAY NAIDOO: Put his in nine months late



TREVOR MANUEL: Had to get an extension

Ministers say their affairs are in order

STAFF REPORTERS

Mangosuthu Buthelezi, Nelson Mandela, Nkosazana Zuma and Steve Tshwete all got someone to do it for them. Jay Naidoo and Derek Hanekom put theirs in nine months late and Trevor Manuel had to get an extension.

Without exception, however, all 27 members of the Cabinet claim to have submitted a personal income tax return for the 1996/97 financial year.

A poll by the *Saturday Star* revealed that most ministers (or their tax consultants) had submitted their IT12 forms by the June 1997 deadline, while a few were granted extensions. Telecommunications Minister Naidoo and Land Affairs Minister Hanekom were given until this month to account for their income.

They were among the 1,7 million taxpayers who submitted complete returns for the 1996/97 year – about 62,5% of the 2,7 million returns issued by the SARS for that tax year.

Personal income taxpayers shoulder just over half of the tax burden, paying more than R59,4-billion into the Treasury for the 1996/97 year, with company tax and VAT making up 17,01 and 31,23% of the Government's internal revenue respectively.

With Finance Minister Manuel due to present the Budget on Wednesday, the whole process will start all over again.

Of course, we took the ministers at their word. We have no way of verifying whether they have indeed submitted returns.

The South African Revenue Service, not surprisingly, flatly refused to help us confirm whether the Cabinet members were up to date with their taxes. "It would be highly unprofessional and unethical to supply any information concerning any taxpayer," SARS assistant director Solly Parak said. He said all information was highly confidential and in no circumstances could exceptions be made.

And the SARS is not altogether happy when the tax affairs of high-profile figures and officials do become public.

Rapport newspaper reported last month that Victor Lugaju, the Western Cape Regional Court president presiding over the trial of P W Botha in George, had not yet submitted his 1996/97 return.

The SARS would not discuss details of the Lugaju case or what action would be taken against him. Instead, the SARS lashed out at the tax official who leaked the story to *Rapport*.

Parak said the report "would be traced and the source would be dealt with harshly".

Weaving a wider tax net with fewer holes is a must

Raising indirect levies will boost savings, investment

(320) ARG 11/3/98

Is it a contradiction to call for a 1% increase in Value Added Tax (VAT) to 15% while at the same time saying that tax in South Africa is far too high, overcomplicated and a burden to its citizens? The Democratic Party thinks not.

Unemployment and poverty are the toughest economic challenges facing South Africa. They are directly related: the only way to alleviate poverty substantially on a sustainable basis is through job creation.

Yet growth of jobs in the economy depends on a substantial increase in investment.

If the Budget this year is to meet both the pre-election demands for delivery and the long-term urgency for economic growth, then the Government somehow must find a way to increase its revenue while, at the same time, lowering, rather than raising, taxes which discourage investment.

Can two such competing goals be met? The DP believes they can – by changing the tax balance, simplifying the tax structure and thereby improving revenue collection without raising taxes overall.

The taxation of South Africans is not only too high: it is also unfair and counter-productive. The burden of providing 40% of the Government's revenue – about R65-billion in 1997-98 – falls on only 4,4 million individual income taxpayers.

INSIDE STORY

KEN ANDREW, Democratic Party spokesman on finance matters, on the need for a VAT increase

Roughly three-quarters of this small group of income tax payers earn less than R5 000 a month. Yet the tax tables treat this group as if they are wealthy people who can be soaked for money every year.

The genuinely wealthy in this group can afford tax consultants, and often manage to slip through the holes of the complicated tax structure. The more complex the weave of the tax net, the more holes can be found.

For the economy to grow and employ more people, we need both foreign and domestic investment. The Gear strategy aims for a rise in gross domestic savings to 22%.

However, as things stand at present we are not going to meet the Gear growth targets because we are not saving enough, and we are not saving enough because personal income taxes are too high.

Rational people will save only if the after-tax return on saving is attractive. Furthermore, it is impossible for people to save without substantial improvements in disposable income.

Encouraging investment also requires our tax system to compare favourably with other countries. This is not just to attract overseas businesses, but also to keep the savings of South Africans who are now allowed to make offshore investments.

The top personal income tax rate in South Africa is 45% compared to 38% in the UK and 33% in the US.

This top rate kicks in at a relatively low level by international standards, while rates rise sharply on low- and middle-income earners.

Income tax on individuals has risen from 16% of government revenue in 1980-81 to 33% in 1990-91 to an estimated 40% in 1997-98. This is contrary to international trends and flies in the face of International Monetary Fund recommendations for developing countries.

The two major sources of government revenue are: direct tax on an individual's income and indirect tax on his or her consumption in the form of VAT. The Government decides how to set the balance between these two forms of taxation.

If indirect taxes had maintained their 1988-89 share of total revenue, 1997-98 individual income tax could have been reduced by 14% across the board.

The figures speak for themselves: the additional revenue raised by a 1% increase in VAT to 15% would be approximately R3,1-billion, allowing the Government to reduce the individual income tax burden and encourage savings and investment.

Lower income earners could be relieved of the high income tax burden if the Government raised the individual income tax threshold to R25 000.

The income tax rate structure also should be changed so that tax relief amounting to R2-billion is granted to people with taxable incomes of between R25 000 and R130 000 a year, and the maximum rate on individual income tax should be reduced to 35% over five years.

Given that South Africa suffers from low tax morality and has a burgeoning informal sector, an indirect tax such as VAT ensures that at least some tax is collected from those who are dishonest about their incomes and profit.

The zero-rating of basic foods means that the wealthy actually benefit more from lower levels of VAT than the poor.

It makes sense to shift the tax balance towards this form of tax which is easy to collect and difficult to evade, and does not penalise entrepreneurial spirit.

While shifting the tax balance to encourage investment, growth and job creation is the only way to alleviate poverty in the long run, the very poor will need immediate relief to compensate for increased VAT.

An increase of 1% in the VAT rate would cost the average very poor household R6 a month more than the existing R84.

Given that the very poor pay only about 8% of all VAT collected, the DP proposes that R500-million (double the additional tax on the very poor) be spent on additional targeted poverty relief.

This is in line with Gear's recognition that redistribution is most effectively achieved through the expenditure side of the fiscus.

A coherent three-pronged strategy to restructure the tax system, which lowers personal income tax and raises VAT while spending on poverty relief for the very poor, would bring all South Africans nearer to the job creation and poverty alleviation which we need so desperately.

TAX LAWS

Cheaters face public exposure

Think twice before cheating on your tax payments or you could well find your name up in lights as one of the dishonest.

Proposed changes to the tax laws will mean that the name of anyone convicted of a tax offence can be published.

"Tax evasion imposes higher tax rates on honest taxpayers," Mr Manuel told Parliament. "It is only right that those who pay their dues should know whose tax default they are paying for.

"Government aims to maintain and strengthen a tax system that is fair, equitable and efficient. Improved tax administration makes lower rates of tax on individuals possible," he said.

R3,7-bn in taxpayers' pockets

Relief measure targets lower income earners

ARG 11/3/98 (320)

Finance Minister Trevor Manuel intends to put R3,7-billion back into taxpayers' pockets this year, nearly half of it going to people with incomes of less than R60 000 a year.

The plan attacks "bracket creep", which happens when inflation-linked salary and wage increases push taxpayers into a higher tax bracket, so that their real after-tax income (taking inflation into account) is reduced.

Mr Manuel said the primary tax rebate would be raised from R3 215 to R3 515 and the rebate for people 65 years and older would be increased from R2 500 to R2 660.

The marginal rate applicable to taxpayers with taxable income from R46 000 to R60 000 a year would be cut from 41% to 39%; the number of income tax brackets would be squeezed from seven to six; and the top marginal income tax rate of 45% would kick in at R120 000 a year instead of R100 000.

The effect of the changes will be to cut tax paid by taxpayers under 65, earning R30 000 a year, by R300 a year. A taxpayer earning R100 000 a year will pay R1 000 less in tax and a taxpayer earning R120 000 will pay R1 360 less.

This is the second year in a row in which Mr Manuel has announced relief for taxpayers in the lower and middle income brackets.

Last year tax restructuring put R2,8-billion back into taxpayers' pockets.

The money lost to the taxman would be made up by better tax collection and through the broadening of the tax base, Mr Manuel said.

In line with the recommendations of the Katz Commission on tax, tax deductions by employers of contributions to medical aid schemes would be limited, yielding R700-million in extra revenue this year.

Stricter taxation of trusts would bring in R150-million and an increase in the rate of tax on retirement funds from 17% to 25% would bring the taxman R1,2-billion more this year.

Mr Manuel has kept his promise that the overall tax burden on the country would not be increased. Total revenue for the 1998-99 year is R177,6-billion, which is 26,5% of the country's Gross Domestic Product, the same as last year.

Overall, income tax is expected to yield R73,5-billion, assuming an 8% average increase in wages and stable employment. Revenue from tax on company profits is expected to bring in R1,4-billion (up 3,7% on last year), and from tax on retirement funds R3,4-billion (up 9,7%). But revenue from gold mines is expected to drop from R450-million to R180-million.

The Government also intends to cut excise duties on some electronic goods, cameras, binoculars, motorcycles and other items while at the same time bringing a range of new goods into the excise duty net.

Duties on perfumes, photographic goods, tape recorders, video recorders, records, tapes, spectacles, watches and a host of other goods will be cut from 15% to 10%; duties on computers, printers, modems and other office machines will be cut from 6% to 5%.

But at the same time, duties of 10% will now be imposed on cellphones, air-conditioners, video cameras, yachts, caravans, dishwashers and a few other items.

The new scheme of duties, which takes effect from today, will neither cost the Government anything in lost revenue nor add money to the tax collector's coffers.

Bad news for motorists is that the fuel levy has been hiked by 10c a litre on both diesel and petrol.

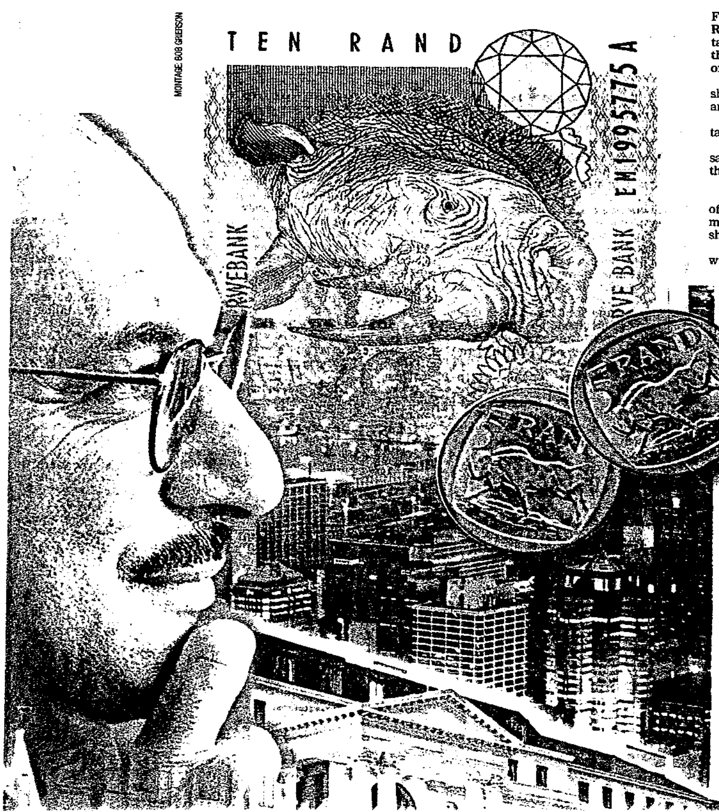
The hike will bring in an additional R1,66-billion to the State, but will add less than 0,5% a year to the inflation rate, the Government has estimated. The levy will contribute more than 8% of total revenue.

Tax relief on way for millions

Manuel pledges to boost cash for social services

(320) ARG 11/3/98

MONTAGE: BOB GRIERSON



Finance Minister Trevor Manuel today handed R3,7-billion tax relief to lower- and middle-income taxpayers, while raiding tax shelters and maintaining the Government's commitment to boosting spending on social services.

Thousands of life assurance policy-holders face a nasty shock with a once-off windfall tax on mutal insurers which are converting to companies.

And drinkers and smokers will be hit by a further rise in taxes on cigarettes and alchohol.

Unveiling his second Budget in Parliament, Mr Manuel said tax tables would be adjusted to ease the burden, for the the second year running, on working people.

Value-added tax remains unchanged at 14%.

New revenue measures include taxation on part of employers' contributions to medical aid schemes, in a move aimed to stop the use of medical aid schemes as tax shelters.

Tax relief for middle- and lower-income group taxpayers will also be funded through an increase in the rate of taxation on retirement funds, which will yield R1,2-billion in extra tax revenue this year.

Motorists will be hit with a 10% rise in the fuel levy next month.

Rises in "sin" taxes on alcohol and tobacco will bring in R1-billion in revenue.

There will be reforms to last year's fringe benefits taxation scheme for employer-provided accommodation, which inadvertently hit lower-income earners.

Mr Manuel said he would tax the windfall shares to be given to policyholders of South Africa's two largest mutual insurers, which are to "demutualise" into private companies.

The revenue will be used to capitalise an Umsobomwu Fund, which will be used to create opportunities for job creation, aimed particularly at the country's youth.

This year's Budget is the first in the context of the Medium-Term Expenditure Framework, which lends greater certainty and predictability to the Government's spending plans for the next three years.

Total revenue this year will amount to R176,6-billion and the Budget provides for spending of R201-billion this year, which is 6,4% more than last year, including spending on the cost of state debt.

Mr Manuel has promised to keep the deficit – the difference between revenue and spending – down to 3,5% of gross domestic product.

The lion's share of spending will again go to the provinces, which bear the main responsibility for spending on health, education and social welfare.

Tax tables, page 2
More reports, pages 2 and 3

A total of 60% is to go social services.

Spending on welfare, which has increased from R14-billion in 1995/96 to R19-billion this year, is budgeted to increase to more than R21-billion in 2000/01.

But pensioners will have to wait a little while to find out what this means for them.

THE MAIN POINTS

- 60% of spending on social services, with welfare and social grants getting R19-bn, health services R23-bn, education R45-billion and housing programmes and subsidies R3,5-billion.
- Tax relief for low- and middle-income earners by eliminating bracket creep, putting R3,7-bn back in taxpayers' pockets. About half the relief granted will go to individuals with taxable incomes of less than R60 000 a year.
- Laws will change to allow the publication of names of those who default.
- Taxation of a portion of employers' contributions to medical aid schemes as a fringe benefit.
- Two new steps to introduce taxation of trusts, expected to yield R150-million this year, with a full investigation into further taxation to follow this year.
- A 10c a litre increase in the fuel levy on petrol and diesel from April 1.
- Big increases in sin taxes on tobacco and liquor, notably on cigarettes (an extra 46c a packet) and cider (an extra 9c for a 340ml can).
- A shock for policyholders entitled to receive shares in South Africa's two largest mutual insurers which are to demutualise – a once-off tax at the rate of 2,5% of the free reserves of the mutual insurer at the date of demutualisation.
- This charge will be used to capitalise a Umsobomvu (new dawn) Fund, a vehicle for job creation to be put forward by the government at the Presidential Jobs Summit this year.
- Revenue is shared among national, provincial and local government according to a formula which this year gives R79,1-billion to provincial governments and R1-billion to local government.

CAPE ARGUS BUDGET TEAM
Charles Phahlane
Clive Sawyer
Alide Dasnois

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Provincial health spending will be increased by about 5% a year for the next three years.

A new hospital rehabilitation programme is to be launched, beginning with R100-million this year and increasing to R500-million in 2000/01.

Mr Manuel said that spending on education was estimated to have increased by about 25% in 1996/97, and was set to increase further, from R45-billion this year to more than R50-billion by the turn of the century.

Transfers to local government for municipal infrastructure projects will rise from R583-million this year to R990-million in the year 2000/01.

Spending on safety and security, including the police, justice and prisons votes, is set to rise by about 7,8% a year in the next three financial years.

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Sin taxes up sharply from today

Sin taxes on tobacco and liquor go up sharply from today, following the trend set since 1994.

Smokers will cough up an extra 46c for a packet of 20 and pipe tobacco will cost an extra R2,11 a kg.

Mr Manuel has heeded pleas by health authorities, who asked for duties on tobacco to be 50% of the retail price, by increasing excise duties on tobacco by 29%.

This year's Budget moves closer to taxing alcohol products in relation to their alcohol content.

The Budget also brings the tax rates on beer, wine and spirits in line with international benchmarks.

- A 340ml can of beer will cost 1,6c more;
- Ciders increase by 9c for a 340ml can;
- Cane spirits go up 65,7c per 750ml;
- Grain spirits increase by 48,2C per 750ml; and
- Unfortified wine goes up by 5,9c per 750ml.

There is no change to the excise on sorghum beer.

The excise changes would yield just more than R1-billion.

Good news is that there will be no increase in the excise on soft drinks.

The finance department said excises on soft drinks were an anomaly and in most overseas countries had been abolished.

But "affordability issues" meant there would be a delay in abolition of the tax on soft drinks.

The increase in tax on cider was prompted by it being a "close substitute" for beer and mostly consumed by upper-income groups.

Tax on insurance shares to fund job creation plan

A once-off tax on the windfalls that Sanlam and Old Mutual policyholders will gain from demutualisation is to raise money for a new job creation scheme.

The scheme, dubbed Umsobomvu Fund, will be financed through a 2,5% levy on the value of the shares to be distributed to policyholders by Old Mutual and Sanlam when they demutualise, probably later this year.

Both life assurance giants are to convert from mutual societies owned by policyholders into companies owned by shareholders.

The billions of rands in reserves accumulated by them will be distributed to policyholders as shares.

Finance Minister Trevor Manuel told Parliament today the reserves had been built up as a result of favourable tax treatment of the mutual societies. Details of the Umsobomvu Fund would be made public soon, he added.

10c/l fuel levy hike will boost revenue by R1,7bn

Samantha Sharpe

CAPE TOWN — The fuel levy has been increased by 10c/l, which is expected to boost government revenue by R1,7bn in the new financial year.

Finance Minister Trevor Manuel said the levy was one of the largest components of retail fuel prices, being fixed at 76,6c/l in respect of leaded petrol, 70,4c/l for unleaded petrol and 66,1c/l for diesel.

However, in the context of the recent slide in international oil prices, the hike will not necessarily translate into a commensurate increase in petrol prices.

It was more likely to provide a soft revenue source for the finance ministry.

Manuel said in his budget speech the fuel levy increase would come into effect from April 1, coinciding with the monthly fuel price adjustment, if any.

While the levy constituted 7,4% of total revenue collections accruing to the national revenue account, the latest increase would bring the total to 8,1% of national revenue.

Manuel said this would add less than 0,5% to consumer price inflation, making it a good means of improving revenue.

The 1998/9 budget also includes a R662,1m allocation to the department of transport for national road maintenance, translating into a 4c/l share of the total fuel levy rate.

The allocation followed a cabinet decision at the end of last year that the National Road Agency would in future receive appropriations for road construction and maintenance, converted to a dedicated assignment of part of the existing fuel levy.

BD 12/3/98

Government is to clamp down on evasion of value-added tax, particularly prevalent in the export of cigarettes to neighbouring countries

BD 12/3/98

Duties on luxury consumer goods reduced by 5%

Linda Ensor

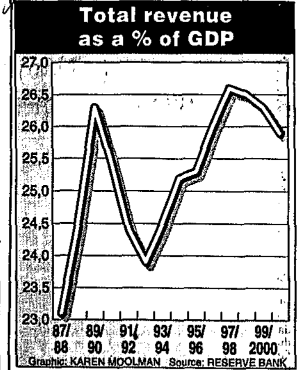
CAPE TOWN — Ad valorem duties on a range of consumer goods were reduced from 15% to 10% in yesterday's budget with immediate effect.

Goods including perfumes, beauty products and electronic, camera and sound equipment would be cheaper and the temptation to avoid paying tax by undervaluing imported goods would lessen, the budget review stated.

The duty on computers and related equipment was cut by 1% to 5%. To counteract the effects of a single rate of VAT, the range of luxury items subject to ad valorem duties was extended to goods such as cordless telephone sets, cellular phones, video cameras, caravans, boats and dishwashers.

The addition of new luxury items was kept to a minimum in line with a finding of the Katz Commission that to extend it excessively would result in ad valorem excise duties having to be administered alongside VAT.

The net effect of broadening the consumption tax base by adding to the list was offset by the lowering of rates on existing products. The overall effect would therefore be revenue-neutral.



Officials plans to clamp down on VAT evasion

Samantha Sharpe

BD 12/3/98

CAPE TOWN — Government intends clamping down on "serious VAT evasion", which the finance ministry said yesterday was taking place through the false declaration of exports into neighbouring countries.

Finance Minister Trevor Manuel said in the budget review that VAT evasion, particularly prevalent in the export of cigarettes and liquor to neighbouring countries, cost the country R150m in lost revenue.

The severity of the problem had forced government to propose the exclusion of liquor and tobacco products from the current export incentive scheme, he said.

The proposed measures meant traders from neighbouring countries would not be able to buy these products free of VAT in SA or obtain a refund of the tax at a land border post.

"The zero-rating in respect of such products will only apply in relation to exports where an SA vendor consigns or delivers goods to purchasers outside SA," Manuel said.

The proposals enjoyed the full support of the liquor and tobacco industries, with implementation to take place with immediate effect, and a Government Gazette published to announce the necessary changes in the scheme.

However, Manuel said if the proposals did not curb current evasion levels, additional measures could follow.

"Advisory notes in this regard were also posted to vendors with their returns," he said.

Convicted tax offenders face public exposure

BD 12/3/98

Samantha Sharpe

CAPE TOWN — Taxpayers failing to furnish annual tax returns could find themselves blushing in the glare of public scrutiny following a proposal in the 1998/99 Budget to publish the names of convicted tax law offenders.

While the receiver of revenue has the power to release the names of guilty VAT Act offenders, those flouting the Income Tax and Customs and Excise Act have, so far, remained nameless.

Finance Minister Trevor Manuel warned that guilty parties would no longer be awarded the privilege of anonymity, with all those convicted of tax law offences to be publicly exposed as part of government's drive to improve tax morality.

"It is only right that those who pay their due should know whose tax default they are paying for. It is accordingly proposed that the tax laws should be amended to provide for the publication (of the names) of persons convicted of offences in terms of these laws," Manuel said.

In keeping with reforms in other countries and SA's more open new democracy, government also intended examining the current secrecy provision contained in various tax legislation, Manuel said.

This would include an investigation into how these secrecy provisions could be amended to enhance tax morality and effective revenue collections, which remained the driving force behind tax reform in SA, he said.

Improved tax collection and a broader tax base would net the fiscus an estimated R2bn in revenues in the new financial year, with government firmly committed to broadening the tax net. Teams had already been established in each revenue office under close supervision by SA Revenue Service regional offices to undertake this task.

This project was a long-term measure to decrease the default rate, change the culture of nonpayment and attain acceptable levels of tax compliance, Manuel said.

"Activities have included information-gathering, cross-checking tax information and business-to-business inspections and street walks using up to 1 500 revenue service personnel at a time."

As at October 1 last year, about 33% of the entities evaluated for income tax purposes were unregistered.

₹elief for lower- and middle-income earners

BD 12/3/98

ntha Sharpe

TOWN — Individual taxpayers will pay n less tax in the new financial year as nment made good on its promise to bring elief to the man-in-the-street, Finance er Trevor Manuel said yesterday.

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Manuel said the individual tax relief aimed to combat the negative effect of "bracket creep", which arises when salaries and wages increase with inflation and tax thresholds are left unchanged. Adjustments proposed in the 1998/99 budget, which included a single scale of rates for all taxpayers, would help eliminate this effect and its ability to reduce after tax income in real terms, he said.

The single scale of benefits proposed for all individuals would reach a maximum rate of 45% at a taxable income of R120 000 a year, pushing out the maximum marginal rate of tax by R20 000.

At the same time the marginal rate applicable to taxpayers with taxable income in the range R46 000 to R60 000 a year would be reduced from 41% to 39%, Manuel said, with the number of income brackets reduced from seven to six.

"Bracket creep affects lower and middle income taxpayers particularly severely and so nearly half of the relief granted will go to individuals with taxable incomes of less than R60 000 a year," he said.

This was despite the fact that latest available data showed taxpayers in the R100 001 to R200 001 income group contributed close to 45% of the total revenue taken from income tax.

This meant an effective increase in the primary rebate from R3 215 to R3 515 a year, with the rebate in respect of individuals 65 years old and older to increase from R2 500 to R2 660.

"The effect of the proposals on a taxpayer earning R30 000 and who is under 65 would be a reduction in tax liability of R300 a year, while a taxpayer earning R100 000 would pay R1 000 less per year," he said. "In the case of a person over 65 years earning R50 000, the tax liability will be reduced by R960, while a person earning R120 000 will pay R1 360 less per annum."

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BD 12/3/98

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TOWN — Taxpayers will fork extra R1bn in fringe benefits uring the 1998/99 financial government moves to clamp on tax avoidsays the Budview.

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nedical fund scheme contri-, Manuel said government ome aware that these were ingly being used to structure packages in a way that was ntended in the Income Tax vernment therefore had deat where the employer's conn to a medical scheme on bean employee exceeded twof the total contribution, this taxed as a fringe benefit in ds of the employee. This was l to yield the fiscus R700m in 1998/99.

On residential accommodation, he said government had proposed measures to combat the abuse of accommodation-related salary sacrifice schemes. These occurred where the employer paid a monthly rental in respect of an employee's accommodation in return for a reduction in salary, thereby reducing the taxable income of the employee.

Employees would now be taxed on the cost to the employer of the accommodation where the accommodation was not owned by the employer or an associated institution. Exceptions would exist where it was customary or necessary for employers to provide free or subsidised accommodation or where the benefit was provided at arm's length for bona fide purposes.

The portion of an employee's travel allowance included in the taxpayer's remuneration to determine pay-as-you-earn (PAYE) would also be increased from 40% to 50% with effect from April 1, Manuel said.

While this proposal had no effect on the eventual tax liability of an individual, it was estimated to yield a cash flow advantage of R150m for 1998/99.

Manuel said government planned also to abolish benefit funds with effect from January 1 2000, with employer contributions to friendly societies no longer tax deductible.

Tax on alcohol and cigarettes will increase the price of some simple pleasures. Picture: TREVOR SAMSON

SA smokers left fuming as Manuel raises tobacco tax

Linda Ensor

BD 12/3/98

CAPE TOWN — Smokers were left gasping yesterday following Finance Minister Trevor Manuel's announcement that excise duties on tobacco would be increased by 29%.

A packet of 20 cigarettes would cost 46c more, Manuel said, justifying the move in terms of the need to keep the overall tax on tobacco products, including VAT, at 50% of the retail price. The measure would generate an additional R699m for the fiscus.

Drinkers would also have to dig deeper into their pockets to indulge their habit after Manuel's stinging tax increases on alcohol products, which would see 340ml cans of beer and cider each costing 1,6c and 9c more respectively; a 750ml bottle of cane spirits 65,7c more; a 750ml bottle of whiskey and other grain spirits 48,2c more; a 750ml bottle of wine spirits 104,2c more; and a 750ml bottle of unfortified wine 5,9c more. There was no change to the excise on sorghum beer.

In total, government calculated that the adjustments to excise duty would yield an additional R1bn. The hike in grain spirits tax alone would generate R683m, beer R118m and wine spirits R101m.

Regarding alcohol, the budget review said the aim of the increases was to tax high alcohol content products at a higher rate than low alcohol products and to bring SA taxes in line with broad international benchmarks.

Furthermore, one consolidated duty of R27 per litre of absolute alcohol would apply to the differentiated rate structure for seven categories of spirits. No increase in the excise rate for soft drinks was proposed, representing a real 6% decrease. Total abolition in line with international trends would depend on affordability issues, the review said, as revenues of R300m were collected from this excise tax.

Revenue from excise duties was expected to be 4,2% higher in the coming fiscal year compared with the last.

Retirement fund levy to raise 25%

BD 12/3/98

Samantha Sharpe

CAPE TOWN — SA's retirement fund industry faces an increase in the current 17% tax levied on its net rental and interest income to 25%, a move which will boost government coffers by R1,2bn in the new financial year.

The extent of the increase has come as a surprise to some industry members who, while expecting some tinkering of the 17% figure, had forecast the rise to come in at about 19%-20%.

Finance Minister Trevor Manuel said while the tax was currently being investigated in its totality "to determine the most appropriate method of taxation of the flow of funds through retirement funds to the ultimate beneficiaries", no changes had been made to the rate since its introduction. This justified an increase in the rate from 17% to 25% with effect from March 1.

On the current state of the National Retirement Consultative Forum, the budget review said the forum had established five theme committees to consider the contribution of the SA retirement provision industry to the general economy. The input of the forum would be framed as a white paper, followed by draft legislation, it said.

Government plans to undermine trusts as avoidance mechanism

(320) BD 12/3/98

Samantha Sharpe

CAPE TOWN — Government plans two initial reforms to current trust tax legislation, and has signalled that further changes could be introduced following a full investigation later in the year.

The move is in line with market expectations, with several tax experts forecasting earlier in the week that government would attempt to reduce the effectiveness of trusts as a tax avoidance mechanism.

Manuel said yesterday government was aware trusts were increasingly being used to channel losses, incurred as a result of the deduction of expenditure and allowances in the trusts, to their beneficiaries. The beneficiaries then set these losses off against income.

They were also being used as a means of splitting income between the fund's beneficiaries, thus reducing the tax rate at which income was ultimately taxed and creating a mechanism for tax avoidance.

Manuel said the provisions of section 25B of the Income Tax Act would therefore be amended "to provide that the losses of the trust may, for tax purposes, not be allowed to flow through to the beneficiaries".

"They can, however, be retained in the trust, where they may be carried forward to the following tax year to be set off against the income of the trust in that year.

"This proposal will apply in respect of all new trusts created from March 11 1998. As far as existing trusts are concerned, it will apply from years of assessment commencing on or after 1 January 1999," he said.

Manuel also proposed that income vesting in the trust as taxpayer (not the income vesting in any beneficiary of the trust) be taxed at a rate of 35% on taxable income not exceeding R100 000 and at 45% on the amount of taxable income which is in excess of R100 000.

"An exception is proposed in the case of a trust created for the benefit of persons who suffer from a mental illness as defined in section 1 of the Mental Health Act, 1973; or a disability, where such disability incapacitates the beneficiary from earning income to maintain him or herself."

These changes would apply from years of assessment commencing on or after March 1 this year, he said.

Relief for lower- and middle-income earners

BD 12/3/98 (320)

Samantha Sharpe

CAPE TOWN — Individual taxpayers will pay R3,7bn less tax in the new financial year as government made good on its promise to bring tax relief to the man-in-the-street, Finance Minister Trevor Manuel said yesterday.

While most of the relief, about R1,7bn, will go to those earning less than R60 000 a year, close to R600m will be shared among those falling into the highest tax bracket.

The tax reductions will be financed partly through an improvement in the efficiency of tax collection by the SA revenue services and the broadening of the tax base.

Manuel said the individual tax relief aimed to combat the negative effect of "bracket creep", which arises when salaries and wages increase with inflation and tax thresholds are left unchanged. Adjustments proposed in the 1998/99 budget, which included a single scale of rates for all taxpayers, would help eliminate this effect and its ability to reduce after tax income in real terms, he said.

The single scale of benefits proposed for all individuals would reach a maximum rate of 45% at a taxable income of R120 000 a year, pushing out the maximum marginal rate of tax by R20 000.

At the same time the marginal rate applicable to taxpayers with taxable income in the range R46 000 to R60 000 a year would be reduced from 41% to 39%, Manuel said, with the number of income brackets reduced from seven to six.

"Bracket creep affects lower and middle income taxpayers particularly severely and so nearly half of the relief granted will go to individuals with taxable incomes of less than R60 000 a year," he said.

This was despite the fact that latest available data showed taxpayers in the R100 001 to R200 001 income group contributed close to 45% of the total revenue taken from income tax.

This meant an effective increase in the primary rebate from R3 215 to R3 515 a year, with the rebate in respect of individuals 65 years old and older to increase from R2 500 to R2 660.

"The effect of the proposals on a taxpayer earning R30 000 and who is under 65 would be a reduction in tax liability of R300 a year, while a taxpayer earning R100 000 would pay R1 000 less per year," he said. "In the case of a person over 65 years earning R50 000, the tax liability will be reduced by R960, while a person earning R120 000 will pay R1 360 less per annum."

Dragnet aims to raise R1bn from 'dodgers'

BD 12/3/98 (320)

Samantha Sharpe

CAPE TOWN — Taxpayers will fork out an extra R1bn in fringe benefits tax during the 1998/99 financial year as government moves to clamp down on tax avoidance, says the Budget Review.

Those benefits coming under the scalpel include residential accommodation, travelling allowances, benefit funds and medical aid scheme contributions. Finance Minister Trevor Manuel said in his address yesterday that aggressive structuring of salary packages eroded the tax base and put at a disadvantage lower-paid workers who did not enjoy the same degree of tax mobility. "Moreover, it discriminates against smaller firms that generally do not have the capacity to manage complex remuneration packages," he said, a situation which had helped prompt government to take action.

On medical fund scheme contributions, Manuel said government had become aware that these were increasingly being used to structure salary packages in a way that was never intended in the Income Tax Act. Government therefore had decided that where the employer's contribution to a medical scheme on behalf of an employee exceeded two-thirds of the total contribution, this would be taxed as a fringe benefit in the hands of the employee. This was expected to yield the fiscus R700m in 1998/99.

On residential accommodation, he said government had proposed measures to combat the abuse of accommodation-related salary sacrifice schemes. These occurred where the employer paid a monthly rental in respect of an employee's accommodation in return for a reduction in salary, thereby reducing the taxable income of the employee.

Employees would now be taxed on the cost to the employer of the accommodation where the accommodation was not owned by the employer or an associated institution. Exceptions would exist where it was customary or necessary for employers to provide free or subsidised accommodation or where the benefit was provided at arm's length for bona fide purposes.

The portion of an employee's travel allowance included in the taxpayer's remuneration to determine pay-as-you-earn (PAYE) would also be increased from 40% to 50% with effect from April 1, Manuel said.

While this proposal had no effect on the eventual tax liability of an individual, it was estimated to yield a cash flow advantage of R150m for 1998/99.

Manuel said government planned also to abolish benefit funds with effect from January 1 2000, with employer contributions to friendly societies no longer tax deductible.

Tax on alcohol and cigarettes will increase the price of some simple pleasures. Picture: TREVOR SAMSON

SA smokers left fuming as Manuel raises tobacco tax

BD 12/3/98

Linda Ensor

CAPE TOWN — Smokers were left gasping yesterday following Finance Minister Trevor Manuel's announcement that excise duties on tobacco would be increased by 29%.

A packet of 20 cigarettes would cost 46c more, Manuel said, justifying the move in terms of the need to keep the overall tax on tobacco products, including VAT, at 50% of the retail price. The measure would generate an additional R699m for the fiscus.

Drinkers would also have to dig deeper into their pockets to indulge their habit after Manuel's stinging tax increases on alcohol products, which would see 340ml cans of beer and cider each costing 1,6c and 9c more respectively; a 750ml bottle of cane spirits 65,7c more; a 750ml bottle of whiskey and other grain spirits 48,2c more; a 750ml bottle of wine spirits 104,2c more; and a 750ml bottle of unfortified wine 5,9c more. There was no change to the excise on sorghum beer.

In total, government calculated that the adjustments to excise duty would yield an additional R1bn. The hike in grain spirits tax alone would generate R683m, beer R118m and wine spirits R101m.

Regarding alcohol, the budget review said the aim of the increases was to tax high alcohol content products at a higher rate than low alcohol products and to bring SA taxes in line with broad international benchmarks.

Furthermore, one consolidated duty of R27 per litre of absolute alcohol would apply to the differentiated rate structure for seven categories of spirits. No increase in the excise rate for soft drinks was proposed, representing a real 6% decrease. Total abolition in line with international trends would depend on affordability issues, the review said, as revenues of R300m were collected from this excise tax.

Revenue from excise duties was expected to be 4,2% higher in the coming fiscal year compared with the last.

Retirement fund levy to raise 25%

BD 12/3/98

Samantha Sharpe

CAPE TOWN — SA's retirement fund industry faces an increase in the current 17% tax levied on its net rental and interest income to 25%, a move which will boost government coffers by R1,2bn in the new financial year.

The extent of the increase has come as a surprise to some industry members who, while expecting some tinkering of the 17% figure, had forecast the rise to come in at about 19%-20%.

Finance Minister Trevor Manuel said while the tax was currently being investigated in its totality "to determine the most appropriate method of taxation of the flow of funds through retirement funds to the ultimate beneficiaries", no changes had been made to the rate since its introduction. This justified an increase in the rate from 17% to 25% with effect from March 1.

On the current state of the National Retirement Consultative Forum, the budget review said the forum had established five theme committees to consider the contribution of the SA retirement provision industry to the general economy. The input of the forum would be framed as a white paper, followed by draft legislation, it said.

Government plans to undermine trusts as avoidance mechanism

BD 12/3/98

Samantha Sharpe

CAPE TOWN — Government plans two initial reforms to current trust tax legislation, and has signalled that further changes could be introduced following a full investigation later in the year.

The move is in line with market expectations, with several tax experts forecasting earlier in the week that government would attempt to reduce the effectiveness of trusts as a tax avoidance mechanism.

Manuel said yesterday government was aware trusts were increasingly being used to channel losses, incurred as a result of the deduction of expenditure and allowances in the trusts, to their beneficiaries. The beneficiaries then set these losses off against income.

They were also being used as a means of splitting income between the fund's beneficiaries, thus reducing the tax rate at which income was ultimately taxed and creating a mechanism for tax avoidance.

Manuel said the provisions of section 25B of the Income Tax Act would therefore be amended "to provide that the losses of the trust may, for tax purposes, not be allowed to flow through to the beneficiaries".

"They can, however, be retained in the trust, where they may be carried forward to the following tax year to be set off against the income of the trust in that year.

"This proposal will apply in respect of all new trusts created from March 11 1998. As far as existing trusts are concerned, it will apply from years of assessment commencing on or after 1 January 1999," he said.

Manuel also proposed that income vesting in the trust as taxpayer (not the income vesting in any beneficiary of the trust) be taxed at a rate of 35% on taxable income not exceeding R100 000 and at 45% on the amount of taxable income which is in excess of R100 000.

"An exception is proposed in the case of a trust created for the benefit of persons who suffer from a mental illness as defined in section 1 of the Mental Health Act, 1973; or a disability, where such disability incapacitates the beneficiary from earning income to maintain him or herself."

These changes would apply from years of assessment commencing on or after March 1 this year, he said.

Average Business Day reader will have to fork out more

BD 12/3/98 (320)

Pat Sidley

BUSINESS Day's typical reader is likely to face a marginally increased tax bill of about R154 a month after yesterday's budget, according to calculations by Arthur Andersen's personal tax expert, Marina Kyriacou.

Much of this will come from increases in the tax on medical scheme contributions and travel allowances — on the assumption that they form part of the reader's salary package.

As this reader has several expensive vices (cigarettes and alcohol), he or she will feel the effects of the "sin taxes" too.

The typical reader is older than 25, with many older than 35, and has a monthly household income in excess of R10 000 a month, according to research from AMPS. The reader owns a car, mostly bought new, owns his or her own home, has bonds and uses security services.

A third of the paper's readers smoke, more than half drink beer and two-thirds drink wine with a third drinking whisky and other spirits.

Assuming his or her gross income is R12 000 a month with medical aid contributions of about R1 000 (paid for by his employer) and a travel allowance of R2 000 a month, the average taxable income until this budget would have been R9 800 a month. The budget has increased the taxable portion of the salary to R10 333. This is because the taxable portion of the travel allowance has been increased to 50% from 40%. In addition, a third of the medical aid contribution will now be taxable where it was not before. The average tax bill for this employee would have been R3 229,58 a month and this will now increase to R3 369,43.

The after-tax income will drop from R7 770,42 to R7 630,57 a month.

Add to this consumption of alcohol and cigarettes (assuming 20 cigarettes a day, a litre of wine a week and 12 cans of beer, half a bottle of spirits and a quarter bottle of cane spirits a month) and the monthly tax will increase about R154 a month.

This does not take into account the fact that more than half this group have life assurance policies, many of which will be placed with Old Mutual or Sanlam, both of which have announced their intention to demutualise. The "windfall" shares the typical reader would get at the point of demutualisation would be taxed — at the apparently low rate of 2,5%.

It also does not take into account the fact this reader may belong to a company pension fund which, in all likelihood, has converted from a defined benefit fund to a defined contribution fund. This may eventually mean, with the increase in the tax on funds from 17% to 25%, that the withdrawal benefit in each member's case will be diminished slightly.

Unlike his or her counterpart in the US or UK, this group cannot claim deductions for mortgage payments, donations to education, or the cost of education.

How budget affects typical reader

Assumptions:	Current	Proposed	
Age	under 65	under 65	years of age
Average gross income	R 12 000,00	R 12 000,00	per month
Medical aid	R 1 000,00	R 1 000,00	per month
Travel allowance	R 2 000,00	R 2 000,00	per month
Average taxable income	R 9 800,00	R 10 333,00	per month
Tax	R 3 229,58	R 3 369,43	per month
Average after tax income	R 7 770,42	R 7 630,57	per month
1 litre wine per week	R 30,00	R 30,08	per litre
12 cans (340ml) of beer per month	R 2,31	R 2,33	per can
0,5 of a 750ml bottle of spirits per month	R 25,00	R 25,48	per month
0,25 of a 750ml bottle of cane spirits per month	R 10,00	R 10,66	per month
20 cigarettes per day	R 5,75	R 6,21	per pack of 20

Calculations:	Current	Proposed	Difference
After tax monthly income	R 7 770,42	R 7 630,57	R 139,85
less: monthly beer consumption	R -27,72	R -27,91	R 0,19
monthly spirits consumption	R -25,00	R -25,48	R 0,48
monthly cigarettes consumption	R -172,50	R -186,30	R 13,80
Net income per month after above expenses	**R 7 545,00**	**R 7 391,00**	**R 154,00**

Source: Arthur Andersen

Levy puts assurers on the spot

BD 12/3/98 (328)

Bernard Simon

FINANCE Minister Trevor Manuel's decision to slap a once-off levy on demutualising insurance companies not only surprised Old Mutual and Sanlam, but put them on the spot.

Their dilemma was summed up by Sanlam GM Marinus Daling yesterday. While complaining that the charge will be unique to SA, Daling welcomed Manuel's intention to use the proceeds to set up the new Umsobomvu job-creation fund.

The levy, equal to 2,5% of a demutualising assurer's free reserves, will take a relatively modest bite out of the windfall gain that Old Mutual and Sanlam policyholders can expect when the assurers convert into shareholder-owned companies, probably within the next 12 months. The two are by far the biggest mutual — policyholder-owned — life assurers in SA.

Old Mutual's free reserves totalled about R30bn at the end of last year, while the equivalent figure for Sanlam was about R10bn. The demutualisation levy is thus likely to raise about R1bn.

One tax expert, who asked not be named, noted that "policyholders have had the benefits of growth over decades. I'm not sure that I'm terribly upset by the measure," he said.

Old Mutual GM Johannes van der Horst declined to comment on the levy pending further study of its implications.

Daling said because it was a once-off charge, the interests of Sanlam policyholders "will be protected and their existing and future policy benefits will not be affected".

According to one insurance executive, the two companies are likely to seize on the job-creation fund to extract maximum public relations advantage from the levy.

Daling said he was especially pleased that the proceeds would not be used to finance current government spending.

However, he cautioned that "clearly defined objectives, as well as stringent controls on the application of resources for this project, will be essential".

WHERE THERE'S SMOKE: Sibusiso Bengu and Kader Asmal applaud Trevor Manuel's decision to slap a hefty tax on tobacco products. Asmal is well-known for his fondness for a puff or two. Behind them Jannie Momberg pays attention. *PICTURE: BENNY GOOL*

Medical aid tax can raise R700m

JUDITH SOAL (320)
HEALTH WRITER
CT 12/3/98

WHAT difference does R700 million make, asked medical aid schemes yesterday after Finance Minister Trevor Manuel said he hoped to increase revenue by R700m by taxing certain contributions as fringe benefits.

Manuel said employees would be taxed extra if their employer paid more than two-thirds of their contributions.

"The provision of health care should not be seen as a fringe benefit," said Mr John Human of D&E Health Benefits. He said the tax would make people opt out of private health care and put extra pressure on state health services.

But Mr John Pugsley of medical aid administrators Medscheme disagreed.

"We don't know yet at what rate that extra amount will be taxed, but it won't make that much difference to people's salaries," he said. "It is mainly people in higher income brackets who get all or most of their contributions paid by their company.

"Say you are paying R1 200 for a good medical scheme, and your employer pays it all, you will be taxed on R400, which is the amount above the allowed two-thirds. Even if this is taxed at 45%, you will pay an extra R180 a month in tax. For someone in this income bracket, earning perhaps R20 000 to 30 000 a month, that won't be a problem."

He said that if lower income earners were having their contributions covered by employers, their tax would be lower because they would be paying a lower marginal rate. "If you are in a lower income bracket, your rate is 17%, so you could pay an extra R34 a month."

Pugsley said these increases would not scare people away, but he still did not agree with the taxation method.

"We suggested that the government revert to the old way of taxation, where employees could claim back for their contributions to medical aids.

"This would surely suit the ultimate goal of the state, which is to encourage people to join medical aid schemes and to reduce the burden on the state health sector.

"I can't see why they don't drop these taxes. After all, what difference does R700m make?"

Sowetan
BUSINESS

Sowetan 12/3/98

Real power is economic

Manuel heeds labour movement

(320)

Numsa let down by Government's failure to introduce wealth tax

By Abdul Milazi and Isaac Moledi

FINANCE MINISTER Trevor Manuel yesterday answered the labour movement's call for increased social spending when he presented a national Budget with substantial increases for education, health and welfare.

Labour organisations have continually argued that to overcome the legacy of apartheid, the government needed to address poverty and inequalities.

This, trade unions argued, required the expansion of state services as well as substantial Government investment in people and in social and productive infrastructure.

Manuel also responded to labour's criticism of the Government's failure to address unemployment by setting up an employment creation fund to be known as *Umsobomvu Fund*, meaning a new dawn.

This fund would focus on addressing unemployment, especially among the estimated 450 000 jobless school leavers and graduates who join the unemployment queue each year.

Welfare was allocated R19 billion from last year's R14 billion, while education received a lion's share of R45,3 billion from R44,7 billion and health was allocated R22,7 billion from R22,5 billion.

The health budget will, however, be increased in the following two years' budgets to R24,5 billion and R26 billion respectively, while education will get R48 billion in 1999-2000 and to R50,2 billion in 2000/01.

The welfare budget will rise to more than R21 billion in two years' time.

For the man in the street, Manuel's 1998-9 Budget is a mixed bag.

As is usual every year, smokers and drinkers are also casualties this year.

Cigarette tobacco rises by 29 cent per 50 grams while the price of cigars rise by just over R1,95 per kilogram. Alcohol beverages have been upped in terms of alcohol content.

The good news for lower income earners is a R3,7 billion package aimed at providing tax relief by eliminating "bracket creep".

This occurs when salaries and wages increase with inflation and tax threshholds are left unchanged, putting taxpayers in higher tax brackets and reducing their real income.

The number of tax brackets would be reduced from seven to six, Manuel said.

Although the National Union of Metalworkers (Numsa) welcomed the planned employment creation fund as a step forward towards the alleviation of poverty and unemployment, the union's spokesman, Dumisa Ntuli, however, said they were disappointed by Manuel's failure to zero-rate more basic foodstuff.

"Food should be affordable as the majority of workers are below the poverty line."

He also complained that the Government failed to introduce wealth tax for the super rich to reduce interest rates.

"We believe interest rates should be substantially reduced to create the scope for increased economic activity."

"Government should avoid binding itself to specific financial deficit targets without first assessing their impact on service delivery," said Ntuli.

Another disappointment for workers, Ntuli said, was Manuel's failure to reduce VAT as it affected the very poor.

As far as the Budget is concerned the primary rebate would be upped from R3 215 to R3 515 and additional rebates for people over 65 years would be increased by R160.

Manuel also announced that the level at which the maximum 45 percent tax rate would become effective would be increased from R100 000 to R120 000.

Marginal tax rates for individuals earning between R46 000 and R60 000 monthly will be reduced from 41 percent to 39 percent.

A person under the age of 65 earning a monthly salary of R30 000 will therefore pay R300 less tax a year, while someone earning R100 000 monthly will pay R1 000 less.

A person over 65 earning R50 000 monthly will see their tax liability coming down by R960, and if they earn R120 000 they will pay R1 360 less a year.

As from April 1, the amount by which an employer's contributions to a medical scheme on behalf of their employee exceeds two-thirds of the total contribution made will be taxed as an employee fringe benefit.

(320)

BUDGET PREVIEW *Trusts could suffer*

Taxing at flat rate is sledgehammer tactic

CT (BR) 12/3/98.

Martin Kourie

Pre-budget talk of an income tax of 35 percent levied on trusts may best be described as speculative and over-simplistic. It is believed this flat tax rate will replace existing progressive tax rates on trusts.

This would apply to discretionary trusts, particularly business and farming trusts, set up to save income taxes by splitting taxable income among, in many cases, a multiplicity of beneficiaries. Marginal tax rates are minimised in doing so, and substantial taxes are saved, to the agitation of the South African Revenue Service (SARS).

The character of a discretionary trust permits this splitting in that the eligible trust beneficiaries may only benefit at the discretion of the trustees. The number of trust beneficiaries is often large, for example comprising the planner, and his/her spouse, descendants, siblings and ascendants, as well as spouses, descendants, siblings and ascendants.

Charging trusts at a flat 35 percent tax on their incomes across the board obviously solves SARS's problem. But it is something of a sledgehammer approach. Such a tax change will also hit many custodian trusts.

For example, there are the numerous widows', orphans' and incapacitated persons' trusts that are not bent on tax avoidance, but rather on protecting a meagre pool of trust assets to optimise benefits for a disadvantaged beneficiary. In these circumstances, a flat 35 percent tax on income is penal. The real difficulty faced here by the SARS is how to define or classify the offending trusts.

It is difficult to distinguish business trusts intended for income tax savings from those set up for custodianship or estate planning purposes. This is because the various types of trusts often utilise the same objectives, trustees' powers, beneficiaries' rights and general provisions.

The true differences rather relate to the position of the trust, and the manner in which the trustees have actually exercised their various discretions.

These nuances seem to transcend easy fiscal classification, thus making the SARS's task difficult.

It was for this reason that the 1992 Budget announcement of a 45 percent flat rate of tax on business trusts was never followed up. Nor has anything changed since then to allow for easier implementation of this proposal.

On the contrary, the existing tax treatment of trusts was put on firmer ground by the insertion of a new provision into tax legislation in 1991 in support of the "common law" conduit principle that trust beneficiaries must pay tax on trust income they receive, while the trust itself must carry the tax on undistributed income.

For a flat tax rate on trusts to be effective in curbing tax avoidance, it will be necessary to repeal or radically amend the above tax section as well as the common law underlying it. Otherwise the new tax will simply be avoided by declaring trust benefits down to the beneficiaries.

This initiative would entail a major overhaul of settled principles of trust taxation, and could also upset the existing tax treatment of unit trusts. The decision to introduce such a tax change should therefore not be embarked on lightly by the finance ministry.

☐ *Martin Kourie works in the legal services department of Momentum Life*

Burden eased on low earners

(320) M+G 13-19/3/98

Belinda Beresford

The government is continuing its campaign to ensure that taxes become as unavoidable as death for South Africans with the latest budget, which reduced the overall income tax burden while attacking fringe benefits such as car allowances.

The budget saw about R3,7-billion knocked off the income tax burden for South Africans, with the larger part of the benefits being felt lower down the income scale, but filtering through to the highest earners.

The government estimates people earning less than R60 000 will get 47% of the income tax relief, while those getting more than R120 000 a year will get 16% of the relief. The balance will be enjoyed by people earning between these limits.

The primary tax rebate has been increased to R3 515 from R3 215, while the extra allowance to people older than 65 years has also been raised to R2 660 from R2 500.

One sneaky affliction for taxpayers is "bracket creep" — when inflation-related rises move individuals into higher tax brackets without them seeing any real increase in their income. This particularly affects lower income taxpayers. One method of reducing this is both to reduce the number and widen the range of tax bands.

The budget saw the number of tax brackets reduced from seven to six as the government continued towards its objective of only four brackets.

Part of this rationalisation meant taxpayers in the R46 000 to R60 000 bracket saw the marginal tax rate fall to 39% from 41%.

A major counterpoint to reducing the income tax burden on individuals has been to widen the tax base. The budget review says that in 1997 just less than 45% of total income tax came from the 9,6% of taxpayers who earn more than R100 001.

More taxpayers mean lower taxes to achieve the same level of income. Part of the tax base broadening campaign saw the South African Revenue Service given organisational autonomy last year, which allowed it to operate more like a private-sector company. Minister of Finance Trevor Manuel says the government is banking on the revenue service collecting an extra R2-billion through efficiency gains this year.

As part of this campaign, the revenue service has been sending out hit squads of tax inspectors checking information, inspecting businesses and walking the streets to find unregistered businesses and individuals.

Somewhat depressingly for the registered taxpayers among us, from the beginning of October last year to the end of January this campaign found default rates of around a third on value-added tax, pay-as-you-earn and income tax grounds.

TAXABLE INCOME	RATES OF TAX
WHERE THE TAXABLE INCOME:	
does not exceed R31 000	19% of each R1 of the taxable income
exceeds R31 000, but does not exceed R46 000	R5 890, plus 30% of the amount by which the taxable income exceeds R31 000
exceeds R46 000, but does not exceed R60 000	R10 390, plus 39% of the amount by which the taxable income exceeds R46 000
exceeds R60 000, but does not exceed R70 000	R15 850, plus 43% of the amount by which the taxable income exceeds R60 000
exceeds R70 000, but does not exceed R120 000	R20 150, plus 44% of the amount by which the taxable income exceeds R70 000
exceeds R120 000	R42 150, plus 45% of the amount by which the taxable income exceeds R120 000

Cellphones face the wages of sin

Belinda Beresford

If you're one of those people who finds it irritating listening to the ubiquitous ringing of telephones over dinner, on the golf course or — most odious of all — at the movies, you'll find it hard to resist cheering at the news that cellphone imports are to be hit with customs duties.

Along with some other dubious "necessities" of life, including caravans, alloy wheels and domestic dishwashers, cellphones are now subject to a 10% ad valorem (value-related) excise tax. The move is part of the government's strategy to extend customs taxes to "non-essential or luxury" items.

If you're one of those people who can't survive without your little ringing friend, and object to it being classified as non-essential, there is some consolation in a reduction of customs duty on other luxury items.

Whether the fall in tax from 15% to 10% on a range of goods including watches, beauty preparations and spectacles will filter through to the consumer is another matter.

As expected, "sin taxes" have risen again. In keeping with its intention to set customs duties for tobacco products at about half the retail prices, excise taxes have risen a hefty 29%. This translates into another 46c for a packet of 20 cancer sticks.

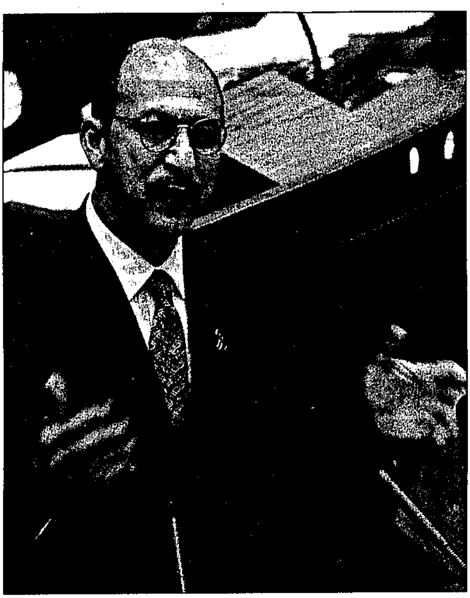
The government acknowledged in the budget that higher taxes provided a greater incentive for smuggling and "related criminal activities" and compared South Africa's 50% tobacco duty to those of around 40% in Zimbabwe and 35,8% in Mozambique.

If you feel like celebrating the overall fall in income taxes, sparkling wine imports face a nominal 15% increase in excise duty (which translates into a real increase of roughly 9% once estimated inflation is taken into account). For the more aesthetic, mineral water and soft drinks are not going to see any rise in customs duties. Given that the government is assuming inflation will be around 6% this year, this translates into a real fall in excise taxes.

The budget is designed to tax alcohol content and to bring prices into line with international trends. Cider drinkers and fans of alcoholic fruit beers are going to be particularly hard hit. If your favourite tipple is something exotic like alcoholic lemonade, brace yourself for a nominal 36% rise in excise duties.

If you're feeling thrifty, then fill up your car before April 1, when the fuel levy is going to rise by 10c per litre. The government estimates this will raise an extra R1,66-billion in revenue against a trade-off of a less than 0,5% rise in the consumer price index.

The spirit of equality is now also being applied to the taxation of spirits. Regardless of origin, for example grain or cane, spirits will all now face R27 a litre in excise duty.



The budget according to Manuel: As expected, sin taxes have risen again.
PHOTOGRAPH: RODGER BOSCH/AFRIKA

Less loss for the cut-and-runners

Belinda Beresford

While there still may be some international scepticism about South Africa's future, Trevor Manuel has signalled the government's confidence by a further relaxation of exchange controls.

Those unbelievers wanting to leave the country have been given a goodbye present — they can now take up to R1-million of household and personal effects. If you'd like to send your money overseas, the personal investment limit has been doubled to R400 000 per person, or R800 000 per household.

The changes in the budget mean 99,5% of people are now free from the "yoke of exchange control", according to the finance minister.

The bad news for the opportunists among us is that you'll have to get a certified clean bill of health from the taxman, rather than simply signing a declaration of good standing, as at present.

Between last July, when the exchange controls on individuals were relaxed, and the end of the year, only 4 815 people applied to invest R610-million overseas. But, just less than 17% of these would-be investors were not registered, or did not have their tax affairs in good standing. Rather ominously, the budget review says they are "being followed up" by the revenue service.

Travel and study allowances have also increased. Each adult can now take up to R100 000 on holiday per year, up from R80 000, while children can take saved pocket money to the tune of R30 000 instead of R25 000.

There has been a R20 000 increase in the overseas study allowance to R100 000, while student travel allowances have increased to R30 000 per year from R20 000. Students accompanied by spouses have double the allowance. If you're travelling abroad you no longer have to get pre-authorisation to use your credit card, although you will still have to obey the travel allowances.

The government has also continued its policy of strengthening ties to the Southern African Development Community. Local companies can now transfer up to R250-million for new investments within the community — a five-fold increase. The offshore investment allowance for companies has risen to R50-million.

Medical aid tax 'will deter new entrants'

CT (BR) 16/3/98 (320) (2999)

ADELE SHEVEL

Johannesburg — The fringe benefit tax placed on medical aid contributions would deter employed people who were not part of medical aid schemes from entering private sector schemes, Ian Kadish, the director of managed care at Netcare, said last week.

The government has committed itself to reforming the healthcare environment, and through various policy papers has indicated an increasing role for the private sector to finance and deliver healthcare. This would enable the public sector to focus on those who cannot afford private sector care.

But Adrian Baskir, an actuary at Old Mutual Healthcare, said lower-income workers would be the worst affected with the medical schemes tax, even negating any benefit they would otherwise have derived from budgetary measures to cut personal tax through reducing fiscal drag.

Kadish said there were more astute ways of increasing the medical coverage net, without it costing the government more. He said people at the lower end of the income stream should be subsidised with regard to getting healthcare coverage.

The sixth report of the Katz Commission recommended that employer contributions to medical schemes be limited on a rand-for-rand basis to the amount contributed by the employee

"The 1998 Budget proposes that the amount by which the employer's contribution to a medical scheme for an employee exceeds two-thirds of the total contributions be taxed as an employee fringe benefit from April this year," said Baskir.

"Put differently, the new tax will impact those being subsidised by more than two-thirds of their contributions, and those who are fully subsidised by the employer will be especially hard hit.

"Subsidisation relates to the employer paying a part or all of the contribution as part of a package or on a salary sacrifice basis."

Older medical scheme members with dependants will be harder hit than young, single members. Baskir says this is because the former generally pay higher contributions and are likely to have more comprehensive medical cover.

"Employers may be pressurised into increasing salaries to compensate for the impact of the new tax on net take-home pay."

Provident funds hardest hit

(~~300~~)(320) Sowetan 16/3/98

By Abdul Milazi

PROVIDENT Fund members will be hardest hit by the tax increase from 17 to 25 percent on retirement funds announced by Finance Minister Trevor Manuel.

Experts say this substantial increase would bring in about R1,2 billion for Government in the next tax year.

Both Sanlam and Old Mutual agree that members of provident funds will be directly affected, with a reduction in their returns over a period of time.

It is argued, however, that while members of pension funds will not be affected, employers will face a proportionate cost increase.

Sanlam's Nico van Gijsen says: "Now more than ever, members of defined contribution retirement funds will have to take notice of the investment decisions made on their behalf and the options they exercise.

"In provident funds, the employer and member contribute a fixed percentage of salary, but the investment risk is carried by the member."

Mine chamber wants exemption from health tax

JOVIAL RANTAO

THE Chamber of Mines, one of South Africa's largest employers, has asked for an exemption from paying the health insurance tax as proposed by Health Minister Dr Nkosazana Zuma in the White Paper on the Transformation on Health in South Africa.

On the first day of public hearings on the paper, Chamber of Mines' health adviser Dr C la Grange told Parliament's Health Committee that her organisation would like to be exempted from the tax as it provided a not-for-profit service to employees.

CT 19/3/98

She said if employers were not granted an exemption, consideration should be given to reimbursing employers for similar health services provided.

The Department of Health has proposed the health insurance tax which would require that all formally employed persons should be insured for costs of treatment for themselves and their dependents in public hospitals.

The insurance is intended to cover all formal sector employees for treatment in public hospitals as well as members of medical aid schemes who have exhausted their medical benefits and then turn to public hospitals for further treatment.

The proposed tax is expected to pump an estimated R2 billion a year into the public health system.

"Public hospitals will most probably only retain a portion of fees generated with the balance paid to provincial health departments to finance the shortfall in the state's free primary health care package, estimated at R1,4bn in 1997/8 and rising to R3,4bn by the turn of the century. Such a situation would fail to balance paying taxes to receiving benefits in return and would merely constitute an additional tax," La Grange said.

NKOSAZANA ZUMA

The Chamber of Mines suggested that a defined package of services and benefits should be guaranteed to those taxed and employers providing the package to their employees should be exempted from contributions or reimbursed for similar health services provided.

Also, exemption of medical scheme contributors who are sufficiently insured with no potential liability for public hospitals should be considered.

The Chamber of Mines has described the re-regulation of the medical schemes industry, as contained in the White Paper, as prescriptive.

The Concerned Medical Schemes Group, which claims to represent over 2,6 million members, has rejected proposals that would force them to accept all prospective members, regardless of health risk.

The group said if schemes were not allowed to exclude individuals on the basis of health risk, people would defer joining until they were sick, which would increase the cost of cover and decrease the number of people covered. Instead, schemes should be allowed to screen to some extent and create incentives for the young and healthy to join.

Mr Adriaan Gore, a representative of the group said: "We refute the claim in the white paper that the recent deregulation has led to instability, increase in cost and a reduction of coverage. Emerging government statistics reveal the opposite. Furthermore, it is our view that the framework for re-regulation is too restrictive to achieve the government's broader health objectives. We support an environment based on guaranteed access as opposed to open enrolment and general community rating rather than flat community rating. Importantly, targeted regulation should focus on protecting today's old and tomorrow's sick."

SARS expects to cut tax gap by R8bn

CT (BR) 20/3/98 (320)

Lynda Loxton

PARLIAMENTARY CORRESPONDENT

Cape Town — The South African Revenue Service (SARS) this year expected to have closed the tax gap by R8 billion since 1996-97 while significant strides had been made in clamping down on smuggling and undervaluation of imports, Trevor van Heerden, the commissioner, said yesterday.

Van Heerden, who was briefing the portfolio committee on finance on the 1998-99 Budget, said the Katz Commission had estimated that the tax gap — the amount not being collected — could be between R5 billion and R20 billion, but further studies were under way to determine the exact figures.

Of the 166 000 people visited so far, for example, it had been found that 31 percent had not registered for tax, while the collection of company tax had been boosted by improvements at leading centres such as Sandton — where many companies have their headquarters.

PLUGGING HOLES *Trevor van Heerden of the SARS*

Van Heerden was far from complacent and said: "A lot of work still has to be done, but things are improving."

From May 1, a new system would be introduced to allow taxpayers to pay their tax through their banks. This would eliminate the problem of cheques being lost in the post.

Van Heerden also planned to arrange for the Central Statistical Service to gain access to its records, subject to certain secrecy provisions, because they "contain a huge volume of information that could be useful to them".

On customs and excise, Van Heerden said British customs officials "have made quite a difference to operations", especially in Durban, Cape Town and Johannesburg. The time taken to clear goods through customs had been reduced from between three and five days to one day.

Officials had become more selective with their inspections, and the revenue collected from penalties had risen by 19 percent. The success rate had risen from 11 percent to 35 percent.

The undervaluation of imports remained the biggest problem, but cuts in ad valorem duties last year appeared to have slowed down smuggling.

Rationalisations 'highlight need to relax tax legislation'

BD 23/3/98 (320)

Linda Ensor

CAPE TOWN — The recent rush of mergers and corporate restructuring, especially in the financial services sector, highlighted the need for a review of inhibiting tax legislation, a leading tax expert said.

While the unbundling provisions, as well as Section 39 of the Income Tax Act, catered for the rationalisations, the act did not facilitate minority shareholders in the underlying companies moving their investments upwards, Coopers & Lybrand tax partner Danie Fölscher suggested at a budget briefing before Parliament's portfolio committee on finance last week.

He said in an interview later that the requirement in terms of Section 24(A) of the Income Tax Act, which stipulated that shares be held for five years to escape capital gains tax on their disposal, was restrictive.

This was because a new five year period kicked in when shareholders in subsidiary companies opted to sell their shares or swap them with those in the restructured holding company, Fölscher said.

Also, if the shares were sold prior to the expiry of the five year term, then tax would have to be paid.

"It is fine for speculators to begin a new five-year term, but for some institutional investors, such as short term insurers who are regarded as traders and for whom share dealing is part of their cash-flow planning, a new five year term will create difficulties," he said.

While the lack of facilitative measures might not go so far as to deter the rationalisations, Fölscher believed it would make the schemes more complicated than they need be in order to achieve neutrality.

But inland revenue commissioner Trevor van Heerden said he was not convinced the five-year rule restricted restructuring in the way suggested.

Real power is economic

(320) Sowetan 23/3/98

SA's economic reform 'on track'

By Abdul Milazi

SA tax reform and infrastructure investment will improve economy

SOUTH AFRICA'S drive for structural economic reform has recently made key strides which have given credibility to the fiscal policy, the Board of Executors (BOE) said at the weekend.

BOE spokeswoman Thando Rantho said South Africa was now closer to the point where the benefits of long-term structural reform and sustained disinflation begin to outweigh the costs.

She said the original deficit targets for 1998-99 were adhered to by the Government in its budget, while economic assumptions were more realistic.

"Government spending and debt are to fall as a percentage of gross domestic product (GDP). South Africa no longer faces the debt trap. The medium term expenditure framework enables better fiscal planning and further improves transparency," said Rantho.

She said exchange controls were relaxed and there was a credible commitment to their complete removal.

"Individual income tax relief has been given priority and there is strong support for the setting of an inflation target. A low inflation target would cement the recent inflation gains," said Rantho.

She said the falling nominal and real interest rates and the benefits of demutualisation would support a sustained economic recovery after 1998.

Other factors that would support a sustained economic recovery include an improving international economy from late 1999 and an improved investor confidence.

Promote growth

Increased flexibility to promote growth through tax reform and infrastructure investment would also improve the positive view of the future of the South African economy.

"There are good grounds for confidence that the eventual deficit for 1998-99 will be close to the target. The deficit reduction programme now has a good track record," said Rantho.

However, she argued that the economic growth forecast of three percent was too optimistic but the revenue assumptions appeared realistic, implying that fiscal planners didn't believe growth forecasts.

She said consumption spending continued to rise at the expense of capital spending.

Capital spending rose by only four percent in 1997, while the wage bill was projected to rise by 12,9 percent this year after increasing by 9,1 last year and 9,2 the previous year.

"The wage bill is expected to rise much more slowly, taking the proportion of non-interest spending down to 49,2 percent. This proportion is still substantially higher than international norms," said Rantho.

She said the extent to which the state borrows to finance current spending (dissaving) remained too high. "In fact dissaving was 3,5 percent of the GDP in 1997, up from 3,3 percent in 1996."

She argued that one of the main obstacles to SA achieving higher domestic savings and sustained high economic growth was excessive taxation of income, both corporate and individual.

Higher tax on pension outlandish — tax expert

Linda Ensor (3320) BD 26/3/98

CAPE TOWN — Reports that Parliament's finance portfolio committee might recommend an amendment to the proposed increase in the tax on retirement fund income was "outlandish", one of the committee's tax experts said yesterday.

However, to get a broader understanding of the effects of the tax increase on the nation's savings and the poor, the committee had mandated its tax subcommittee, consisting of Andrew Feinstein (African National Congress) and Gavin Woods (Inkatha Freedom Party) to invite submissions on the issue.

Finance Minister Trevor Manuel, in his 1998/99 budget, announced an increase in the tax on the rental and interest income of retirement funds from 17% to 25%. During the finance committee's public hearing on the budget last week, the life industry objected to this increase on the grounds that it would negatively affect the poor and act as a disincentive to save. However, they could not provide any empirical evidence to back up their claims.

Submissions invited

This was why the committee decided to investigate further, not with a view to getting the proposal changed when it appeared in the Income Tax Amendment Bill, but so that it was fully informed of its effects.

Feinstein said: "The chances of our wanting to persuade the minister to change the proposal is highly unlikely," Feinstein said. "If the committee was intrinsically opposed to it, this would have become clear at the hearings, but this was not the case. The idea of our wanting to change it is quite outlandish."

He said submissions would be invited from the industry, trade unions and tax experts. It appeared the 17% tax had little if any effect on savings when it was introduced, but no one seemed to have any idea what the threshold of this tolerance might be.

In its report on the budget hearings, the finance committee expressed concern that capital expenditure as a percentage of total government spending remained at a low level. It commended the proposal to alleviate fiscal drag by setting aside R3,7bn for this purpose.

Fall in inflation 'fully compensates' savers

Pension fund tax defended by Manuel

(320)

ET (NR) 27/3/98

Lynda Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — Trevor Manuel, the finance minister, yesterday defended his decision to increase the tax on the interest and rental income of pension funds, saying the rationale for the 2,5 percent levy on the free reserves of mutual insurers was sound.

Wrapping up the debate on his 1998-99 Budget in the national assembly, Manuel denied that the new 25 percent tax on pension funds was an attack on the nation's savings and threatened the livelihoods of pensioners.

"Nothing could be further from the truth," he said. "Indeed, it is precisely because the nation's savings and the wellbeing of the elderly are so much better protected now than in the past that we are able to take this modest step towards addressing the distortions we inherited in the tax treatments of pension funds."

In the past, high inflation and prescribed asset requirements had resulted in pension funds making negative returns in real terms. The state could not therefore apply normal tax principles to pension funds. "We are now in a very different environment."

Pension funds had not been subjected to prescribed asset requirements for some time and could make use of many investment opportunities. At the same time, interest rates significantly exceeded the inflation rate.

"Pension funds have therefore enjoyed significant positive real returns on their interest-bearing investments," he said.

Lower inflation was the best protection the government could offer savers and pensioners, and it was now moving down rapidly. It was more than likely that the fall in inflation since the tax was introduced fully compensated for its effects on the real returns of fixed interest investments.

It had also been assumed that all pension fund assets were held in the form of property or government bonds, making the total income of the portfolios now taxable at 25 percent.

But, he said, these assets only made up 35 percent of the income of pension funds.

On the once-off demutualisation levy, Manuel said the free reserves of mutual insurers had been built up over many decades by the contributions made by generations of policyholders under a favourable tax treatment.

Current policyholders would receive a windfall gain through an unanticipated intergenerational transfer, which normally would have been taxed through estate duties or donations tax.

"It is therefore entirely appropriate to levy a small charge on this unanticipated and unintended windfall," Manuel said.

□ Business Watch, Page 2

Pension tax hike will not hurt savings — Manuel (320)

Linda Ensor

CAPE TOWN — Criticism that the higher tax rate on the net rental and interest income of retirement funds would undermine the national savings effort was dismissed by Finance Minister Trevor Manuel in his speech ending the debate on the budget which was passed by Parliament yesterday.

Manuel said the increase in the tax rate from 17% to 25% would address the tax treatment of pension funds inherited from a period of high inflation.

"In the past interest and property income was so savaged by the combined effects of inflation and prescribed asset requirements that the retirement funds frequently made negative returns in real terms. In fairness to savers and retired persons, the state could not apply normal tax principles to retirement funds under such circumstances," Manuel said.

The current situation was very different. Retirement funds had much greater freedom to invest their assets as they were no longer subject to prescribed asset requirements, and interest rates were much higher than the inflation rate.

"Lower inflation is without a shadow of a doubt the best protection we can offer savers and pensioners. It is more than likely that the fall in inflation since the tax was introduced fully compensates for its effects on the real returns of fixed interest investment," Manuel said.

He noted a Katz commission finding that the tax exemption of retirement funds' investment earnings gave rise to major problems in the whole system and that a greater degree of neutrality was needed. It was this principle, he added, that lay behind the increase in the tax rate.

BD 27/3/98

Budget proposal will increase tax burden on small businesses

CT (BR) 1/4/98 (320)

Tackling Tax

DEBORAH TICKLE

The Government announced in its 1995 Budget that it agreed with the Katz Commission that there is a need to reduce the "compliance burden and cash-flow constraint of small enterprises".

It was said that one of the ways to do this would be to allow small businesses to be taxed on a cash-flow basis.

What this would have meant to you, if your Closed Corporation or company is a small enterprise, was that your working capital requirements would have been eased because the business would have been taxed on income only when it received the cash and would deduct expenses only when it had paid them.

From a cash flow, and survival point of view, the benefits of this are obvious.

It would also have meant that, for tax purposes, you wouldn't have to account for income and expenditure on the accrual basis.

Although the 1995 budget review book said that further research would need to be done to define a small enterprise, it also said that amendments to the Income Tax Act would be made to provide for relief in that year.

The recommendations seemed to be sound, and under VAT legislation businesses with taxable supplies for a year of less than R2,5 million could already pay VAT output tax and claim VAT input taxes on a cash basis (or "payments basis" as it is called in the Act).

It seemed therefore that it should be fairly simple to put the legislation together – surely businesses paying VAT on the basis of cash received, and claiming VAT on the basis of VAT paid to suppliers, would be the logical choice for the cash basis for income tax.

This system would also make it easy for the Revenue authorities to reconcile turnover and expenses for income tax purposes with turnover and VAT input taxes for expenses reflected on VAT returns.

So we all waited, with bated breath, to see the legislation come out, and for small enterprises to experience the promised relief. But legislation passed in 1995 did not contain anything relating to the cash basis. Nor did legislation passed in 1996 and 1997.

This year the budget proposals include a recommendation that relates to the cash basis, but contrary to the 1995 proposals, the recommendation is that the availability of the VAT payments basis be restricted to natural persons, bodies comprising solely natural persons and local authorities.

This means that this year we move further away from the cash basis.

So if your company or CC currently pays VAT on the payments basis, when the change is legislated, you will have to do the following:

□ Determine the total amount of outstanding debts which relate to invoices on which VAT is reflected, and pay over the VAT relating to those debts;

□ Determine the total amount you owe creditors who have charged VAT, but whom you have not yet paid, and claim the input tax.

Far from reducing the administrative and working capital burden of small enterprises, this will clearly increase it.

If this change will affect you, in order to make the changeover easier, I suggest you start looking now at your accounting system to make sure it can account for the VAT on an invoice basis, and also that on the changeover date, you will be able to obtain the right information to pay and claim the correct VAT.

□ Deborah Tickle is a tax partner at the accounting firm KPMG

□ If you would like any questions on tax of a general nature answered for publication write to Deborah Tickle, Personal Finance, P O Box 56, Cape Town, or e-mail perfin@ctn.independent.co.za

Revenue blitz shows 30% of companies not registered to pay tax

(320) BD 20/4/98

Greta Steyn

ALMOST 30% of medium-sized companies visited over the six months to March as part of a tax collection "blitz" by the SA Revenue Service were not registered to pay tax.

These were over and above those in the informal sector.

Tax experts said at the weekend this showed that the number of businesses not paying tax was exceptionally large.

Commissioner for Inland Revenue Trevor van Heerden said: "As a cynical taxman, I was not surprised by the results. But it is quite high."

The revenue service said it had evaluated 223 221 business entities as part of a countrywide initiative to broaden the tax base. Of these 27% were not registered to pay income tax.

On value-added tax, 57 241 entities had been checked, of which 28% were not registered. For pay-as-you-earn, 48 563 evaluations had been made, and 28% were not registered.

Van Heerden said the businesses targeted were not large companies, but they were not in the informal sector either. The sample was to some extent random, but the revenue service was drawing up lists from a number of sources, including newspaper reports.

Responding to criticism that the revenue service was not doing enough to tackle big companies that were not paying tax, Van Heerden said the Sandton office had been beefed up considerably to do that.

"We have not had the right number of qualified people, but there has been a dramatic improvement. However, there is still some way to go."

Improved tax collection was the main reason why government scored a R1,5bn revenue bonanza in the previous fiscal year which, it said, would help achieve a deficit of 4,1% of gross domestic product.

Arthur Andersen senior tax manager Michael Honiball said much could still be done to tighten up tax collection from big, listed companies. Big companies should be "targeted more urgently, as the take from them is much higher". He believed that the salaries offered by the revenue service still fell far short of what was needed to draw skilled people into government.

Honiball said there was no need to hire large numbers of expensive people, as skills transfer to revenue service staff was the key to the problem.

Fisher Hoffman Sithole tax director Graham Williams said there was still a long way to go, but a definite improvement had been made in widening the tax net. Companies were already being less aggressive about avoiding tax.

Marcus eyes new taxation on pension funds

ARG 25/4/98 (320) (200)

BRUCE CAMERON

Get ready for a new taxation structure on retirement funds in next year's Budget.

Gill Marcus, the Deputy Minister of Finance, has told Personal Finance that her department is currently finalising new tax structure that will be put in place in next year's Budget.

But the total restructuring of the retirement industry has been put on hold.

The main effect of the tax changes will be the build-up to retirement and the taxation of benefits on retirement date.

The changes are likely to be based on the recommendations of the Katz Tax Commission of Inquiry.

His recommendations included:

◆ Getting rid of the differences between provident funds and pension funds, allowing members of both to claim contributions against tax within certain limits while preventing excessive salary-sacrifice schemes where employers paid all contributions tax-free for members; and

◆ Taxing all benefits as a lump sum at retirement but putting in place an incentive system that would encourage members to take a minimum portion of the benefit as a monthly pension.

Government has already implemented the other major leg of the Katz recommendations: namely the 25 percent tax on the interest and net rental income accruing in the build-up of retirement funds. This tax drops away at retirement.

The future structure of the retirement industry, including taxation, national savings schemes and social pensions, have been before the National Retirement Consultative Forum, which was established last year after the Smith Committee on retirement and the Katz Commission on the restructuring of South Africa's tax system had been submitted to Government.

In an interview with Personal Finance, Marcus said that the many changes taking place in the financial services industry had wider implications, including for the retirement industry, which had to be considered.

However, the issue of taxation of retirement funds had to be dealt with this year, as it was unacceptable to have an ad hoc approach to taxation of the financial services industry.

Marcus said issues that had to be taken into account included:

◆ The globalisation of the financial services industry;

◆ Competitiveness between the various sectors, including different tax approaches; and

◆ The concentration of control through the trend here and in the rest of the world to the BancAssurance conglomerates.

Marcus said she was concerned whether the Government was getting its fair share of taxation under the current system of taxation of the life industry, known as the four-fund approach.

In terms of the the four-fund approach, different taxes are applied to different funds – such as life assurance and retirement funds – managed by the life assurance industry.

Marcus said the broader financial services industry was being affected by rapid changes and Government had to draw up a policy that looked to the next millennium.

"We have to consider the appropriate environment for the supervision and regulation of the financial services industry in the next millennium.

"We have to look at the nature of products, institutions and their functions; what can realistically be expected from the regulators as well as the responsibilities of the institutions for the management of risk.

"We cannot push ahead with changes to the financial services environment, including regulation, that leave big gaps in the future."

Marcus said that although this could delay issues such as better regulation to protect investors and better retirement structures, the framework within which this takes place is very important.

"There are big issues that will require decisions with long-term consequences. We don't want to set artificial deadlines."

Katz recommendations – page 3

Tax relief on one hand, but you get hit on retirement (320)

Deduct amount from taxable income

Star 25/4/98

STAFF REPORTER

So you thought Trevor Manuel, our Minister of Finance, treated you well in the last Budget by eliminating fiscal drag – that nasty little trick used extensively by the last government to push you into ever-higher tax brackets.

It worked like this: your salary went up in line with inflation but the tax brackets at which you paid an ever-bigger percentage of what you earned in tax were not adjusted.

In the last Budget, for the first time, Manuel adjusted the brackets so that you were not paying more tax purely as a result of inflation.

But this is not the end of the story, says Marius du Toit, senior actuary at Sanlam Group Benefits.

Du Toit has calculated in to the sums other little tricks our Trevor pulled out of his Budget top hat. They were changes to the way medical contributions were taxed as well as the increase from 17 percent to 25 percent on the tax in interest and net rental earnings of your retirement fund. When you take *these into account*, Manuel was not exactly playing the gift giver, but rather opting for the part of Scrooge.

He has worked out how much you could be affected by all the tax adjustments. (See the table, which shows how you are affected.)

Du Toit says in cases where your employer contributes 100 percent of your contributions to a medical aid fund, you will be taxed on one-third of this amount in future. The amount in *tax obviously depends* on the type of medical scheme, the medical aid contributions and your *personal circumstances*, e.g. the number of dependants.

The table is based on the scenario of a medical aid member with two dependants who belongs to a reasonably-comprehensive non-contributory medical scheme.

"Without exception, this tax is more than the saving resulting from the adjustments to the tax scales."

Du Toit says the increase in the rate of tax on retirement funds could result in a further reduction of your disposable income.

"The increase *means that the* rate of return earned by retirement funds will decline by around 0,4 percent.

"In defined contribution funds, it means that *the benefits available to* members of retirement funds will be considerably lower."

Depending on how far you are from retirement, the benefits could be up to 11 percent less than before the 1998 Budget.

Du Toit warns that if you are affected you must give serious consideration to making extra provision for retirement if you wish to ensure you have sufficient funds to live on after retirement.

The last column indicates the additional contribution required each year to place you in the same position you were in before the Budget. In the calculation, it has been assumed that 10 percent of salary is used in respect of retirement, and that you are 25 years from retirement.

If you contribute to an approved pension fund or retirement annuity, you may deduct the additional amount from your taxable income.

This could bring about a small saving, resulting in the Government *receiving less in* tax revenue than it anticipated.

HOW MANUEL'S TAX ADJUSTMENTS AFFECT YOU

[illegible]	Tax 1997	Tax 1998	[illegible]	[illegible]	[illegible] ... from 17 to 25 percent	[illegible] Not taking tax deductions of increased medical benefits into account	Taking tax deductions of increased medical benefits into account	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rands	Rands	Rands	Rands	Rands	Rands	Rands	Rands		Rands	Rands	Rands	Rands
17000	15	0	15	692	109	786	765	19%	10920	1700	272904	1809
18000	205	0	205	692	115	602	580	19%	10920	1800	288957	1915
19000	395	95	300	777	120	599	576	19%	12276	1900	305010	2022
20000	585	285	300	777	126	606	581	19%	12276	2000	321063	2128
21000	775	475	300	777	135	612	586	19%	12276	2100	337116	2235
22000	965	665	300	777	141	618	592	19%	12276	2200	353170	2341
23000	1155	855	300	777	147	625	597	19%	12276	2300	369223	2447
24000	1345	1045	300	777	154	631	602	19%	12276	2400	385276	2554
25000	1535	1235	300	860	160	720	690	19%	13584	2500	401329	2660
26000	1725	1425	300	860	167	727	695	19%	13584	2600	417382	2767
27000	1915	1615	300	860	173	733	700	19%	13584	2700	433435	2873
28000	2105	1805	300	860	179	740	706	19%	13584	2800	449488	2979
29000	2295	1995	300	860	186	746	711	19%	13584	2900	465542	3086
30000	2485	2185	300	860	192	753	716	19%	13584	3000	481595	3192
35000	3985	3575	410	1353	224	1173	1105	30%	13584	3500	561861	3724
40000	5585	5075	510	1433	256	1179	1102	30%	14328	4000	642126	4256
45000	7185	6575	610	1433	288	1111	1025	30%	14328	4500	722392	4788
50000	9235	8435	800	1945	320	1466	1341	39%	14964	5000	802658	5320
55000	11285	10385	900	1945	352	1398	1260	39%	14964	5500	882924	5852
60000	13335	12335	1000	1945	384	1330	1189	39%	14964	6000	963190	6384
65000	15485	14485	1000	[illegible]	416	1581	1382	[illegible]	14964	6500	1043455	6916
70000	17635	16635	1000	[illegible]	448	1593	1400	[illegible]	14964	7000	1123721	7448
80000	22035	21035	1000	[illegible]	[illegible]	1707	1482	[illegible]	14964	8000	1284253	[illegible]
90000	26435	25435	1000	[illegible]	[illegible]	1771	1518	[illegible]	[illegible]	9000	1444784	[illegible]
100000	30835	29835	1000	[illegible]	[illegible]	1835	1554	[illegible]	[illegible]	10000	1605316	[illegible]
120000	39835	38635	1200	[illegible]	[illegible]	1764	1426	[illegible]	[illegible]	12000	1926379	[illegible]
150000	53335	52135	1200	[illegible]	[illegible]	2006	1573	[illegible]	[illegible]	15000	2407974	[illegible]
200000	75835	74635	1200	[illegible]	[illegible]	2326	1749	[illegible]	[illegible]	20000	3210632	[illegible]
300000	120835	119635	1200	[illegible]	[illegible]	2967	2102	[illegible]	[illegible]	30000	4815948	[illegible]
400000	165835	164635	1200	[illegible]	[illegible]	3607	2454	[illegible]	[illegible]	40000	6421264	[illegible]
500000	210835	209635	1200	[illegible]	[illegible]	4248	2806	[illegible]	[illegible]	50000	8026580	[illegible]

Marcus eyes new taxation on pension funds

Star 25/4/98 (320)

BRUCE CAMERON

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In terms of the the four-fund approach, different taxes are applied to different funds – such as life assurance and retirement funds – managed by the life assurance industry.

Marcus said the broader financial services industry was being affected by rapid changes and Government had to draw up a policy that looked to the next millennium.

"We have to consider the appropriate environment for the supervision and regulation of the financial services industry in the next millennium.

"We have to look at the nature of products, institutions and their functions; what can realistically be expected from the regulators as well as the responsibilities of the institutions for the management of risk.

"We cannot push ahead with changes to the financial services environment, including regulation, that leave big gaps in the future."

Marcus said that although this could delay issues such as better regulation to protect investors and better retirement structures, the framework within which this takes place is very important.

"There are big issues that will require decisions with long-term consequences. We don't want to set artificial deadlines."

Katz recommendations – page 19

Now you can keep what you earn

(320)

ED WEST
DEPUTY BUSINESS EDITOR

ARG 29/4/98

Average South Africans worked until yesterday to pay their 1998-99 taxes – today is only the second day this year that they keep what they earn.

Free Market Foundation statistician Garth Zietsman says tax rates in South Africa are way above those in similar-sized emerging economies like those in Indonesia, Malaysia, Singapore and a host of South American countries, but more or less in line with Australia, a little better than in the United States and a lot better than in Europe.

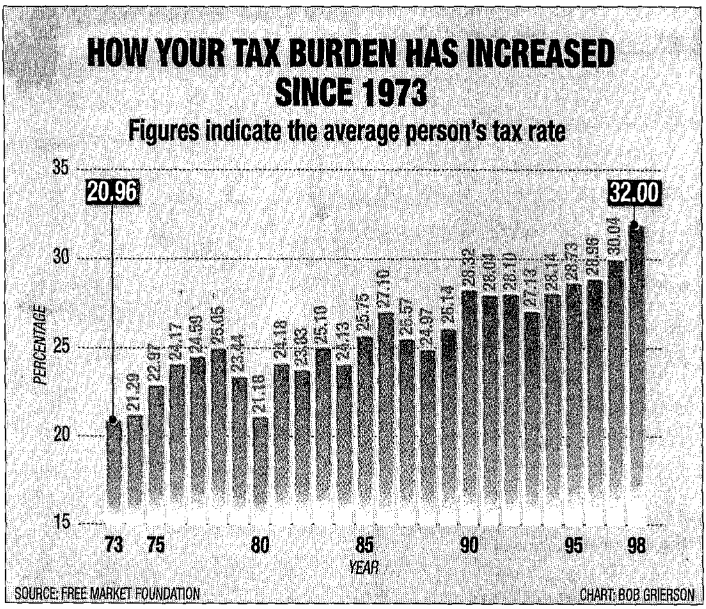
Lower tax rates stimulate economies as they compete in world markets, and impinge less on personal freedom as individuals spend less time working for the state, says Mr Zietsman.

Nobody knows precisely how much tax average South Africans, including informal sector and agricultural workers pay because many taxes are hidden, but the Freedom Foundation estimates they fork out 32% of their incomes in various forms of tax.

This percentage was calculated by dividing gross domestic product by general gov-

To page 3

The depressing truth



Now you can keep what you earn

ARG 29/4/98

(320)

From page 1

ernment revenue, and shows that the average South African must work 32% of the year to pay off his or her taxes.

This year's "tax freedom day" was yesterday, a day earlier than last year.

To illustrate how much more of a tax burden the average person is being forced to carry every year, "tax freedom day" in 1973 fell on March 19.

For the average formal sector, non-agricultural black worker, tax freedom day is May 9, with 35,07% of his or her income going to the state.

The average coloured worker pays only slightly less tax, with tax freedom day on May 8, as 34,77% of earnings go to the government. Indian workers pay 41,59% of their incomes in taxes, while the average formal sector white worker pays the most – tax freedom day is on June 29, with 49,14% of earnings going to the government.

Taxing Eskom may hit economy, experts warn

(66) (320)

New bill 'puts jobs and prices at risk'

ARG 30/4/98

CHARLES PHAHLANE
POLITICAL BUREAU

The Eskom Amendment Bill could have the effect of increasing electricity prices and hurting the economy, interested parties told a parliamentary committee.

The bill seeks to transfer ownership of Eskom to the state and to make the parastatal pay taxes.

The portfolio committee on public enterprises was told the bill should not be passed until its likely effects on prices had been researched and the white paper on energy, which was still being drafted, was published.

The Congress of SA Trade Unions said the changes should not jeopardise "what is currently a successful formula."

"There is no certainty as to how the corporatisation and taxation of Eskom will impact on Eskom's restructuring, its development potential or on its strategic economic role." Cosatu's Kenneth Creamer told the committee.

The University of Cape Town's Applied Fiscal Research Centre (AFReC) submitted that removal of tax-exempt status would improve financial management of the parastatal, and lead to improved investment decisions. Eskom has a number of unused power stations.

But taxation could also have negative effects. If Eskom were taxed, then it should be relieved of its burden of electrifying houses.

Government statistics showed that there were 1 000 electricity connections a day on average since 1994. AFReC's Iraj Abedian said there was a need for clarity on what would be taxed: electricity as a commodity or the electricity industry.

The Cabinet has already approved an electrification levy and a municipal levy on consumption.

Taxing electricity directly might increase prices and distort the allocation of resources, Dr Abedian said.

It could also discourage investment, which would hurt jobs.

The electrification levy would make cross-subsidisation of electricity more transparent. But it might not be the most efficient way for the Government to fund electrification, as the levy would be a regressive tax, affecting poor customers the most.

The municipal levy would take the form of an excise tax, like the fuel levy, but it was not clear how it would be divided among municipalities. The levy could have far-reaching implications for the economy and could adversely affect competitiveness, since other countries used electricity pricing to give their industries a competitive edge. It could also hurt future investments.

Taxman's refund system now 'foolproof'

ARG 2/5/98 (320)

SHALO MBATHA

The South African Revenue Service (SARS) claims that theft of tax refund cheques has declined dramatically since a new "foolproof" refund distribution system was introduced last year.

Christo Henning, a SARS spokesman, said that since the introduction of the system, of the 120 000 cheques posted each month, only four or five cheques had gone missing. Previously, there had been a high volume of complaints from taxpayers about non-arrival of refund cheques. The unlucky taxpayers had to submit sworn affidavits saying they hadn't received the money, and duplicate cheques were then issued, according to SARS officials.

The cheques used to be posted to taxpayers via local post offices.

With the new system, the cheques are couriered from the SARS offices directly to central post office sorting depots.

Mr Henning said that when the cheque is put the mail, the owner is informed and it is kept at the post office for one month. If it is not collected, it is sent back to the Receiver of Revenue until the owner claims it. The interest accrued goes to the Department of Finance. If a cheque is lost in the mail, an investigation will be launched. If culprits are caught, they will be charged with fraud.

The SARS encourages taxpayers to furnish details of their bank accounts so that payments can be made directly to their banks.

However, that system is not without its pitfalls either.

A media industry executive, who asked not to be named, has been trying to track down his R1 250 refund for months.

The money should have been paid directly into his Nedbank account. Despite numerous phone calls to the Receiver and Nedbank, the deposit cannot be traced.

The SARS office to which the man submitted his tax return faxed us a copy of the bank deposit.

Nedbank initially said it could only get printouts of the man's February and March bank statements, although the money should have been deposited in January.

After further searching, however, Nedbank "found" the deposit and routed it to the man's account. He will be paid the outstanding interest on the amount.

"I wonder how many other people have money floating around in their bank branch that they are not aware of?" asked the man.

He said he would ask his bank manager for a full explanation for the temporary disappearance of his money.

Let's talk about tax

- If you have never paid tax before, you must fill in a tax form from your nearest Receiver of Revenue.
- If you haven't been paying tax, you will be penalised R200 for every year defaulted.
- Repayments of the penalty are negotiable.
- An employee earning more than R60 000 a year is legally obliged to pay income tax.
- Companies must deduct PAYE monthly to settle the employee's yearly liability in full.
- Employees must submit an IRP5 form each year to ensure that they do not owe tax or are owed money.
- Employees with extra allowances or expenses must complete a tax return because they could get a refund or they could owe the Receiver money.
- Pension fund contributions are tax deductible in some cases.

Focus will be on sectors where actual tax paid is far lower than nominal rates

CT(MR)6/5/98

State drive to close tax gap

(320)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The South African Revenue Service (SARS) was stepping up its drive to close the tax gap with the aim of ensuring greater voluntary compliance, the parliamentary portfolio committee on finance heard yesterday.

Trevor van Heerden, the SARS commissioner, told the committee it was considering following Sweden's lead by auditing the tax returns of the top 200 companies while also focusing on certain sectors, such as financial services, where actual tax paid was lower than nominal rates.

At the same time, it expected to receive much greater detail about the potential tax base from banks, insurance companies and other businesses.

"Once we get more information in, we will get a lot more revenue flowing in," he said.

Avhashonu Netshivhungululu, the director of tax structure development, said that of the 339 025 companies surveyed between October and March, 28 percent had to be registered for tax purposes. Of these, about 37 000 had now been registered, while teams of officers had been set up in all local offices to trace companies eligible for tax purposes.

Officials were also tracking down potential taxpayers in rural areas and black urban residential areas. The thorny question of how to get taxi operators to pay tax, however, was still something that called for a political solution, Van Heerden said.

"Our campaign is extensive because we have a vision that in the long run we have to be in a situation where we have a culture of voluntary compliance, where everybody in South Africa is proud to pay his or her fair share," Netshivhungululu said.

Van Heerden said the SARS expected its new income tax policy to be on stream by the end of the year, which would help re-engineer tax collection in the long term. Though it was still difficult to evaluate the effect this would have on tax collection, it was expected to be more efficient.

He said there was concern that the SARS's estimates of revenue did not reveal the full picture, and a deeper study was needed to determine the real tax gap.

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Tax officials to crack down on financial services and oil industries

(320) BD 6/5/98

Linda Ensor

CAPE TOWN — Inland revenue planned to target specific sectors such as financial services and the oil industry which it believed were not paying sufficient tax proportionate to their profit, commissioner Trevor van Heerden said yesterday.

Briefing Parliament's finance committee on the SA Revenue Service's budget vote, he said Soweto and townships in KwaZulu-Natal and the Western Cape would also come under the spotlight in an accelerated drive to broaden the tax base.

Special attention would also be given to improving value added tax and pay as you earn collections where the returns were quicker.

Inland revenue has projected an increase in revenue collection of R16bn to R180bn (R164bn) this fiscal year.

Van Heerden said special audit teams would investigate the tax paid by some economic sectors where the use of tax avoidance schemes appeared to be widespread and where the amount paid in tax was low compared with the nominal tax rate.

For instance, financial institutions had made extensive use of losses in trusts for their own benefit. This would be addressed through legislation.

Consideration was also being given to the highly successful Swedish approach of concentrating on the top 200 companies which generated most of the tax. Swedish tax authorities were also helping SA determine the size of the tax gap and identify sectors on which to concentrate.

Avhashoni Netshivhungululu, the director of tax structure development, told the committee the revenue service had successfully employed other initiatives to enhance collections such as visiting businesses to check whether they were registered. Successes had also been made in dealing with outstanding returns and collecting outstanding tax.

However, Van Heerden warned that improvement in tax collections was being hampered by the "inability of the present justice system to deal with the increased flow of prosecutions" and the low tax morality in the country.

He said a new income tax system at end-December would give the revenue service an interface with banks, though the benefits would only filter through in later years. This would result in "huge productivity gains" as a number of manual processes would become automated, reducing duplication and loss of revenue.

Deputy commissioner Pravin Gordhan said ways of extending services in collaboration with the Post Office and municipalities would be explored.

Tax incentives could boost efficiency

(320) BD 8/5/98

Josey Ballenger

THE days of poor waste management and inefficient industrial practices may be limited if tax incentives are introduced — an idea that may be incorporated into government's waste management strategy, a consultant to government said this week.

"We cannot just use sticks. We need some carrots," said Dave Baldwin, technical director of consultancy Bohlweki Environmental, in reference to measures being considered by an interdepartmental committee to encourage waste generators to engage in better practices.

Government's national waste management strategy process, which began last August, is a joint effort between the environmental affairs and water affairs departments, various SA consultants and Danish consultancy Ramboll. The two-year project is primarily funded by Danish aid agency Danced's R8,2m contribution, with the SA government kicking in R700 000.

Baldwin said the strategy focused on four major areas: hazardous and related wastes, including mining and radioactive materials; nonhazardous waste; waste minimisation; and compiling a national database.

The project's first phase — a baseline analysis of SA's waste output and minimisation efforts — is due for completion at the end of the month.

The second phase will be to develop a strategy within six months, and the final phase will see the creation of "action plans" by next May.

Baragwanath upgrading 'allows for better care'

Josey Ballenger

BD 8/5/98 (88)

THE recent R2,3m upgrading of what has become the world's largest hospital — Soweto's Chris Hani Baragwanath — puts the community institution in a better position to cope with the 30 000 patients it sees every year.

Baragwanath's revamped medical admissions ward 20, which was opened this week by greater Johannesburg mayor Netta Mogase, includes a medical high-care unit and a better equipped laboratory six times the size of its predecessor.

"About 3-million people live in Soweto and most of them will come to this hospital for medical care. The ward gives patients more privacy and dignity and access to improved quality of care," said Donald de Korte, CE of pharmaceutical company Merck Sharp & Dohme (MSD).

Between 70 and 100 patients — with ailments ranging from tuberculosis to heart disease and strokes — are admitted daily, while only R8m of the hospital's R500m annual funding needs is collected from its primarily poor patient base.

The hospital also functions as a referral centre for SA's 40 provincial hospitals and medical facilities in neighbouring countries and is the largest teaching hospital for medical students from Wits University.

The upgrade was a public-private partnership between MSD, which contributed R1,5m, the Gauteng health department, which paid R500 000, and the SA Institute for Medical Research, a statutory body which contributed R300 000.

The upgrade resulted from a 1996 survey of staff members which painted a "disturbing" picture, the hospital said. In the survey 96% of the respondents felt the quality of care was poor and equipment inadequate, while 57% said emergency care facilities were insufficient.

The new ward is divided into five sections, each staffed by two nurses, two doctors, a registrar and an intern. This "dramatically improves the quality of care", said project co-ordinator Dr Ivor Katz.

JUDGMENT IN BRIEF

A recent court judgment of interest to business

NBS Boland Bank Bpk v One Berg River Drive CC, Witwatersrand Local Division, 8 April 1998, B Southwood

MORTGAGE bonds passed by One Berg River Drive in favour of NBS Boland Bank provided that specified interest rates would be payable on the loan advanced, or such rates as the NBS might determine from time to time. Clause 14 of the bond provided that the NBS could vary the rate of interest and could increase the monthly repayments so as to ensure ultimate payment of the whole bond within the period of the bond.

The NBS brought an action against Berg River, claiming amounts outstanding in terms of the bonds. The parties agreed that the point of difference between them was the legality and enforceability of clause 14. Berg River argued that clause 14 was void because it was vague, having left the determination of the interest rate completely within the discretion of one party, the NBS. The NBS argued that in interpreting the provision, enforceability rather than unenforceability should be sought; furthermore, that the NBS's discretion was to be exercised reasonably.

The judge said that it was a principle of our law that when a term of a contract depends entirely on the will of one of the parties to determine the extent of performance of either party, the contract is void. While it was true that a contractual term should be interpreted so as to be enforceable, rather than unenforceable, the provisions of clause 14 gave the NBS an unfettered discretion to vary the interest rate. The discretion did not have to be exercised reasonably. Clause 14 was therefore unenforceable.

☐ *Advocate Mark Stranex's feature appears every Friday. Full transcripts are obtainable from e-mail lawpub@global.co.za or fax 011-337-6634 or http://www.lawpublisher.co.za.*

Government writes off R1-bn taxes

PARLIAMENTARY BUREAU (320)

The Government has written off almost R1-billion in tax as irrecoverable in the past three years. ARG 19/6/98

Finance Minister Trevor Manuel disclosed this in Parliament in reply to questions by Ken Andrew of the Democratic Party.

Mr Manuel said R310-million was written off in 1994-95, R305-million the following year and R289-million last year.

Reasons for dropping attempts to collect the tax included insolvency, impossibility of tracing debtors, debtors who had no assets or income, the State Attorney being unable to collect outstanding debts and legal action being uneconomical.

At the same time, Mr Manuel released figures showing that R59,8-billion was collected in individual tax last year.

People in the Western Cape contributed R8,8-billion in individual tax, in Gauteng R33,9-billion and in KwaZulu Natal R6,8-billion.

Company tax collected last year totalled R19-billion.

Receiver takes a tough line with tax dodgers

ARG 20/5/98 (320)

JOHAN SCHRONEN
STAFF REPORTER

Tax dodgers beware – big brother is watching you.

That's the message from South African Revenue Service regional manager Stan Shrosbree, after the arrest of two Wynberg doctors who are alleged to have not paid R8-million in tax over the past two years.

The doctors appeared in the Magistrate's Court in Worcester yesterday on charges of evading income tax and value added tax. They were released on bail of R100 000 and R50 000.

Mr Shrosbree said the Revenue Service had made every effort to accommodate people who owed tax.

"We've been lenient. After two amnesties, there are still people out there holding back tax.

"The new, restructured Revenue Service employs a team of legal experts tasked to attach and liquidate assets when necessary," he said.

A more aggressive approach had been adopted to recoup as much as possible of the R12-billion owed.

Mr Shrosbree warned that the service would target all offenders, from small business to large companies.

"I encourage people who have not yet paid their taxes to come clean and contact us. Rather come to us before we find you," said Mr Shrosbree.

He could not promise any "special treatment" for people who wanted to defer payment, but said he would treat each case on its merits.

Provincial administration of tax still under debate

CT (BR) 21/5/98 (320)

Lynda Loxton

Cape Town — There were still considerable doubts about whether provinces had the capacity to administer their own taxes, Trevor Manuel, the finance minister, said yesterday.

Wrapping up the debate in the national assembly on the Division of Revenue Bill, which allocates shares of the national Budget to the provinces, Manuel said the issue would again be discussed by the budget council and the Katz commission at a meeting starting today. "It is an unresolved matter," he said.

"Revenue raising is ultimately dependent on capacity because once you have given that away and you deepen and worsen the levels of tax morality because of an incapacity within provinces to collect, it is virtually impossible to recover and you will be introducing further distortions into the system.

"From our last discussions with the Katz commission, there is no dispute on the principles, but there is a decided caution on the part of the commission about the speed with which you transfer these powers to provinces."

Manuel said it was recognised that unless the provinces could raise their own revenues, they would tend to spend more than they were allocated.

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Two-year wait before provincial taxation powers become a reality

(320) BD 25/5/98

Kevin O'Grady

PROVINCIAL taxation powers provided for in the constitution and lobbied for strongly by the Financial and Fiscal Commission (FFC) are unlikely to be granted for at least two years because the SA revenue service (SARS) cannot collect and distribute taxes regionally.

It was believed that legislation regulating taxation by the provinces would be in place this year. However, the legislation has not been drafted and the Katz commission has yet to report its recommendations on the subject. It is understood that when the commission reports in the next few weeks, it will say the SARS needs about two years to develop the capacity to differentiate between taxpayers in the various provinces and to return taxes to the regions.

The Budget Council, which consists of the provincial and national finance chiefs, met at the weekend to discuss the issue and was briefed by commission chairman Michael Katz. This followed concerns raised in Parliament by Finance Minister Trevor Manuel last week about the macroeconomic risks inherent in empowering the provinces to raise revenue.

Commissioner Pierre du Toit said the main difficulty in granting taxation powers to provinces was that it "presumes a revenue and expenditure infrastructure that does not exist".

Speaking in his personal capacity, Du Toit said he would prefer to see taxes continuing to be collected "at the most effective point" and allocated by national government "with the real credibility of checks and balances".

The move towards a federal taxation approach when a federal system did not exist was "very good conceptually but has no basis in reality". It would be a formula for tremendous wastage and inefficiency."

Du Toit said the commission was looking at two options for the provinces — a surcharge on personal income tax and a fuel levy which would be the easiest to collect and distribute.

FFC researcher Kuben Naidoo said that while most stakeholders agreed in principle that the provinces should be able to levy tax, and while legislation governing the SARS allowed it to differentiate between national and provincial taxpayers, the major stumbling block was that the SARS did not yet have the capacity to do this.

The FFC also felt that Manuel was "still cautious" about provinces getting tax powers because of the risk to the 25% tax-to-GDP ratio aimed at by government's macroeconomic policy if provinces raised taxes above the room created for them at national level.

Provinces likely to spurn tax powers

(320) BD 1/6/98

Kevin O'Grady

MOVES to give the provinces taxation powers are likely to be spurned by most provincial governments which believe only Gauteng will benefit significantly.

Provincial taxation powers, which are provided for in the constitution and which the Financial and Fiscal Commission (FFC) believes should be granted soon, are the subject of the Katz commission's eighth report, due out within weeks.

A number of finance MECs said the provinces were also likely to take a dim view of suggestions that they, rather than the SA Revenue Service, be responsible for collecting taxes that they were empowered to levy. This was one of the options being looked at by the Katz commission.

Its report, on which the Budget Council was recently briefed, is understood to say that it will take at least two years before the revenue service has the capacity to collect and distribute taxes regionally.

Gauteng finance MEC Jabu Moleketi said a shorter-term option under consideration by the Katz commission was the imposition by provinces of bed levies, or a wider tourism tax and hospital charges.

Bed levies, however, are likely to come under fire from the industry for being inequitable. Citing similar reasons, the major hotel groups resigned from the SA Tourism Board's voluntary national classification and grading scheme recently, resulting in 80% of Satour's bed levy funding mechanism drying up.

Moleketi said some of Katz's proposals "put some provinces in a better

Continued on Page 2

Tax

(320) BD 1/6/98

Continued from Page 1

position than others. For example, Gauteng would benefit more (from a surcharge on personal income tax) because it has a bigger tax base".

While he would prefer the revenue service to collect any provincial taxes, Moleketi said another proposal was that the provinces use outside agencies, similar to those used to collect regional services council levies.

KwaZulu-Natal finance MEC Peter Miller was sceptical about how much his province would benefit from taxation powers and insisted that, should the powers be granted, the revenue service should be the only collection agency. "The situation in KwaZulu-Natal is desperate regarding our ability to deliver services. Heavier taxation on businesses or individuals will blight our economy."

Eastern Cape finance MEC Enoch Godongwana said reducing the national tax burden to allow provinces to collect taxes would "reduce the broader cake if some provinces have nothing to tax. Gauteng would benefit, but most provinces would lose."

Two finance MECs, who asked not to be identified, said they would fight moves to allow provinces to raise taxes.

The FFC has said granting taxation powers to provinces would increase accountability if provincial governments were spending taxes collected locally.

One observer suggested this could be a reason for some provinces' aversion to the idea — that they are more comfortable with their inevitable overspending if they cannot be called to account by a provincial electorate.

CAPE TIMES
MONDAY, JUNE 15, 1998

Top Revenue jobs set aside

(320)

RONALD MORRIS
JUSTICE WRITER

07/15/6/98

THE appointment in 1992 by the Revenue Services of two directors into posts for which they were not qualified, has been a costly blunder, the Cape High Court has ruled.

This emerges from a judgment on Friday by Judge Selwyn Selikowitz in an action in which George Provan sought a review of the Revenue Service's decision not to appoint him to the post of director in either of two vacancies he had applied for.

The judge set aside a decision by the chairperson of the Public Service Commission, the director-general of the Department of Finance or the chief executive officer of the SA Revenue Services to appoint W J Reitz and J N Gouws to the vacancies.

The question of the appointment of Provan to the rank of director with effect from November 1, 1992, together with the attendant benefits such as back pay and increased pension benefits had to be considered afresh, the judge ordered.

The judgment may unleash similar actions by other revenue officials, an observer said.

Provan, who retired last year, worked for Revenue Services for 34 years and was highly qualified, having obtained the degree Master of Laws (Tax) at UCT in 1991.

His woes started in September 1992 when he applied for the post of director in vacancies in Bellville and Port Elizabeth.

He was unsuccessful and the Bellville post went to Reitz and the Port Elizabeth vacancy was filled by Gouws, both deputy-directors at the time.

Provan contended that Reitz and Gouws should not have been appointed as they did not have the prescribed qualifications even though they had more years of service than he. He also said that the appointment process itself was irregular.

Provan lodged a grievance and after having exhausted internal remedies, sought a review in the High Court.

The judge said it was clear the appointments of Reitz and Gouws had followed a selection process that was made essentially, if not exclusively, on the basis of selecting the most senior applicant. No interview was held with any of the candidates for either post.

Further, no consideration had been taken of the level of training, relative merit, efficiency and suitability of the candidates for the posts, the judge said.

The respondents were ordered to pay the costs of the review application.

Les Rose-Innes, SC, and Mark Sher, instructed by Terence Matzdorff appeared for Provan. André Oosthuizen, instructed by the state attorney, appeared for the respondents.

Revenue collection 'greatly improved'

BD 18/6/98 (390)

THE SA revenue service (Sars) reported yesterday an increase in PAYE, VAT, income tax and customs tax yields over the past year after a successful campaign to improve revenue collection.

Service advisory board chairman Judge MM Corbett said recent improvements showed a 12% increase in registered tax-payers and an 8% decrease in the 2,6-million outstanding tax returns.

Corbett said the backlog of assessed returns had been reduced by a third and extra staff were employed between 4pm and 7pm to telephone and remind taxpayers who had not yet submitted their returns.

PAYE audits recovered R193m in tax payment or underpayment for the 1997 tax year. "The target for the recovery of PAYE resulting from these audits for the financial year ended March 31 1998 was set at R170m. Achieved recovery amounted to R319m — an increase of 87,29%," Corbett said.

VAT audits yielded a 16% increase in revenue.

Corbett said income tax audits were not as successful and although the number of audits in the 1998 financial year increased by 9%, the actual value of the net results dropped by 3%.

The revenue service aimed for an increase of R150m in customs revenue to balance the neglect of the administration of customs during SA's trade isolation apartheid years.

The British customs authorities are advising on rectifying the undervaluation of goods. A follow-up project called Project Prisma is improving times for bill-processing and targeting consignments for examination to detect falsely declared and smuggled goods. During the past few months customs has made eight drug seizures at Wits Post (an international post and parcel depot) and two at Johannesburg international airport.

To counter cross-border smuggling, Sars hopes to have customs staff at all land border posts.

Corbett said: "Improved efficiency and effectiveness in revenue collection will in due course benefit honest, compliant taxpayers by broadening the tax base and thus eventually lightening the load on these tax-payers. At the same time, tax-evaders and defaulters are becoming aware they had better comply." — Sapa.

Govt reviews tax holiday scheme after 'disappointingly few applications'

(320) BD 24/6/98

Tim Cohen
and John Dludlu

HAMBURG — Government's tax holiday scheme has attracted "disappointingly few applications", prompting a review of the policy to improve its attractiveness, a Johannesburg-based consultancy says.

In a four-year study by BusinessMap on foreign direct investment, the consultancy said the tax holiday scheme accounted for direct investment of about R1,7bn.

The regional industrial development programme had attracted direct investment worth R2,7bn between 1994 and 1996, when it was phased out.

The small number of applications for the tax scheme was due to requirements that only new and totally ring-fenced projects could qualify for benefits. As a result, the trade and industry department was adjusting its regulations to make it easier for existing companies to expand operations.

Although government has admitted its disappointment with the scheme, which senior public servants say has attracted about 50 companies and created 20 000 jobs, it believes other programmes, such as the support programme for small manufacturers, are yielding results.

Several other support schemes, including the sectoral strategies, are also understood to be under review, although officials have said the reviews are periodic.

Government officials have said the policy framework is right and just needs effective implementation.

The consultant's report said foreign direct investment in SA had increased substantially in SA since 1994 to a current total of about R40bn, but the increase was largely dependent on government privatisations.

It showed R6bn was invested in 1994, R5,5bn in 1995, R9bn in 1996, R14bn last year and R5,5bn so far this year.

The privatisation of Telkom was the main contributor to last year's increase, with strictly private sector investment in fact dropping slightly.

The same trend was noted this year with about 20% of the investment coming from the sale of the Airports Company to Italy's Aeroporti di Roma.

The US remained the largest single country investor, followed by Malaysia and the UK. Asian investment was slowing down and the UK was likely to become the second-largest foreign investor.

Mergers and acquisitions were the main type of foreign direct investment, accounting for about R23bn. Then followed expansion, with greenfields investment accounting for about R7bn.

The top sectors were telecommunications, dominated by the Telkom privatisation, then energy, followed by vehicles.

Cosatu calls for more tax from the rich

Reneé Grawitzky

THE Congress of SA Trade Unions (Cosatu) yesterday adopted a comprehensive fiscal policy that calls for flexibility in the setting of the country's budget deficit, and for increased tax revenue from companies and wealthy individuals during "periods of reconstruction".

Delegates at the federation's central committee meeting yesterday also resolved to call for the scrapping of SA's foreign debt and to demand that government introduce the pay-as-you-go system in the public service pension fund. The introduction of this system, the federation argued, could free up billions which could be used to reduce the deficit.

Amid rising concern among delegates about the demutualisation of companies like Sanlam and Old Mutual, the meeting resolved to oppose demutualisation and to raise the matter within the African National Congress alliance.

Cosatu general secretary Mbazima Shilowa informed delegates that Sanlam had approached him yesterday to discuss the federation's opposition to demutualisation and its fears that this would lead to capital flight.

SA Clothing and Textile Workers' Union assistant general secretary Ebrahim Patel said public debate had to take place on the matter with an evaluation of the benefits and costs of demutualisation.

To date, such a debate had not taken place as companies hoped that "on the back of a bribe" demutualisation would go through.

BD 24/6/98

Tax rands help fast-track Virodene

(320) M+G 26/6-2/7/98

If all goes to plan, controversial Aids drug Virodene could soon get the go-ahead, reports **Andy Duffy**

Helen Rees: 'What everyone recognises is that the MCC's scientific decision has to be seen to be beyond reproach.' PHOTO COURTESY THE STAR

A team of top medical experts, funded from the public purse, has been helping prepare the controversial Aids drug Virodene for clearance for human trials.

The group, established by the Medicines Control Council (MCC), is working closely with Virodene's private owners to eliminate potential scientific problems with the drug before a formal application goes to the MCC to begin trials.

The experts' work will continue as long as they are needed. The drug's new owners believe they are just weeks from securing the MCC's approval for human trials.

The company that has just bought the rights to the drug, Virodene Pharmaceutical Holdings (VPH), hopes it can clear that obstacle within weeks. It wants to include the refined results of its original illegal human trials as evidence that the drug works.

If or when the MCC committee is satisfied, an official application to begin tests on healthy humans will be submitted.

MCC chair Helen Rees says the creation of the special committee and its extensive efforts for a private company are "unusual". But the government has identified the treatment of Aids as a priority, she says, and the council is duty-bound to help the development of a potential treatment. She adds, however, that no other potential treatments are currently enjoying such MCC attention.

It is also understood that former MCC chair Peter Folb proposed the creation of a special committee last year in part because of the political and public flack the MCC was catching over its opposition to Virodene's trials.

Folb is believed to have come under intense personal pressure from both Deputy President Thabo Mbeki and Minister of Health Nkosazana Zuma over the issue. Folb quit as chair two months ago. He declined to comment this week.

The special committee, formerly chaired by Rees, includes a toxicologist, clinician, pharmacologist and public health specialists — all leaders in their field, Rees says, who have spent "hundreds of person hours" on the Virodene project.

"The committee has spent an enormous amount of effort giving them scientific feedback," she adds. "Council can't write [their application] for them. This is really to direct them about where they're going wrong.

"[Its creation] was unusual but it became clear to the MCC that there was public confusion about what was going on ... The MCC was seen as being obstructive and difficult."

The council under Folb blocked four applications by Virodene's researchers to begin clinical trials. It claimed the researchers had flouted procedures and that the drug was actually dangerous. The council also called in the police to probe continued Virodene sales.

Such opposition was particularly embarrassing for Zuma. She had personally arranged for Virodene's researchers — and some of their human guinea pigs — to go before the rest of the Cabinet to appeal for public funding. Several Cabinet members stood up to applaud following the Virodene presentation.

The MCC's stance put it on a collision course with Mbeki and other high-ranking African National Congress officials. Folb quit after Zuma decided to replace the council with a new regulatory authority, due to start up in September.

The Virodene researchers have now met the concerns of the special committee about the drug's dosage and toxicity (its main component is a harmful industrial solvent). The committee has still to be convinced that it actually works.

Zuma is overseas and a representative from Mbeki's office could not be reached for comment.

But Rees says there has been no pressure from Zuma or anyone else in government on the committee's work or the drug's development. "What everyone recognises is that the MCC's scientific decision has to be seen to be beyond reproach," she adds.

VPH also this week dismissed any link between itself and the government. "The ANC and government have done nothing tangible for Virodene that I can see," says VPH manager, Joshua Nxumalo.

Nxumalo says he did not help arrange meetings between Virodene's researchers and senior government officials — contrary to the claims of other VPH shareholders. He says he is merely a businessman, representing a consortium of other black businesses that now control VPH.

His background, however, is a curious one, pointing to both military and intelligence work for the ANC. Nxumalo, known as the general, says he went into exile from 1976 to 1989 and became a senior Umkhonto weSizwe (MK) commander operating out of Swaziland and Mozambique, reporting directly to the party's national executive committee.

The ANC's detailed submission last year to the Truth and Reconciliation Commission on its MK structures in that period does not, however, name Nxumalo among its operatives.

Nxumalo says he went into business in 1992. Months before the 1994 elections, he joined the National Party in its last-ditch efforts to win votes in Soweto — but he says he was actually working undercover as a "mole".

"It was an intelligence matter," Nxumalo adds. "I fought for years to destroy them [the NP]. This was a strategic move to sabotage them." Nxumalo says his partner and sole commander in the project was former Robben Island inmate Vronda Banda, a friend he had known since childhood.

Banda was shot dead in March 1997, around the same time Leonard Radu, deputy police commissioner and former ANC security chief, was killed in a car crash. Reports at the time speculated that Band and Radu had been working to dig out informers in the ANC's ranks.

The ANC, however, says Banda was a real NP member, and that it did not sanction any pre-election initiative to infiltrate the NP. Nxumalo says: "He [Banda] was a loyal cadre; his loyalty was beyond question."

Katz suggests fuel levy as a provincial tax

BD 6/8/98 (320)

Kevin O'Grady

TAXATION powers should be devolved to the provinces through a fuel levy rather than a surcharge on personal income tax, the Katz commission of inquiry into SA's tax structure recommended yesterday.

This was in direct contrast to proposals tabled by the Financial and Fiscal Commission (FFC), which dismissed the fuel levy option as likely to give too low a yield in the long term. It argued strongly in favour of a personal income tax surcharge with tax room created for this at national level.

However, the Katz commission said a 5% personal income tax surcharge would roughly equal the total revenue take of the existing national fuel levy, which is expected to generate R14,4bn this fiscal year.

Another option was for provincial government surcharges to be placed on the national fuel levy, with the "obvious mobility" of vehicles acting as a check on excessive surcharges.

But neither an income tax surcharge nor a fuel levy were ideal short-term proposals and it would not be in the national interest for legislation regulating tax devolution to be prepared "with undue haste", the commission said in its seventh interim report.

Despite the contention that tax devolution would prompt more fiscally responsible conduct and accountability in the provinces, "it is important to bear in mind that a contrary view is that accountability begins on the expenditure side. On the basis of this latter view, the necessity to implement tax devolution in haste is diminished".

Preferable short-term options were a land tax — the subject of an upcoming commission report — and non-tax revenues such as user charges and fees which could be devolved immediately.

The commission said a lack of capacity in the SA revenue service (SARS) was central to its opposition to the FFC's personal income tax proposals, while the creation of provincial tax collection capacity was "strongly opposed". Even though it was "a highly visible tax, it is outweighed by the disadvantage of imposing a burden on the administrative capacity of the SARS. It also does not result in accountability in the provinces."

Another drawback was that richer provinces would derive more benefit from the surcharge option, creating the need for a system of equalising grants to the benefit of poorer provinces. In this case, "one could as well return to the revenue-sharing option that could have been instituted at the beginning of this tax assignment exercise".

On the other hand, the commission was "comfortable that the fuel levy can probably be implemented with a minimum of enforcement and compliance costs on the part of SARS". It could be collected by the provinces at the point of sale with "relative ease".

However, the commission expressed a "major concern" about the possible avoidance of surcharges in certain provinces by people filling their

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vehicles outside those provinces.

There was also the possibility that some provinces, due to their location, would not benefit from their ability to adjust the surcharge as they would not yield sufficient traffic.

The commission suggested that interprovincial competition to attract customers would obviate the need to determine maximum and minimum rates for a fuel levy.

It also recommended that illuminating paraffin be excluded from the levy and that tax be levied at the point of final retail sale.

The commission's cautious approach is likely to be welcomed by the provinces, the poorest of which have been sceptical about the likely benefits, and have said they will fight moves to devolve taxation powers.

(320) CT(PR) 6/8/98

Commission in no rush on taxes

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

Cape Town — The Katz commission yesterday recommended a cautious approach to granting provinces taxation powers, possibly starting with a land tax or a fuel levy.

In its seventh interim report, the commission said it was "not in the national interest" for laws allowing provinces to levy taxes to be "prepared with undue haste".

This was because of the limited capacity of the South African Revenue Service and provinces to collect taxes efficiently or effectively, and the risks in weakening central government's control over tax policy and fiscal stabilisation.

A gradual transformation into a system of tax devolution was preferable, the commission said.

Without wishing to prejudice the outcome of its report on land taxes, it said the "imposition of a land tax may be a first step".

It examined the available options and said a surcharge on personal income tax would not only be unconstitutional but would be difficult to administer. It would also given richer provinces an unfair advantage over poorer provinces.

A surcharge on the fuel levy had greater possibilities, but only in the medium term. Problems included the likelihood of cross-border shopping to avoid high levies in some provinces, which could create economic distortions and make the system difficult to police.

The fuel levy raises about R14,4 billion a year, or 15,9 percent of total grants to the provinces by the national government.

The commission advised against granting the whole levy to the provinces and said their levies or rates should be capped to ensure that the government met its aim of ensuring the total tax burden was not more than 25 percent of gross domestic product.

MECs welcome cautious report on provincial tax

(320) MD 7/8/98

Kevin O'Grady

POSITIVE reaction has followed this week's release of the Katz report on provincial taxation, with provincial finance MECs lauding the commission's cautious approach to tax devolution.

The Financial and Fiscal Commission (FFC) has maintained its position, despite contrary recommendations by the Katz commission.

The commission all but ruled out an FFC proposal that provinces be allowed to levy a surcharge on personal income tax, saying that the SA revenue service (SARS) would not have the capacity to administer this.

It suggested the assignment of the national fuel levy to the provinces, or allowing provincial governments to impose a surcharge on the levy, as a more viable medium-term alternative. In the short term, provinces could make use of nontax options to boost their revenue, the commission suggested.

FFC chairman Murphy Morobe said yesterday that he did not believe the commission's report was completely inconsistent with the FFC's recommendations.

This was particularly so given that the commission acknowledged there could be benefits in a dual fuel levy/income tax surcharge system as a method of establishing the most suitable system for SA.

Morobe agreed with the commission that the fuel levy option would be the easiest to administer, but disputed the commission's assertion that it was likely to generate as much money for the provinces as an income tax surcharge.

"It will mean something for Gauteng, but what will it mean for the Northern Cape?" he said.

Morobe said the FFC maintained the position that provinces should be granted taxation powers sooner rather than later, despite the commission's warning against "undue haste".

"The FFC has been making a very strong case for accountability in the system. Delays prolong the situation where provinces continue to spend without accountability. It's a very strong position that we still argue for," he said.

The FFC had discussed the issue of lack of capacity at SARS with the tax collector and "we never really saw it as a complex problem".

"The way forward now is for government to look at both recommendations and make a decision about which route to follow," Morobe said.

KwaZulu-Natal finance MEC Peter Miller welcomed the Katz report's rejection of the income tax surcharge option.

"If we had gone ahead with that option, the only province which would have scored would have been Gauteng, while Western Cape and KwaZulu-Natal would possibly break even. All the other provinces would be worse off," he said.

North West finance MEC Martin Kuscus concurred that there would be limited benefit from provincial taxation powers for the poorer provinces.

Efficiency at SARS 'will take years'

LT(PR) 17/8/98 (320)

Lynda Loxton

PARLIAMENTARY CORRESPONDENT

Cape Town — The office of the auditor-general warned yesterday that it would still take several years to ensure greater efficiency and effectiveness in the South African Revenue Service (SARS).

In its report on the service's accounts for 1996-97, the office was particularly critical about the "totally inadequate" collection of customs and excise duties and the unauthorised expenditure of R9 million because of the failure to comply with Tender Board procedures.

It said the fact SARS was granted autonomy last October was expected to "solve many of its historical problems, which include inadequate and inappropriate staffing levels and infrastructure.

"As it will take a number of years to design and implement effective systems and develop expertise, several of the key findings set out in this report will still be applicable for a number of years," the report said.

Some corrective steps had already been taken, but the office warned that it was "extremely important that continuing efforts be made and pro-active steps taken to solve all the department's major shortcomings".

It found that SARS had been able to increase revenue collection by about R20 billion to R147 billion in 1996-97, representing an increase of 15,57 percent.

But staff shortages continued to dog the processing of assessments, which was described as "poor and ... based on incomplete or unreliable information".

Controls to ensure everyone was registered as a taxpayer were "not satisfactory" and it was impossible to determine if all eligible people had been registered.

Employees' tax reconciliations were not submitted on time and were not checked properly. Inspections were not properly planned, executed or reported on.

Debt collection was also inadequate, as shown in the "significant increase" in outstanding taxes compared with the previous year. Individuals showed an increase of 20,5 percent and companies 21 percent.

SARS had been unable to cope with the increase in the number of tax returns by companies, and the granting of deductions and allowances had been irregular. The Sandton office continued to be particularly weak.

The newly established tax on the retirement fund industry had revealed several shortcomings, possibly because of the short time frame that was allowed for its implementation.

SARS clampdown lowers default rate

(320) BD 20/8/98

Greta Steyn

THE SA Revenue Service (SARS) has evaluated more than 550 000 businesses and individuals from October last year, when its tax clampdown began, to March this year.

It said yesterday most evaluations had been for income tax payments, of which 26% were found to be in default. On value added tax (VAT) and pay-as-you-earn evaluations, the default percentage had also exceeded 20%.

The default rate has come down since the clampdown started, when it was closer to 30%.

The SARS's drive to beef up tax collection is paying big dividends this fiscal year, causing economists to speculate that revenue could again exceed budgeted targets despite weak economic growth.

Usually weak growth in gross domestic product (GDP) — likely to be about two percentage points below government's budgeted 3% — results in a lower tax take. But, despite the sluggish economy, VAT and income tax collections are doing well, probably reflecting the SARS's improved capacity now that it is more autonomous.

An SARS spokesman yesterday described tax collection so far this fiscal year as encouraging, but said it was too early to predict that there would be a revenue overrun for the year. He said measures had been taken to improve VAT and income tax collection, but further analysis would be needed to say with certainty what the reasons for the increased collections were.

Latest exchequer figures showed that revenue was about 10% higher after the first four months of the fiscal year. This compares with a budgeted increase of 9,3% for the year as a whole.

Year on year, revenue in April rose 13% — the fourth consecutive month of double digit growth. JP Morgan economist Peter Worthington said SA once again seemed set for an overrun in revenue which would offset expendi-

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ture slippage.

Equisec economist Dawie Roodt predicted a sizeable revenue overrun of about R3bn for the fiscal year.

Another economist said one of the spin-offs of healthy tax collection in the face of weak GDP was that SA's effective tax burden would rise.

SA's budgeted tax burden is already higher than the target of 25% of GDP in the government's growth, employment and redistribution strategy. Finance Minister Trevor Manuel budgeted for a tax ratio of 26,5% of GDP this fiscal year, but the eventual outcome was likely to be higher.

On the spending side, economists are also predicting an overrun, but not enough to do serious damage to the deficit target of 3,5% of GDP.

Spending for the first four months of the fiscal year was up 8,5%, against a budgeted rise for the full year of 6,4%.

War on tax 'gangsters'

Cape business people face arrest in clampdown

(320) ARLT 3/9/98

JOHAN SCHRONEN
CRIME CORRESPONDENT

The taxman is set to swoop on businesses in a bid to get his hands on nearly R1-billion he believes he is owed.

Stan Shrosbree, SA Revenue Service chief for the Western and Northern Cape, said the end of the month would be "doomsday" for businesses withholding value-added tax and income tax collected from clients and employees.

Tax defaulters could expect to be arrested and appear in court if they failed to pay outstanding amounts.

This follows a meeting between the revenue service and the attorney-general's office at which it was decided to prosecute offenders.

Peter Maspero, the SARS legal chief, said: "We are going to fill up the courts for three days with people from all walks of life, from the small one-man show to high-profile business people and professionals."

Mr Shrosbree described tax defaulters as "financial gangsters" stealing from the nation's coffers. A recent audit showed the business and professional sector owed more than R900-million in taxes.

Mr Shrosbree said employers and VAT vendors had been "misbehaving on an increasing scale" which had prompted the meeting between the revenue service, its legal team and Deputy Attorney-General Bruce Morrison.

"We found that people have been collecting money from their clients and employees in the form of VAT and PAYE but have failed to pay it to the revenue service," he said.

"After setting up a legal division staffed by attorneys and meeting Mr Morrison, we are ready to start the first round of prosecutions towards the end of September.

"From the end of this month, tax defaulters will be arrested and prosecuted.

"This is not just the sabre-rattling of the past. This is a timely warning for these financial gangsters to come forward and bring their affairs up to date or face criminal prosecution. Our country needs taxes for sorely neglected development.

"It is only in a climate of compliance and fair play by all that we can start to think about meeting reconstruction and development programme targets."

NGOs seeking tax exemptions

David Greybe

CAPE TOWN — Parliament pledged yesterday to speed up the process to determine whether nongovernmental organisations (NGOs) should qualify for more tax breaks.

This followed a warning by NGOs that foreign funding was drying up and that thousands would fold unless government legislated for increased tax exemption and deductibility before next year's elections, to encourage greater corporate and individual donations.

The warning came at a joint workshop organised by the finance and welfare portfolio committees and the SA National NGO Coalition — which represents more than 4 000 NGOs.

Parliamentary welfare committee chairman Cas Saloojee said he was in favour of public hearings before the end of the year, even though Parliament would be in recess, on whether NGOs should get bigger tax breaks.

Saloojee said he would consult the chairmen of the finance committee and the reconstruction and development programme committee about the three committees holding a joint public hearing.

The NGO coalition has, since the 1994 election, lobbied government and the Katz Commission of inquiry into SA's tax structure to broaden the definition of NGOs which qualify for tax exemption and deductibility and to increase the tax deductible contribution for companies and individuals.

The decision to seek a public hearing this year followed the announcement yesterday by the finance department's director for tax policy, Martin Grote, that the Katz report on the matter would be released by the end of October.

Alison Tilley, Black Sash advocacy coordinator, blamed government, and the finance department in particular, for the long delay in finalising the matter of whether NGOs should get more tax breaks in line with international trends.

Tilley said the reason government lacked the political will on the issue was probably linked to the fact that NGOs were often critical of government policy and its administration.

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She pleaded, "in the name of social stability", for government to resolve the matter as soon as possible one way or another — even if it meant no new tax breaks for NGOs — so the organisations could plan accordingly.

However, Tilley warned the government would be unable "to fill the gaps" left by NGOs which folded because of a decision not to award more tax cuts.

The NGO coalition argued that — based on international research and experience — a more favourable tax regime for NGOs would, "far from reducing the fiscus, increase the capacity of the state and reduce demands on the fiscus".

For instance, a recent survey in India had shown that corporate contributions to eligible Indian projects would have been 64% less without deductions.

In the US studies had shown that contributions were usually four times greater than the tax lost, the coalition said.

The coalition has proposed that the tax deductible contribution be increased from 5% for corporates and 2% for individuals to 10% across the board.

BD 8/9/98

Dramatic increase in number of tax payers

CT(BR) 9/9/98 (320)

DAN SIMON

A DRAMATIC turnaround has been achieved in the collection of outstanding and undeclared taxes and the identifying of tax defaulters since the taxman implemented his TAX-Base broadening initiative last October.

Contributing to the success of the initiative is the tax department's new-found freedom in hiring highly skilled individuals at market related salaries since it was granted autonomy from the provisions of the Public Service Commission a year ago.

The number of registered taxpayers has increased by about 12,4% since October.

According to the office of the SA Revenue Service commissioner, Trevor van Heerden, the number of people registered as taxpayers since October last year has increased by about 12,4% and the number of tax defaulters whose returns are outstanding has decreased by 8,8%.

The number of unassessed income tax returns in SARS offices has also been reduced by 33,3% during the same period.

SARS spokesperson Christo Henning said audits of PAYE (Pay As You Earn) and VAT (Value-Added Tax) have also led to substantial increases in tax recoveries while several projects to improve customs and excise systems were underway.

To this end, collections in both these areas had already shown increased revenues.

Although it would take years to ensure greater efficiency and effectiveness within the SARS, tax officials were nonetheless encouraged by the successes achieved to date, said Henning.

Impacting significantly on the success of improving the country's tax collection base was the fact that SARS is now an autonomous arm of the state outside the Public Service Commission. This allowed SARS to appoint highly trained professionals at competitive market-related salaries.

Before October 1997, its work was frequently hampered by the Public Service Commission's provisions relating to appointments and remuneration packages.

"But this was bridged by the SARS Autonomy Act of October 1997 when SARS was granted autonomy. Since then we have gone some way to restructuring salaries and addressing staff shortages. We now have a mandate to appoint and remunerate staff," said Henning.

He said that over the first six months of the initiative (October 1, 1997 to March 31, 1998) the SARS had evaluated more than 550 000 businesses and individuals in terms of income tax, VAT and PAYE. "During this period, 430 000 entities were evaluated for income tax and of this figure 113 608 were found to be not registered, representing a default percentage of 26%. We also evaluated for VAT and found that of the 87 583 entities evaluated, 18 447 were not registered representing a default percentage of 21%."

Henning said of the more than 70 000 businesses and individuals evaluated for PAYE, more than 16 000 were found not to be regis-

State saves billions with clampdown

CT(BR)9/9/98

(320)

ANDRE KOOPMAN
PARLIAMENTARY BUREAU

THE beefing up of the tax collection was paying dividends in that an unexpected R3 billion had been collected this fiscal year due to improvements in the collection of VAT and income tax

This was said by Ahmed Ally, Inkatha Freedom Party MP, yesterday in a draft resolution before the national assembly. Ally said the SA Revenue Service had evaluated more than 550 000 businesses and individuals since October last year resulting in a decrease in the default rate from 30% to 26%.

Finance Minister Trevor Manuel said he was "pleased" by these developments brought about by improving the skills base of a now autonomous revenue service.

There has been a "beefing up overall in terms of style" and as part of tax base broadening by the the SARS. An indication of this was that the SARS now send out people to knock on doors of businesses to check on registration and the status of their tax payments.

Business people were called at home after 4pm in efforts to improve tax collection.

Manuel said while the revenue service was not trying to impose more taxes, "we are trying to improve on professionalism and collect what really is due".

"It is shaped by administrative improvement and this will place us in better position to look at tax policy in future," he said. "It is a situation of continuous improvement. Figures for the first four months of the fiscal year have shown that our revenue collection has improved by 10% over last year and expenditure requests by eight percent."

Manuel spokesman Logan Wort said while the department had expected to do well due to the improvements in revenue collection, "they did better than expected".

He said the finance ministry and the department were intent on collecting revenue from previously untapped sources. One such measure was that with the increase in the amount allowed for off-shore investments from R200 000 to R400 000, those wishing to invest off-shore first had to have a clearance certificate proving that they had paid all their taxes before they could invest off-shore.

GLOSSARY: **Buyer:** Price at which the share was bought. **Seller:** Price at which the share was sold. **Last:** Last traded price on the share. **High:** Highest level share reached this year. **Low:** Lowest level the price reached this year.

Real power is economic

SARS to act on illicit traders

(320)

Sowetan 14/9/98

By Shadrack Mashalaba

AS PART of its drive to recover millions lost annually, the South African Revenue Services (SARS) launched another leg of its transformation programme to tighten the grip on tax evaders and illicit traders on Friday.

The latest initiative, called the Customs Transformation Programme (CTP), will result in efficient revenue collection and protection of the public from harmful goods and materials.

It will also provide risk analysis to deter illegal trading activities thereby protecting the local economy, facilitating trade for legitimate business and enforcing international agreements.

The CTP, which will cost the SARS millions of rand to implement, is part of a five-year plan to revamp the customs and excise units.

SARS spokesman Christo Henning said all points of entry into the country, such as airports, harbours and border posts, would undergo transformation together with customs and excise offices.

Henning said customs personnel would man points of entry to collect value added tax, protect the local market from illegal imports, stolen goods and illicit products such as drugs.

He said South Africa was losing millions of rand which also resulted in job losses because of tax evaders and illicit trade.

"The SARS had an obligation to protect the country's citizens against people engaged in unscrupulous activities," he said.

A number of measures will be instituted to ensure the success of the programme and these include the introduction of:

- Operational training – this is aimed at increasing the size, expertise and capacity of customs and excise commensurate with the demands of recruitment of new staff;
- Rolling out of operational best practice – resources will be rolled out to all areas with the aim of improving the customs investigations and intelligence capacity;
- Business process review and system implementation – regarded as the core of the programme – will examine all major information technology and manual systems to ensure better technology, manual and electronic processing; and
- Human resource strategy – involves training of staff, redesigning performance systems, including training and development.

Henning said British customs officials, who came to SA 18 months ago to assist the SARS in tax collection, would continue with their work.

He added that part of their plan was to embark on an affirmative action programme to increase their staff.

Part of the existing staff would be deployed in areas where there was a need for their skills.

Finance Minister Trevor Manuel's ministry and the management of the SA Revenue Service have made a determined effort to stabilise the latter organisation.

PIC: SHADRACK MASHALABA

POLITICS AND PARLIAMENT

Improved collection puts revenue service on track

(320) BD 17/9/98

Linda Ensor

CAPE TOWN — The SA Revenue Service was on track to meet the budget's revenue target of R178bn this year, despite deteriorating economic conditions, deputy commissioner Pravin Gordhan said yesterday after a hearing of Parliament's standing committee on public accounts.

"Dramatic improvements have been achieved over the past financial year in the collection of revenue by the revenue service," he said.

Gordhan said this continued a trend established over the past three financial years, when revenues met targets despite economic downturns.

The tax broadening campaign had seen the number of registered taxpayers increase 13,4%, or by 371 479, in the second quarter this year, bringing the total number of taxpayers to 3,1 million. The number of tax defaulters whose returns were outstanding had fallen 8,8% and the number of income tax returns submitted but not assessed, was 33,3% lower.

Tough action was being taken against the fraudulent evasion of tax. Gordhan told the committee that over the past eight months a special investigating unit consisting of commercial policemen had investigated 51 cases, of which 80% were VAT fraud cases involving R242m. At least 15 of them had reached the courts.

He said a high degree of VAT fraud was linked to an insufficient number of inspections and that the revenue service was instituting more field audits.

Meanwhile, Sapa reports the revenue service made a R4bn error in its arithmetic last year.

The auditor-general's report on the service's accounts for 1996/97 said outstanding individual taxes had increased 209% from the previous year.

However, tax commissioner Trevor van Heerden told the committee the outstanding balance, listed as R7,914bn had been overstated by R3,93bn and should actually have been R3,983bn. This meant an increase of only 55,7% for the year.

"The overstatement was due to two amounts, which had been captured erroneously," Van Heerden said.

Gordhan told the committee the service had had problems with a high turnover in computer programmers and a lack of set procedures for reconciling balances. New programmers had now been trained, and procedures were in place.

The revenue service will also introduce an automated accounting system next year, which will make the six- to eight-month period of grace taxpayers enjoy between submitting a return and getting an assessment a thing of the past.

Gordhan said the new system was expected to cut the time for issuing assessments to one month. Inland revenue's accounting system is mainly manual at the moment.

Gordhan said the new system would electronically link the receiver to to financial institutions, employer information on PAYE tax and the stock exchange.

REVENUE *The long-term vision is to link external systems such as banks and home affairs*

The SARS casts electronic tax collection net

(320) CT (MR) 17/9/98

The South African Revenue Service (SARS) is installing a R43 million computer system that is expected to broaden the tax base, improve tax calculation and administration and, ultimately, reduce tax rates.

In December all SARS offices will be offline while the NITS system is being installed. No assessments, receipts, registrations or acknowledgments of deferred payments will be processed for about a month.

Christo Henning, the liaison officer at SARS, says the new system will be up and running on January 4 and will run in parallel with the old system until any kinks are ironed out.

Most SARS systems are not Year 2000 compliant, a major motivation for getting NITS up and running in the first part of next year. The initial goal will be to link internal PAYE, VAT, IRP5s and other tax processes, as well as SARS Bank, the electronic payment system, for greater efficiency.

For example, it now takes from six to eight weeks to obtain an assessment from the time the assessor processes the return. The target is to reduce this turnaround to two weeks.

The longer-term vision is to link external systems, such as the registrar of companies, the department of home affairs, insurance companies, banks, the Reserve Bank, the Deeds Office, the Government Gazette, the JSE and the national traffic registry into the system to ensure full and accurate disclosure of information.

These links will enable the SARS to ensure that all individuals, immigrants and businesses are registered for tax purposes; that local and foreign investments are declared correctly; and, among other things, to track JSE share transactions and ensure that individuals can afford to own assets such as cars and property.

JENNIGAY COETZER

Accountants and bookkeepers will be able to interface with the system to apply electronically for extensions for the submission of returns.

A key implication of such external links is that if the system works as envisaged, it could bring large numbers of tax evaders into the receiver's net.

Henning says that of the 10,2 million people who are "gainfully employed", only 5,4 million individuals pay tax.

But if the tax base is increased significantly by tighter administration procedures, how will the SARS cope with the higher volume? Henning says automation will free up existing staff.

But he says the conglomerate NITS system will depend on the accuracy and level of input from all the internal and external systems linked into it.

Judging by the battle banks have fought for years to form a composite picture of their customers, this could turn out to be an understatement.

One of the problems bank databases face is that, traditionally, customer details tend to be linked to specific products and are often held in different formats, such as Mr Joe Public, J Public, et cetera. Will the SARS be faced with similar problems?

Hennie Meyer, the liaison officer for the department of home affairs, says an individual's national identity number probably will be used as the single number for life for individual tax purposes.

He says the fact that there are two types of identity document in circulation does not pose a problem either.

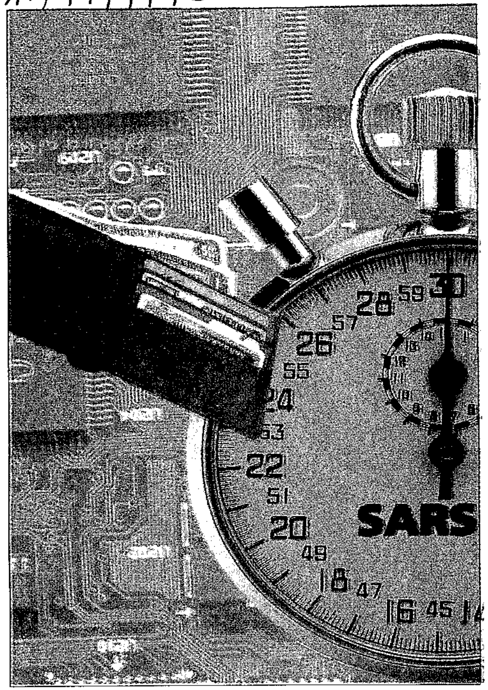
"The only difference between the two documents is that the race code has been dropped from ID numbers on the new one and the two numbers can be matched on the department's computer system," he says.

"The new documents contain barcoded information and are linked to fingerprints, which are taken at the time of application."

In the second half of next year the department aims to switch to smart cards, which will store fingerprints on the computer chip in the card.

Tax payments already can be made at most branches of First National Bank (FNB). Henning says there are plans to extend this facility to other banks.

Payment information is downloaded by the SARS through a direct link to the FNB system. Records are updated immediately, according to Wayne Lofthouse, the senior corporate manager at FNB.



"The beauty of the system is that once the teller has completed the electronic transaction, there is an audit trail to refer back to," he says.

Tax payments can be made by cheque and submitted at any FNB branch. A copy of the slip then can be faxed to the SARS as proof of payment. Alternatively, a person whose bank offers an electronic account paying facility can pay tax at an ATM and fax the slip to the receiver. A further proof of payment will be that the transaction will appear on the bank statement, says Lofthouse.

More muscle for the tax collector

(320) M+G 25/9-1/10/98

A new computer system will allow the revenue service to harvest more taxes, writes **Belinda Beresford**

Gross salary (R)	Highest tax bracket	Monthly salary (R)	Monthly tax paid (R)	Total annual tax bill (R)**	Total tax as a % of gross salary
18 500*	0%	1 542	0	0	0%
19 000	19%	1 583	8	95	0,5%
46 000	30%	3 833	573	6 875	15%
60 000	39%	5 000	1 028	12 335	21%
70 000	43%	5 833	1 386	16 635	24%
120 000	44%	10 000	3 220	38 635	32%
200 000	45%	16 667	6 220	74 635	37%
500 000	45%	41 667	17 469	209 628	42%
1 000 000	45%	83 333	36 219	434 628	43%

How much do you owe? This table gives a guide to how much tax you should be paying for different levels of income, taking into account only the basic primary rebate. * Tax threshold is R18 500. ** After the primary rebate of R3 515 has been deducted

The tax collector is quietly setting traps to catch those modest South Africans too shy to reveal their full income.

The phone call interrupting supper could be a polite revenue service reminder that your tax return is overdue, or that "the cheque has been in the mail" for a month and it might be time to send a replacement.

That new car might not seem so attractive once you discover that the licencing department's computer is talking to all sorts of fellow databases, the tax office's among them.

With the new number plate goes a message to the tax office letting it know just how much you've spent. This could result in another polite phone call asking just how you managed to finance such an expensive car.

Eventually, registering for a telephone or paying your rates could expose you to the searching gaze of the tax service as your local council's computers reveal what kind of neighbourhood you are living in.

Even sending your money overseas may not be safe, as tax treaties with other countries could allow the South African Revenue Service (SARS) access to your foreign financial details.

The service's new computer system is an ever-expanding net to haul in unwary taxpayers — or non-taxpayers.

Expected online by January, the new system will cause many an unhappy New Year as it collates information from an array of government departments and private sector databases.

Initial links are likely to be with employers, other government departments and banks.

Financial institutions already have a legal obligation to tell the SARS of interest payments. But from next year, the present haphazard system of forms will be replaced by an automated network of computers which will alert the revenue service not only to tax obligations but also to financial discrepancies.

The government granted the SARS "operational autonomy" last year in an attempt to boost its efficiency and to allow it to pay market-related salaries for increasingly scarce, and expensive, accountants.

It has also introduced a bonus incentive scheme. If collections exceed targets, revenue staff are paid a percentage of the difference.

In its transformation drive, the SARS has employed a number of methods to remind errant South Africans of their duties as taxpayers. To broaden the tax base, inspectors have been walking the streets and checking whether businesses are registered for tax.

As the SARS launched this campaign last year, the service's representative, Christo Henning, said it was making diligent use of telephone books and advertisements in newspapers.

"If you advertise, you're likely to get a visit, so from our point of view it pays to advertise," he said.

Such techniques netted the SARS more than 420 000 new taxpayers in the past financial year, bringing the total to more than 5,3-million.

There are estimated to be more than 10-million gainfully employed South Africans, many earning below the tax threshold.

The service intends to continue broadening its tax base until the estimated 1,5-million "clients" currently slipping through the net have been caught.

Henning says the SARS is trawling right across the economic spectrum, from doctors working at home to taxi drivers and small private businesses.

Even street hawkers are checked on because often "they have someone behind them making major bucks, even though the person on the street may be making a hand-to-mouth living", Henning said.

The SARS is undergoing a transformation, both internally and externally. Henning says an integral part of this transformation is promoting communication between clients and the tax service since "people would rather talk to their dentist than the receiver".

According to the SARS, the law already makes provision for the service to collect information — the real difference is going to be an increase in the speed and efficiency of the operation.

"One of the things we always get into trouble about, we force people to submit returns but then don't assess them. [We] want to reduce the turnaround from six months to about a month", said one SARS employee.

During discussions with the revenue service, taxpayers will receive statements of the activity in their account so they can reconcile on a monthly basis the tax paid, tax owing and how their assessments are going through. People may also be able to apply for extensions via the Internet.

In a report to Parliament last week, the revenue service said it is quite pleased with its performance. For the past three financial years it has reached its collection targets.

In its presentation, the SARS said that in the past financial year tax collections totalled just more than R160-million, slightly more than 26% of gross domestic product. This compared to just less than R143-million in the 1996/97 tax year.

The SARS also claims to be more efficient. Collection costs were 0,76% of the total revenue in 1997/98, compared to 0,87% the previous year.

While increasing the taxpayers on its books by 12,4%, the SARS has also overseen a fall of just less than 9% in outstanding tax returns.

Errant taxpayers face stiff penalties. Those who under-declare their income face a fine of double the unpaid taxes on top of the outstanding amount.

The tax service still has extensive powers to probe your affairs. Inspectors can demand financial records and statements, and have the authority to seize assets if co-operation is not forthcoming.

As yet, they do not have the power of arrest but it is being mooted in some quarters.

In future your identity number may also become your tax reference number, raising the prospect of the taxman watching you from cradle to grave.

For an increasing number of South African's, the days of avoiding the tax service will become a thing of the past, which is good news for tax advisers, as people will undoubtedly turn to more legal methods of minimising their tax bill.

Fuel fund cheated on tax — NIA

(320)

BD 6/10/98

Wyndham Hartley

CAPE TOWN — National Intelligence Agency (NIA) operatives have claimed in a secret report that the Strategic Fuel Fund (SFF) illegally failed to pay regional services council levies and income tax in the late 1980s and early 1990s amounting to R1,4bn, and have called for a full government inquiry.

The report was drawn up by the controversial special NIA unit, Thabo Enterprises, which was set up to track down millions of rands which clandestinely left the country in the dying days of apartheid. It is understood it is a "source" report and unconfirmed.

It contains legal opinion rejecting claims that the SFF, established as the secret oil procurement agency under apartheid, was exempt from the levies, and that state-owned companies were not liable to pay income tax.

The report says the SFF owes millions to the Highveld, Cape Metropolitan, Saldhana and Durban regional councils — areas where there are oil storage facilities. Outstanding taxes were estimated at R900m.

Christo Henning of the SA revenue service said the service was "aware of the dispute relating to the payment of regional services council levies. The matter was under investigation.

"It is agreed that if an organisation is owned by the state it is not automatically exempt from the payment of income tax. The act does, however, permit the commissioner to grant exemption in certain circumstances."

The NIA report says Highveld alone is owed about R45m in accumulated turnover levies plus interest and value-added tax. It says it appears the SFF had been "fraudulently" avoiding paying income tax. It asserts that the SFF is a section 21 company required to pay tax before declaring a dividend.

A Pretoria advocate says in the report that exemptions are for state bodies "where their transactions are wholly internal; the SFF was trading for a profit with private entities such as Sapref and Natref (oil refineries) and therefore not exempted".

Legal opinion in the report declares that the SFF, although a section 21 company, "clearly did not comply with the requirements of the Companies Act. If one assumes that the SFF indeed paid to the government, as its sole shareholder, between R200m and R300m a year in the form of a dividend, this will be a contravention of the act."

Responding to the argument that the SFF was wholly state-owned and that the money therefore accrued to the state, the report said the fund was competing as a commercial venture, was registered under SA company law, and had a virtual monopoly.

"Profits have been made but they were designated as surpluses and deemed not taxable. Although state-owned, the onus is still on such commercialised companies to be paying income tax that must go to state coffers prior to a declaration of dividend or so-called surpluses," the report says.

The NIA and the SFF could not be reached for comment yesterday.

Members of Thabo Enterprises recently leaked information to Democratic Party leader Tony Leon which suggested that Thabo Enterprises was riddled with corruption.

Sibiya quits post, citing frustration at 'dirty tactics'

BD 6/10/98

Linda Ensor

CAPE TOWN — Gordon Sibiya, an outspoken campaigner against what he believed were wrongful practices in parastatals, has resigned as minerals and energy deputy director-general to pursue interests in the private sector.

Sibiya said yesterday he had "had enough" of the resistance to change he experienced in the energy sector.

In his letter of resignation handed in last week, Sibiya said that in the restructuring of state assets, those who wanted to keep their jobs would resist change and the whole process would be long and painful. Dirty tactics would be employed to prevent government from achieving its goals.

"I have been fighting wars that should be fought by bigger people," Sibiya, who was also director of energy, said yesterday. "I am sick of the personal mudslinging and want my life back. I am intellectually and spiritually weary and do not want to have to face up to any more disputes alone."

Sibiya, who joined the department last March, criticised the Central Energy Fund's appointment of Liberian Emmanuel Shaw as personal adviser to former CEF chairman Don Mkhwanazi on a R3m-a-year salary.

His latest skirmish was with the Council for Nuclear Safety over proposals to shift the regulation of radiation in the mining industry from the council to the department and to lower the standards applied to what he believed were international norms.

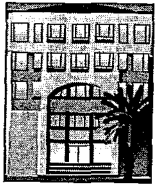
His detractors have accused him of trying to further the interests of the mining industry because he was a nonexecutive director of Randfontein Estates, a claim he has hotly denied.

Sibiya oversaw the drafting of the energy white paper and brought the Nuclear Energy Bill, the Nuclear Regulatory Bill and the Gas Bill to completion. He now wants to re-establish his private firm of electrical engineering consultants. Sibiya has a doctorate in nuclear reactor physics from a German university as well as a master's degree in electrical engineering from Nottingham University in the UK.

The Star .... Monday October 26 1998

OPINION

Property tax must benefit all



DP man's interpretation of judges' decision couldn't be more wrong, argues Jackie Manche

Star 26/10/98 (320)

The Constitutional Court decision handed down last week in the case involving the Johannesburg Metropolitan Council and a number of Sandton ratepayers has been greeted with varying interpretations by various stakeholders.

While most informed observers have hailed the decision as a vindication of the council's resolution to introduce a uniform rating system within the metropolitan area, Democratic Party councillor Mike Moriarty would have us believe ("Sandton ratepayers far from heartless", The Star October 20) that half of the 10 Constitutional Court judges who heard the case concurred with his party's view on the matter. Nothing could be further from the truth.

Besides its cheap claim of support where none has been offered, Moriarty's argument contains a number of misconceptions born, no doubt, of his apparent lack of understanding of the economics of taxation and the nature of the property tax.

Before I deal with Moriarty's misconceptions, I would like to offer him a brief lesson in the laws governing taxation. Internationally, property tax is the most important source of discretionary own revenue for local government.

South Africa is no different, with our constitution giving local government no explicit taxing instrument other than the property tax. This makes SA one of the few countries in the world where this taxing instrument is entrenched in the constitution.

However, in SA's case the practice of property taxation cannot be divorced from the country's ugly history.

Apartheid policies resulted in the disparate development of our cities, which poses a major challenge to the men and women charged with the responsibilities of amalgamating the racially segregated local authorities into single economic entities.

Now to get back to Moriarty's misconceptions. He claims that "assessment rates are bad service charges in that the user pays principle is violated".

However, assessment rates are not user charges, but rather a tax on property, which serves to distribute the cost of providing local public goods and services whose benefit accrues to the entire community as opposed to any one individual.

As the benefit derived from the consumption of the local public goods cannot be limited to any one individual, it becomes difficult to charge a service fee. These goods then have to be provided by local government by imposing a tax on properties within their area of jurisdiction.

According to Moriarty, property value does not accurately measure ratepayers' ability to pay. The property tax is not a tax on current income, but a tax on property.

The use of the full market value of individual properties as the base for assessing rates, promotes equity with respect to current property value, allowing for the equal treatment of similar properties located in the metropolitan area. Similarly, taxpayers whose properties have different values should have tax abilities proportionate to the underlying market differences.

Distortions to the property market are created by the use of exemptions and rebates designed to ease the burden of taxation on a certain class of ratepayers. The current rebate policy is highly flawed and not transparent.

Moriarty claims that equal rate in the rand does not mean equal rates, but rather actual rates are a multiplication of the rate in the rand times the person's property value. A uniform tax rate, such as the 14% value added tax, is the same for all consumers, but a person buying an item valued at R14 will not pay the same tax as a person buying something valued at R50.

Moriarty claims that Sandton and, opportunistically and conveniently, Alexandra enjoy a lesser service than the people of Greater Johannesburg. But the actual package of services provided in a municipality is largely a local choice.

The Johannesburg metropolitan area is a classical example of how white South Africa has over the years managed to develop at the expense of the poor largely black communities that have contributed to its tax base without reaping the benefits enjoyed by the white communities.

Finally, Moriarty's analysis of the property market is naive and ill-informed. The property market is part of the economy and is not insulated from broader market fluctuations.

To claim, as Moriarty does, that the introduction of the uniform rating system has effected a fall in the property market is highly simplistic and misleading. Rates can be capitalised into property values over time, but this is at most a small part of the story here.

■ *Jackie Manche is the chief director of municipal finance in the Department of Constitutional Development*

Tax breaks to donors a gain for all

(320)

In the interests of democracy, government needs to look more closely at tax benefits for companies donating funds to nonprofit organisations, writes **Steven Friedman**

OD 4/11/98

SOMETIMES, you have to give a little to gain a lot.

To put the issue another way. Why should a government with limited funds and great development challenges, which battles to collect tax from those who owe it, surrender some of its revenue to encourage individuals and companies to donate to nonprofit organisations?

One answer is that it would help to keep this author, who runs a nonprofit organisation, in gainful employ. Another is that the benefits to the country would far outweigh the costs.

Among the issues still before the Katz commission is whether to recommend changes to our current tax system to encourage giving to nonprofits. This is, on the surface, hardly what the Americans call a "hot button" issue. But the commission's decision may be crucial to the future of our society.

In countries ranging from the affluent US through to developing nations such as India, people who donate money to nonprofits engaged in a specified list of activities can claim tax exemptions.

The idea is that the activities of citizens' groups which promote development and democracy or provide education and welfare are so crucial to society's health that affluent people and companies should be encouraged to support them by receiving tax relief.

Our system, however, is inherited from the old order — tax deductions are granted for only a very narrow band of educational and welfare activities. So those who give money to most nonprofits here receive no tax deductions. The result, of course, is to reduce the amount available to nonprofits from local sources. Most therefore depend on foreign donors to keep them going.

Not only is this unnecessary in a country where enough private money could be unlocked to ensure a vigorous nonprofit sector, it also makes our nonprofits unduly dependant on foreigners' preferences. As a result, their activities are often those which foreign donors favour: their choices may be less sensitive to our needs than those of locals. And, should these donors decide that we no longer need them, many of our already cash-strapped nonprofits would go to the wall.

Another less obvious consequence is its effect on the quality rather than the quantity of giving. Where a wider range of deductions is available, the wealthy have a strong incentive to take the donation of money more seriously. Given the opportunity to use funds they would otherwise pay in tax to support activities of which they approve, they are more likely to set up special vehicles, such as foundations, to disburse their money and to appoint professionals to them to ensure that their funds are spent wisely.

Since people who are skilled at making money may be far less adept at choosing the most effective projects and organisations to support, the result of "professionalising" giving in this way is to make it more likely that it will yield the maximum social benefit.

So a change in the law to reward giving would not only strengthen our nonprofits: it would also make it more likely that funding would flow to those activities we really need.

But why is the health of nonprofits important enough to grant tax benefits to those who contribute to it?

First because if we are serious about sustaining democracy, we cannot get along without nonprofit organisation. Whether they offer legal aid, encourage people to use democracy to fight for their rights or, like the organisation for which I work, float new ideas or dig up new information, they provide a crucial democratic check on government and a way for citizens to make democracy work.

Second, because they fulfil social and development needs which even the best-run government cannot provide. Nonprofits are never a substitute for government-service provision. They fill important gaps in the government system and often pioneer approaches which point the way to more effective development.

Societies which achieve growth, effective action against poverty and sustained democracy usually have strong nonprofit sectors. Foregoing a little tax revenue to achieve that is always a small price for the benefits which accrue.

So why are we still stuck with an apartheid-era tax regime which does little to encourage giving to nonprofits?

One reason is inertia: government officials do not give up on revenue sources unless they are pressed to do so; given the issue's low priority, there has been little pressing.

A government with limited funds which battles to collect taxes from those who owe them will not surrender its revenue sources easily

But there are also strong lobbies on the right and left against a carrot for those who give. On the right, it is argued tax exemptions distort the system and create avenues for abuse. Tax should not, it is suggested, be used as an instrument to reward government's favoured activities.

This argument misunderstands a key purpose of tax systems in democracies. They are not only means of raising money — they are also a policy tool which allows governments to discourage some activities by placing a charge on them or to encourage others by not taxing them. After all, what is democratic government for if it not allowed to make choices?

At present, our government is, perhaps unwittingly, discouraging giving by placing a charge on it. Some adherents of this school also cite fraud or abuse in nonprofits. But, while these cases are highly publicised, they are also relatively rare. In any event, a tax exemption system would inevitably be accompanied by tougher financial controls to deter abuse.

On the left, some ironically see exemptions as a way of weakening democratic government: if individuals and firms pay tax, they argue, the people's representatives decide on the priorities. If they are allowed to give to nonprofits, then the donors make the choices.

But, by specifying which activities will receive incentives for giving, the government is making a choice — it is intervening to reward activities it favours.

There are, inevitably, some in government who would prefer nonprofits not to enjoy independent sources of revenue: they want them to rely on government funding so that they are forced to pursue its objectives. But, besides the obvious point that dependant nonprofits cannot sustain democracy, they probably cannot be of much help to governments unless they have the room to come up with independent ideas and activities.

Finally, the officials themselves have also lobbied against change, presenting wildly inflated accounts of the revenue which the government would lose if the change were made: one reportedly claimed that value-added tax would need to rise by 2% to fund the lost income. But evidence from other countries shows that the deductions for donors rarely comprise more than a tiny fraction of revenue: the scale of giving required to force a VAT increase would break the world record.

The opponents of a workable tax system for nonprofits are many and their justifications various. But their arguments are deeply flawed. And, while there is no reply from those who favour a change, our nonprofits remain dependent on foreign donors, their survival prospects fragile and both democracy and development's chances impaired.

The choice is simple: we can have the present tax system or a strong and productive nonprofit sector. And, if we do not have the latter, our prospects of achieving democracy, growth, and better living standards for all will be bleak.

□ *Friedman is director of the nonprofit organisation, the Centre for Policy Studies*

BD 4/11/98.

Tax evasion costing SA R100m a month

John Dludlu (320)

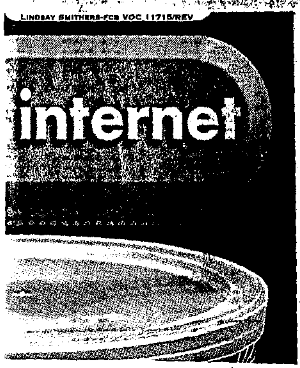
THE fiscus is losing more than R100m a month through tax evasion by businesses and smuggling, prompting government to take counteractive measures, the SA revenue service says.

Tax evasion through fictitious exports and smuggling inspired moves by Pretoria to charge value-added tax (VAT) on imports from SA's partners in the Southern African Customs Union, it said. Namibian businesses have said that the tax is discriminatory and will disrupt cross-border trade in the five-nation subregion.

Though VAT was payable on goods imported into SA, VAT on goods from SA's partners in the customs union (Botswana, Lesotho, Namibia and Swaziland) was previously not collected at the time of importation, creating an opportunity for evasion, particularly in livestock, meat and textiles, the revenue service said.

"VAT collection at the borders will limit this evasion, just as VAT collected at harbours and airports does," it said.

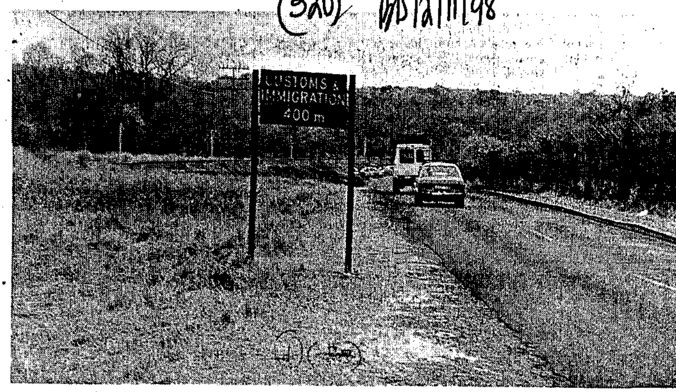
Plans to charge VAT on imports from Botswana and Namibia have been put on hold pending talks. The revenue service was to send a delegation to Namibia tomorrow to discuss the plans, it said.



New, tighter controls at borders

Plans to charge value-added tax are among ideas to help stamp out fraud, writes Christo Henning

(320) MD 12/11/98



Neighbouring border posts will have to grapple with a new order from next week.

THE SA Revenue Service (SARS) has embarked on a number of initiatives to improve the services it offers to the taxpayer and to clamp down on fraud.

It has the unenviable task of ensuring that it collects the revenue government needs to implement its developmental programmes. It is also responsible for controlling smuggling and illicit trade.

As a result of the lack of control on the Botswana, Lesotho, Namibia and Swaziland (BLNS) borders, the SA fiscus is losing enormous amounts of value-added tax (VAT) on fictitious exports and, to a lesser extent, on illegal imports.

Legitimate traders are also being adversely affected, some to such an extent that they have gone out of business — the 100-year-old tobacco trader, L Susman and Company, being but one example.

In just two cases now under investigation, losses of R59m and R76m have been identified. The removal of liquor and tobacco products from the export incentive scheme is a further indication of the magnitude of the problem.

The BLNS tax authorities collect their sales taxes on their borders and have long criticised SA for not doing the same. They have been aware of SA's intention to establish controls on the borders since the announcement earlier this year. In fact the subject has been on the SA Customs Union agenda since 1989.

At a meeting in November last year, member states were informed that VAT collections on the BLNS borders would begin on April 1, or shortly thereafter.

On August 6, the BLNS tax authorities were given formal notice of the new measures. Representatives from all four countries attended a presentation in August and asked for presentations to their business sectors which were undertaken in September.

In the past few months extensive discussions were held with SA's business and transport sectors to ensure the new measures would create the least disruption. Recently, a second round of meetings took place in each of the BLNS countries with both senior customs officials and business people.

The envisaged measures are as follows:

□ The levying of VAT at the border posts on imports from the BLNS countries. This is not a new imposition of VAT; it is merely moving the collection point;

□ Improved customs control over zero-rated exports by South African vendors who consign or deliver goods to foreign recipients; and

□ The setting up of a mechanism to refund VAT which has been charged at the standard rate to a BLNS enterprise or resident who has taken delivery of goods in SA and subsequently exports them.

The main change is that SA vendors may not zero-rate or refund VAT on exports where the goods are delivered to the purchaser in SA, a practice which has created the opportunity for fraud.

However, problems relating to the situation include:

□ Postponing the implementation of BLNS border controls and the introduction of the new VAT Export Incentive Scheme has created a window of opportunity for fraud. In one case, an order had been placed for 600 tons of sugar which was cancelled when the new measures were announced, and reinstated when the postponement was announced.

This sugar is destined, according to the documents, for Swaziland, a country that relies largely on sugar exports. Legitimate traders have strongly criticised the postponement;

□ Although the 300 customs officers who have been posted to the BLNS borders are being used to examine exports in the interim, they are not being used to maximum benefit and will soon become demotivated;

□ VAT auditors find their hands tied in their attempts to stamp out fictitious exports that are costing upwards of R100m a month; and

□ Textiles, livestock, meat, motor vehicles and other goods are entering the SA market free of VAT and disrupting legitimate traders.

In the recent meetings on the issue, Botswana raised concerns that customs officials from SARS will not be present at all border posts.

Firstly, SA does not have the resources at present to have a customs presence at all border posts. However, four specific posts, where the bulk of commercial traffic occurs, have been designated as commercial border posts.

Secondly, to address this problem a concession system has been introduced, to accommodate BLNS traders adversely affected by the limited "designated commercial ports", which allows a BLNS trader to use a non-designated port.

Concerns have also been expressed relating to the limited hours for commercial goods.

In discussions held with customs officials and traders of each BLNS country, new operating hours have been agreed.

Objections to the requirement that payment of VAT on imports must be in rands were also raised. BLNS traders have been advised that where they provide security they may make use of the customs deferment system and that bank guaranteed cheques drawn on BLNS banks will be accepted. Also imports will usually be made on behalf of the purchaser, thus enabling him to claim the VAT as input tax;

Other problems resolved were:

□ Payment of VAT: concern was expressed that trucks would be refused entry where they did not have the money to pay the VAT available. During the introduction phase, trucks will not be refused entry merely because they do not have the money available. In such cases, they will be required to pay the VAT to any Receiver's office in SA within 14 days.

□ Delays of vehicles at borders: An undertaking has been given that no truck will be delayed by more than three hours and consideration is being given to improving infrastructure at border posts.

□ Cash flows: Traders were worried about cash flow problems as they would have to wait for the refund. Most BLNS traders have credit facilities with their SA suppliers and will receive VAT refunds of up to R3 000 at the time of export, or alternatively within 30 days of the claim being lodged;

□ Registration as vendors: Although cartage international contractors objected to the requirement that they register as VAT vendors in SA, this is a necessary and legal control and is to their advantage as international transport is zero rated;

□ Valuations: The parties were informed that, except where blatant under declarations were detected, declared values would be accepted; and

□ Importation of livestock: Concerns were raised about the sale of livestock in SA at zero rate, while imports will be subject to VAT at the standard rate.

Since April, the zero rate has been applied to livestock sales between registered VAT vendors in SA in an attempt to prevent VAT fraud relating to fictitious exports and the collection of VAT by Namibian farmers who register as vendors but fail to pay over such VAT. Once effective border control becomes operational we will revert to the standard rate.

The recent death and, subsequent discovery of, 18 bodies in Botswana is a harsh and cruel reminder of the tragic practices of cartage contractors under the guise of legitimate business.

SA also cannot allow VAT fraud to go on unchallenged. The SA Revenue Service will do everything possible to ensure that problems experienced by our neighbours, once this scheme is implemented, will be addressed speedily and sympathetically.

□ *Henning is the SA Revenue Service's spokesman.*

Old hands get tough on tax cheats

ST 15/11/98

Record sentence as retired police track missing millions

(320)

KEN VERNON

A GROUP of retired police officers hired by the Receiver of Revenue has netted R242-million in unpaid taxes in its first months of operation and initiated prosecutions against dozens of alleged evaders.

In a record sentence for a commercial crime, a meat importer they tracked down was given 25 years in jail or a R500 000 fine for evading import duties.

The businessman, Hamied Palekar of Cape Town, paid the fine and was ordered to pay back R3,92-million in customs duties after he manipulated import documents.

Pilot teams operating in Pretoria and Cape Town for the past six months have 28 cases before the courts and another 50 under investigation.

Teams are planned for Durban and Port Elizabeth.

Those convicted face sentences of up to two years in jail and fines of R1 000 per count of tax evasion, in addition to possible sentences for fraud.

The Receiver can also impose fines of up to 200 percent of the tax evaded.

Teresa Kannemeyer, an advocate working in Pretoria, said her team had more than 20 cases under investigation, including one in which VAT of R48-million was allegedly evaded. In that case, a used-car dealer from Orkney, Anthony Pannous, was sequestrated.

People tracked down by Cape Town's team and charged by the police include an estate agent whose business allegedly owed R442 000 in tax, a builder who allegedly owed R200 000, a hardware dealer who allegedly owed R123 000 and an individual who owed R245 000 in his private capacity.

The national head of the unit, Roelf Beukes, said: "These are not soft targets. They are hard cases who think because they have got away with evasion before, they can do it forever. But they will be caught."

He said the teams had already had spectacular success, recovering R242-million in lost taxes.

"That represents the money that was initially lost to the fiscus, not counting any additional penalties that might have been levied," he said.

Criminal charges were investigated in most cases, even if the tax and penalties were paid.

The past session of Parliament heard that an investigation had found that R20-billion a year was being lost to fraud and evasion.

Almost 25 percent of eligible taxpayers were not registered, the investigation found.

The head of the Cape Town unit, Nick Snyman, a retired general in the commercial branch with 33 years of police work behind him, said the successful case against Palekar was just the beginning. "Our team has more than 100 years of policing experience. We are old hands."

He said a case such as Palekar's would have taken five years to get to court, whereas his team had taken less than six months to get a conviction.

Snyman said: "Because we are able to concentrate on just one case at a time, throwing all our resources into it, we can crack it in a fraction of the time it normally takes. That makes justice more visible and takes the burden off the overloaded police."

He said his team did not have powers of arrest. "We fully investigate and document cases before handing over a complete docket to police to make an arrest," he said.

He said a key member of the team was former public prosecutor Koos Smit, who ensured investigations were watertight before they got to court.

He said his team acted initially on information supplied by regular tax investigators, then took over and ran with the case.

"This job has given us a new lease on life," said O'Mara Davis, a former police major.

"Here we are able to prioritise high-profile cases, whereas in the police we had to deal with each case as it came and give them equal attention."

UNAVOIDABLE: The Western Cape team tracking tax evaders are (clockwise from front): Nick Snyman, Koos Smit, O'Mara Davis, Riaan Gericke and Piet Cronje Picture: RICHARD SHOREY

Katz commission advocates land tax

BD 30/11/98 (320)

THE SA government should consider introducing a land tax so rural property is taxed in the same way as that in urban areas, the Katz commission, studying SA's tax structures, said on Friday.

The commission, named after its chairman Michael Katz, has been investigating the possibility of a land tax since 1995 and set up a subcommittee to study the issue.

"The subcommittee suggested national framework legislation for the regulation of the required equitable administration of urban and rural rates across SA," the commission said in its interim report.

"The commission fully subscribes to this and endorses the need for clear framework legislation which will enable the constitutional empowerment of local government to impose tax on property in a coherent fashion, wherever it may be situated."

The commission said the levying of rates on land, whether urban or rural, for local authority expenditure was not a revolutionary departure from accepted practice, adding that local authorities were best able to impose such a tax. The commission said that in drafting the legislation, the tax should be based upon property valued at use-value rather than market-value, although local authorities which could justify the use of market value should be allowed to do so.

The commission's subcommittee said the purpose of any rural land tax should be to provide additional services for that area's communities. — Reuter.

Farmers, hoteliers condemn land tax

Louise Cook (BD) BD 2/12/98

THE farming and hotel industries condemned a Katz commission subcommittee recommendation yesterday that government seriously consider imposing a land tax in rural areas.

SA Property Owners' Association CEO Brian Kirchmann said the fact that no fixed rate was recommended nationally was "dangerous" and the many lodges which are trying to attract tourists would suffer an additional burden as a result of the proposed tax. "There is no business plan to indicate where the additional money will go."

The SA Agricultural Union, backed by the Free State Agricultural Union, said the recommendations implied an increased tax burden.

The commission recommended that a land tax be based on the productive rather than the market value of the property, saying that the values should be reviewed every five years.

The commission has been probing the possible introduction of a land tax since 1995 as part of a wider probe into a package of tax reforms. The proposed land tax would be charged at local government level, similar to taxes charged by thedefunct council of the former Cape Province in the 1960s.

The tax was aimed at providing local councils with income for job creation and projects linked to developing their areas.

The commission must create national guidelines to ensure the local councils did not deviate dramatically in imposing the tax.

However, the report failed to lay down a uniform rate at which the tax should be charged, leaving it to the discretion of individual local councils who may also decide not to impose the tax, if they so wished.

Land and Agriculture Minister Derek Hanekom has so far favoured a rate not exceeding 2% of the value of the land. The proposed tax would be an additional tax over and above levies payable to local district councils.

The farmer and hotel sectors have consistently warned about the cost of collecting the tax as well as arguing that it would put further strain on the operational costs of businesses in the sectors. Earlier this year, the SA Agricultural Union said in some areas on the West Rand, local councils had already started charging the tax in a disguised form.

Gauteng development planning and local government MEC Sicelo Shiceka said last year a land tax "had a lot of potential" and could be used to boost salaries of underpaid local councillors. It would help stop speculation in property and ensure land was used productively.

Govt wants to lighten load for lower income earners

BD 11/12/98

Greta Steyn (320)

GOVERNMENT wanted to continue lightening the tax burden on lower income earners and relieving fiscal drag, Finance Minister Trevor Manuel said yesterday.

Further tax relief would be possible if tax was collected more efficiently, he said at the opening of the SA Revenue Service's (SARS) building in Pretoria.

"We signalled in the last budget that we want to lighten the load for lower income earners.... We want to accelerate that process. To do that we need an efficient, effective tax collection system."

This would enable government to ensure that tax policy was in line with broader socioeconomic policy. SARS had already undergone a "quiet revolution" since it began beefing up tax collection.

Government would not be able to make any major changes to taxation policy and tax rates until it had been established that SARS could respond effectively to new policy measures. While SARS had already made huge strides in improving tax collection, "we want a system that responds better", Manuel said.

He indicated that the 35-year-old Income Tax Act would be overhauled because it had become "a patchwork" and that attention would be paid to the loopholes and to the grey area between tax evasion and tax avoidance.

Deputy Finance Minister Gill Marcus said a total rewrite of the act could take more than a decade. SA needed better legislation sooner than that and efforts would be concentrated on making the act far more accessible. Dividend taxation, for example, was dealt with in about 30 different places in the present legislation.

One of the spin-offs of SARS's improved collections is that SA's tax-to-gross domestic product ratio, at about 27%, has failed to drop in line with the targets set in the growth, employment and redistribution (Gear) strategy. Manuel, who failed to reconfirm Gear's tax target last month when he presented the adjustment budget to Parliament, unequivocally committed himself to the figure yesterday. "The 25% target (of tax to GDP) — we'll get there."

He also described as "ludicrous" opposition politicians' claims that SA was overtaxed, saying that by international standards, SA's tax burden was not high.

TAXATION

BUDGET 1999

Improved tax collection puts a dent in government's deficit

(320) BD 18/2/99

Tim Cohen
and Madeleine van Niekerk

Katz commission suggests that R20bn in extra tax could be added to income through efficiency gains

CAPE TOWN — The SA Revenue Service's (SARS) improved tax collection capacity has become a key weapon in government's attack on the budget deficit, allowing a 0,2 percentage point improvement in the 1998/99 deficit.

Government hopes to maintain the trend, budgeting for a R2,7bn improvement in tax collection in 1999/2000 after revenue increases allowed Trevor Manuel to announce a final deficit for 1998/99 of 3,7% — down from the revised figure of 3,9%.

Improvements in tax collection have become a feature of SA's budgets, coming charging in year after year to save the deficit target by eclipsing expenditure overruns.

Finance Minister Trevor Manuel said in his budget speech that government attempts at enhancing the operational effectiveness of the SARS were beginning to pay off.

Between October 1997 and December last year the SARS evaluated 7 606 000 unregistered income tax, PAYE and VAT cases, of which 181 000 proved eligible for registration. But he said "there are still too many free riders in the system".

In most years since 1994 government has managed to squeeze more out of the public than it had anticipated and in some years it has even exceeded its own increased expectations by improving on a budgeted increase.

For example, government budgeted for total tax revenue of R164bn in 1997/88, but took *in R1bn extra, while the following year total tax* revenue was budgeted at R179bn, but about R1,8bn extra was taken in.

It is estimated that since 1994 R13bn in unpaid taxes, termed "efficiency gains", has been collected by government, partly with the aid of *more rigorous* tax collection and partly because of an improvement in tax honesty.

Finance Minister Trevor Manuel said government attempts at enhancing the operational effectiveness of the SARS were beginning to pay off.

Improvements in revenue collection have saved the day by helping government achieve *its ambitious* deficit reduction programme despite expenditure overruns in some years and unexpected economic downturns in others.

Deputy Finance Minister Gill Marcus said government was aware this bonus would come to an end at some time, but she speculated that government had some way to go.

The Katz commission has suggested R20bn in extra tax could conceivably be added to government's income by improving collection.

Marcus said the improvements had come across the board, with roughly similar levels of collection improvement coming from individuals and from businesses.

Hence, in the 1999 financial year, government was budgeting for additional "efficiency gains" in personal income tax and company tax of R1bn each.

In addition, about R400m in efficiency gains would come from VAT collection, R200m from excise duty and R100m from customs duties.

Marcus said more work needed to be done to improve tax collection from people who were paying tax but not paying all they owed.

The down side of "efficiency gains" is that it has had the effect of increasing SA's tax to *gross domestic product ratio to* 27,4% in 1998/99 from 25,3% in 1995/96.

This places SA's overall tax burden well above comparative developing countries, at about the same level as those in the US and well below European countries.

Michael Honiball, tax partner at Arthur Andersen, said the biggest change at the SARS was its new income tax system introduced last year and being phased in over two years.

SARS had integrated the tax, VAT and PAYE systems which would result in a huge increase *in the collection of tax, since people who paid* only VAT and not PAYE and vice-versa, would now be "caught".

Tax expert 'bowled over' by relief

BD 18/2/99 (B20)

David McKay
and Madeleine van Niekerk

THE share values of SA gold mining companies will be boosted by an average of 5% through tax relief announced in the budget yesterday.

BOE Securities analyst Gerard Kemp said that on a net present value basis — the formula used to calculate the value of a company's future dividends in current money — the Anglogold share price should gain about R14.

The move also makes SA gold shares more attractive to offshore investors as there will be a greater discount between the actual share value and its value on a net present value basis.

Gold Fields' share price would improve R2 on that basis, as would those of Western Areas (up 6%), Randfontein Estates (5%) and Durban Roodepoort Deep (2%).

Kemp said gold miners which mined higher grades would benefit most as they generally paid more tax.

Anglogold finance director Jonathan Best said the group was pleased with the tax relief. "This adjustment will have a direct and positive effect on Anglogold as the mining tax formula will be changed to give effect to the reduction in the tax rate, resulting in further reductions in non-mining tax."

Tax experts generally were pleasantly surprised by the reduction in the company tax rate from 35% to 30%, which follows the Katz commission recommendation two years ago that government follow international trends.

The tax applicable to foreign companies with branches in SA has been cut also from 40% to 35%. "Foreign investors will be very pleased and it augurs well for foreign investor confidence," said Michael Honiball, tax partner at Arthur Andersen.

Ernest Mazansky, senior tax partner at Grant Thornton Kessel Feinstein, said the cuts were a "bolt from the blue", "enormously courageous" on government's part and a commendable step, especially in an election year.

"I am totally bowled over."

The move recognises that many countries were reducing their company tax rates, including almost all European states and most of those competing with SA to attract foreign investment, and SA had to keep pace.

Given the retention of secondary tax on companies at 12,5%, the total tax paid on R1 of income distributed by a company is now 37,77% compared with 42,22% under the old dispensation. Thus 30% tax is payable on each rand retained in the company, and 47,77% on each rand distributed.

Honiball said following the international tax trends, transfer pricing mechanisms would have to be scrutinised also. SA has had transfer pricing legislation since July 1995, but he said it had never been adequately enforced until now.

Tax reforms aim to lighten workers' load

BD 18/2/99 (320)

Samantha Sharpe

CAPE TOWN — Individual taxpayers earning less than R70 000 will benefit most from government's personal income tax reforms, while high-income earners continue to carry most of the tax burden.

The reforms involve restructuring current tax brackets and rates — a bid to eliminate the effect of inflation on income — and an increase in the primary rebate for individuals and secondary rebate for individuals 65 years of age and older.

For those earning R46 000 to R50 000 the tax rate will be reduced from 39% to 30%, for those earning between R50 000 and R60 000 from 39% to 35% and for those bringing in R60 000 to R70 000 from 43% to 40%. Those earning between R70 000 and R120 000 will be subject to a rate of 44% and above R120 001 to 45%.

The primary rebate will be increased from R3 515 to R3 710, increasing the tax threshold by the projected rate of inflation, while the secondary rebate in respect of individuals 65 years and older is to be raised from R2 660 to R2 775.

In practical terms this means a person under 65 earning R35 000 a year will pay R415 a year less in tax. For R55 000 a year earnings, it will be about R975. Individuals older than 65 getting the same sums will pay R530 and R1 090 less respectively.

Finance Minister Trevor Manuel said: "Lessening the tax burden on ordinary working people is a key objective of government. They benefit most from the changes we make today, with more than half of the relief going to people with incomes of less than R70 000.

"However, all taxpayers will experience some relief. We have again this year sought to protect taxpayers from the effects of inflation on income.

"Typically what happens is that when wages increase in response to inflation, individuals get pushed into a higher tax bracket, even though in real terms their incomes have not changed."

The cost of compensating for fiscal drag in respect of all individual taxpayers is estimated to be R3bn, while R1,85bn represent the cost of restructuring the tax table, by restructuring the brackets and adjusting the rates, he said.

In terms of the percentage of tax relief going towards individuals, those earning less than R60 000 would receive about 35,7%, income earnings in the R60 001 to R120 000 bracket 46,8% and those earning more than R120 001 the balance.

NEWS

SA is on the cutting edge of world budget reform, says minister

Marcus lauds tax efficiency

CT(BR) 19/2/99(320)

VERA VON LIERES

Cape Town — Efficiency gains at the South African Revenue Service enabled the government to announce significant tax cuts for companies and individuals in the 1999-2000 budget, Gill Marcus, the deputy minister of finance, said yesterday.

Speaking at a post-Budget seminar hosted by KMMT Brey Chartered Accountants, Marcus said the government had begun to close the gaps and loopholes in the tax system.

She said: "We are nowhere near where we need to be but we have turned the corner and that has enabled us to take the measures seen in the Budget."

The cut in corporate tax from 35 percent to 30 percent and tax cuts for lower- and middle-income taxpayers earning up to R70 000 were an expression of confidence in the country.

But low tax morality had to be tackled. "South Africa needs ... a partnership on tax (between government and taxpayers).

"We have made a good start on that."

Speaking more broadly on budget reform, Marcus said South Africa had moved to "the cutting edge" of change and was initiating many changes that countries elsewhere were still grappling with.

"The world is looking on with great interest (at our innovations) because they have not found solutions."

The national expenditure survey, which was released for the first time this year together with the Budget speech and Budget Review, was a key document because it represented an accountability tool.

The survey gives an indication of what national departments are doing with money allocated and results expected from departments.

Marcus said the overall challenge ahead for the government was to implement the body of legislation and policies formulated over the the past five years and to expand the economy with skills and jobs.

Among the most serious problems was the cost of personnel spending in the Budget (such as civil service spending) and the very low levels of savings in the economy.

Savings levels account for less than 15 percent of gross domestic product.

Tax relief to trickle down

m+G 19–25/2/99 (320)

Belinda Beresford

The rich man in his castle and the poor man at the gate should each in their own degree be feeling at least content with the personal implications of the latest government budget.

Minister of Finance Trevor Manuel has continued the government's intention of redistributing income by relieving the direct tax burden on lower-income earners. Happily for wealthier South Africans, the effects should trickle up, reducing income tax paid by all but the very wealthiest of individuals.

The tax threshold has been raised in tandem with estimated inflation to R19 526 for people younger than 65, while for those older than 65 the threshold is R33 717.

The tax brackets have been restructured: for people earning between R33 001 and R50 000 the marginal rate is 30%. Between R50 001 and R60 000 the marginal rate is 35%, while it is 40% for income between R60 001 and R70 000. Individuals earning between R70 000 and R120 000 pay marginal tax rates of 44%. The marginal rate remains at 45% for those earning more than R120 001.

One of the reasons for the rise in individuals' contributions to the government's coffers has been the success of the South African Revenue Service in collecting taxes

The government estimates that 6,6% of taxpayers fall into this top bracket, providing just less than 46% of the total tax burden and gaining 17,5% of the tax relief. Slightly more than three-quarters of taxpayers earn less than R60 000, and provide 16% of the tax revenue.

Individual taxes contributed little more than 42% of the government's total tax revenue for the 1998/1999 finance year, compared to just under 33% for 1984/1985. The proportions of direct taxes (such as income taxes) and indirect taxes (such as value-added tax or general sales tax) have remained relatively stable.

One of the reasons for the rise in individuals' contributions to the government's coffers has been the success of the South African Revenue Service in collecting taxes.

For the 1998/1999 financial year the revenue service is expected to collect R178,9-billion rand — more than R2-billion higher than the target it was set in last year's budget. This is good news for registered and up-to-date taxpayers, not so good for those still evading their tax responsibilities: new tax payers mean the burden is spread more widely, and the government can move further in reducing tax burdens.

For such high net worth individuals who've exceeded their R400 000 limit for (legal) overseas investments, there was disappointment in that exchange controls were not relaxed further. However, in his speech Manuel said the government expected "to be in a position to announce further relaxation in exchange controls later this year". He also said that the government expected interest rates to come down further.

The budget was generally greeted with satisfaction by the financial services industry, which had anticipated more aggressive action on a number of fronts including fringe benefits and taxation of capital gains tax.

Financial services company Citadel, for example, said it was notable that there had been no increase in taxes on pension funds. However, this could be because the government was waiting to take a more holistic overhaul of the taxation system, rather than a permanent decision not to raise such taxes.

Certainly Giselle Gould of the Institute of Retirement Funds said her organisation had "appreciated" the budget — especially since tax relief meant people would have more money to spend, or invest in their retirement funds.

However, the budget is not likely to have much effect on people dependent on a state old-age pension who will only get a 4% rise or R20.

Deloitte & Touche manager Jaco la Grange said the budget was "not surprising or onerous at the lower end, a very good budget for the wealthier". According to his firm's calculations, a two child family with an income of R50 000 per annum would be about 0,6% better off in real terms, while a family on R250 000 a year would gain about 0,1%.

However, La Grange said Deloitte & Touche had noticed that the revenue service was becoming more aggressive in cracking down on salary structuring and tax reduction schemes. Even without legislative changes, the revenue service "already has all the tools to investigate or look at these things", he said.

La Grange also pointed out that there could be surprises during the year which were not announced in the budget, and that people should stay alert to possible impacts on their financial planning. For example, the beginning of January saw losses in trusts being ring-fenced to prevent abuse for tax loss reasons by trust beneficiaries.

Company tax cut part of plan to join big league

The big surprise in the Budget is set to bring SA in line with its major trading partners, writes THABO KOBOKOANE

THE surprise reduction in company tax from 35% to 30% in Finance Minister Trevor Manuel's Budget is seen as part of a long-term strategy to bring SA in line with its major trading partners.

Analysts agree the tax cut will improve the competitiveness of SA corporations and attract foreign investment.

The tax change, and the reduction in the burden on low and middle-income earners, are in line with a trend towards lower taxes for individuals and corporations.

Maria Ramos, director-general at the Department of Finance, says the approach is towards a tax regime that is competitive, but also one that broadens the tax base and reduces the burden on individuals.

Economists say individuals still carry most of the tax burden, contributing at least 42% to government revenue. But the latest cuts will mean an extra R4.85-billion to individuals — bringing to R15-billion the total tax relief granted to individuals by government since 1995. Companies will have an additional R2.5-billion in their pockets.

Economists have welcomed the cut in corporate taxes, saying it should gear SA towards becoming a more competitive country internationally. SA Chamber of Business president Humphrey Khoza welcomed the rebate, but regretted that tax concessions — aimed at promoting direct investment in new production capacity — were not being extended.

The question is how to redress tax imbalances in an environment where government seems to want to create a tax regime that encourages competitiveness.

Government strategy has relied on broadening the tax base through improved tax collection by the SA Revenue Service as a way of redistributing revenue to lower and middle-income earners.

Indeed, in the 1998/99 financial year better tax collection has been highlighted as one of the main reasons government was able to grant more relief to individuals. It is expected that in 1999/2000 the SARS will pick up an additional R2.7-billion through more efficient and effective tax collection.

SARS has also relied on the sin taxes (tobacco and alcohol), but this is a diminishing source of revenue. Excise taxes are already in line with the high levels of developed countries.

The retirement industry was shocked last year when Manuel increased its tax rate to 25% from 17%. He left the rate steady in this Budget, but it remains to be seen whether the industry will come out unscathed in future budgets.

In terms of proceeds from privatisation, Manuel makes a R4-billion provision to bolster the fiscus. But most of the R4-billion is expected to flow from the restructuring of the SA Special Risks Insurance Association and not the sale of state assets.

Most economists have urged Manuel to increase VAT as a way of spreading the tax burden.

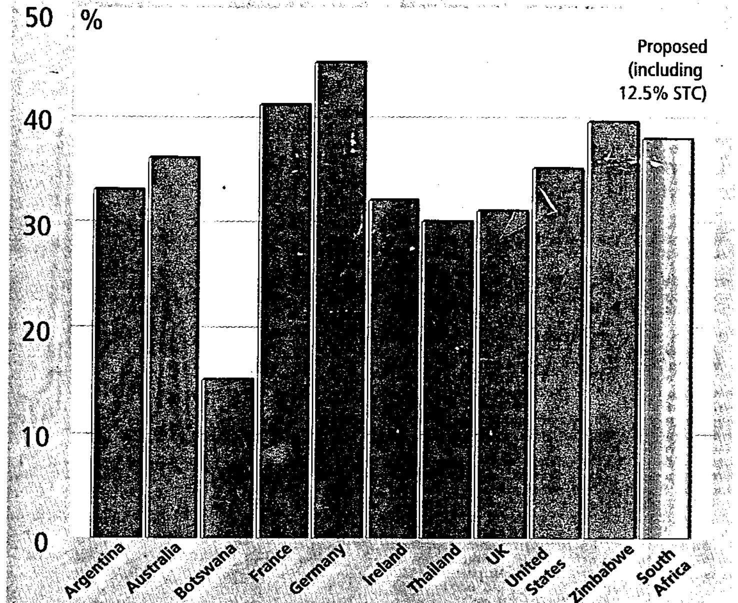
VAT, which replaced general sales tax in 1991, has not been raised since April 1993 when it went up to the present 14%.

There is more than a possibility that VAT could be increased once elections are over.

Maria Ramos warns, though, that indirect taxes are regressive — she favours a balance between direct and indirect taxes.

She says government will continue to reduce the number of tax brackets, which stand at six from 10 about three years ago. "We are looking at reducing the tax brackets to between four and five."

SA'S COMPANY TAX RATE IN CONTEXT



Graphic: RUBY-GAY CAETANO

Source: COOPERS AND LYBRAND, 1998 INTERNATIONAL TAX SUMMARIES

(320) ST(BT) 21/2/99

Katz lauds job-creation benefits in tax cut

BUDGET COMMENTARY

By LEIGH ROBERTS

THE decision to cut the corporate tax rate from 35% to 30% gets a strong thumbs-up from tax commission chair Michael Katz.

Reviewing the tax reforms at an Investec presentation in Johannesburg on Friday, Katz said that, apart from the lower rate making SA internationally competitive, an important aspect was job creation among small and medium enterprises.

"A 30% tax rate is hugely beneficial to these businesses," he said.

Katz saw the move as strengthening SA's position as a tax haven for foreigners. "We have low corporate rates, no withholding tax on interest and no withholding tax on dividends."

He dealt neatly with the argument that secondary tax on companies (STC) lifts our corporate tax rate higher than other countries' rates. "If you include STC in our rate, then you must add the dividends tax on other country's rates. Then you see how favourable SA is."

The new lower corporate rate, however, increased the gap between the maximum marginal tax rate for individuals, at 45%, and the company tax rate, allowing arbitrage.

Katz said the arbitrage situation could be monitored by the SARS, but it was better to have a tax structure that naturally promoted compliance.

"In the short term, I'd sooner bring down the maximum marginal rate to address this issue. When the differential is only 6% or 7%, the incentive for arbitrage is not that great. The 30% corporate rate was right, but the differential is structurally unsound."

Katz took government to task on retirement industry tax. "I have an absolute obsession about it," he admitted.

"In the commission's third report, we identified the problem of taxing retirement funds and the industry. Huge funds were outside the tax system, and there was a tax incentive to one activity in the economy."

Pressures from the industry, he said, had led to an unhappy tax situation. The funds are now taxed on their net rental income and on their gross interest, while other income isn't taxed at all. "This distorts the investment markets. It makes retirement fund managers go into high-risk activities.

"I would sooner have a 17% rate across the board (on all income) than a differentiated structure." This would achieve tax objectives and take tax out of the decison-making of retirement fund managers.

ST (BT) 21/2/99 (320)

TAXMAN'S ALL-OUT WAR

Jail, R500 000 fines – and a special squad to shut businesses

ARG 24/2/99 (320)

HUGH ROBERTON
POLITICAL EDITOR

The regional office of the SA Revenue Service is issuing more than 1 000 summonses and arrest warrants a month in a tax evasion crackdown that is unprecedented in the Western Cape.

It entails imprisonment and court actions that have led to fines of more than R500 000 for some companies and the recovery of millions a month from individuals.

And today, Peter Maspero, head of law administration in the SARS regional office, announced that chartered accountants had been appointed in Cape Town and Bellville with the sole task of closing down non-viable businesses with tax arrears.

"Any business not considered to be viable and that is in arrears with its taxes will be shut down and liquidated – along with its directors," he warned.

He added that in future all tax evaders would be prosecuted and, if found guilty, would have a criminal record.

In Cape Town alone, more than R8-million was recovered in a single "special default" exercise last December.

The crackdown is part of a huge national effort to reduce the country's tax debt which, in spite of some spectacular successes, has increased nationally by 16,11% overall since last year's Budget.

Finance Minister Trevor Manuel revealed in his Budget speech last week that about R12-billion was lost every year to tax evasion, but that the success of the campaign to hunt down tax cheats had enabled him to cut personal income tax and company tax – and increase social spending.

Today Mr Maspero said the Western Cape-Northern Cape SARS office would be taking more drastic steps against tax cheats, including obtaining a court order to prevent the issuing of Old Mutual shares in the demutualisation **(see report on left)** to those who owed more than R6 000 in arrears.

During the Sanlam demutualisation, the SARS office in Cape Town prevented more than R30-million in shares from being distributed to people in arrears. In Old Mutual's case, the amount is expected to be far bigger.

Mr Maspero said the dramatic change in regional SARS operations began when it was able to break away from restrictions that applied to the public service.

There had been a big effort to empower regional offices to take responsibility for their own activities.

"The result is that in our local office we were able to recruit 15 tax experts – people with university and other qualifications who are skilled in tax law and law enforcement – and to award temporary contracts to others.

"We have also tested the barriers of what we can do with the powers at our disposal. In the past, for example, prosecutions were handled by the state attorney, whose office was seriously overworked. Now, we ourselves are able to prosecute."

One of the most important changes in dealing with tax cheats in the region has been to refuse to accept payment of arrears as an admission of guilt. "Instead, we

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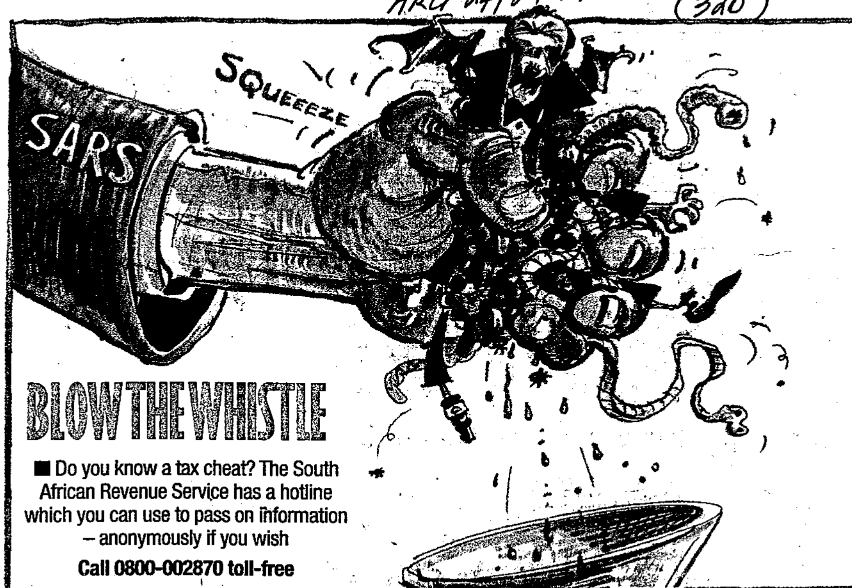


BLOW THE WHISTLE

■ Do you know a tax cheat? The South African Revenue Service has a hotline which you can use to pass on information – anonymously if you wish

Call 0800-002870 toll-free

CHIP SNADDON

R4,7bn shot in arm for Cape

ALIDE DASNOIS
PERSONAL FINANCE

Old Mutual policyholders in the Western Cape could pocket R4,7-billion in free shares if the life assurer's demutualisation goes ahead later this year.

Old Mutual said yesterday that of the 2,3-billion free shares to be issued, 425-million would go to policyholders in the Western Cape.

The value of the shares is not yet known, because once they are listed on stock exchanges in London and in Johannesburg and other southern African cities the price will depend on trading.

Old Mutual's financial advisers, Merrill Lynch, have estimated that if the shares had been listed in London and Johannesburg on December 10 last year, the price would have been between R11 and R14.

At R11 a share, policyholders in the Western Cape would get a bonanza of nearly R4,7-billion.

Policyholders have until March 3 to vote by post on the demutualisation.

P.T.O.

Firms set for chop as taxman goes to war

ARGT 24/2/99 (320)

From page 1

accept payment and let that fact be taken into account by the magistrate when passing sentence, although it is unlikely that those paying up will receive a jail sentence," said Mr Maspero.

"Until now we have concentrated on defaulters who have not paid PAYE and VAT. These defaulters are ... in effect misusing trust money collected from their employees and the public instead of paying them over to the SARS for public coffers.

"Our next initiative will be to use our newly acquired legal professionals to prosecute tax evaders. Typically these taxpayers under-declare their incomes.

"From now on, offenders will, in addition to interest and a 200% additional tax penalty, be prosecuted for fraud."

Mr Maspero said the SARS local office had budgeted for even bigger teams of professionals to continue the assault on what he described "financial gangsterism".

Companies face tax blitz, page 10

Receiver in battle to collect R17-bn

Star 24/2/99 (320)

Cape Town – The South African Revenue Services (Sars) is battling to collect more than R17-billion owed it in arrears taxes, and the situation was spiralling out of control, the National Assembly's finance committee heard yesterday.

"Sars has continued to concentrate on the collection of arrears debt, and although much effort has been made in this regard, we have been unable to stop the growth of our debtors," Sars said in a presentation to the committee.

More than R7,6-billion was owed in income taxes, nearly R7,7-billion in VAT arrears and nearly R2,8-billion in PAYE debt.

Tax debt since April last year had risen by 16,11%, or R2,3-billion, Sars said.

VAT debts had shown the most alarming increase – 31,35%, or R1,8-billion, since April 1998.

Sars commissioner Trevor van Heerden told the committee the total debt had built up over a number of years.

As Sars had increased its tax turnover, so debts had risen accordingly.

He said there was evidence that people were using the VAT they owed to finance businesses, and steps would be taken to clamp down on this.

Sars had been successful in broadening the tax base: between October 1997 and December last year it had identified 142 360 businesses which were not registered for income tax, 19 965 which were not registered for VAT and 18 998 which were not registered for PAYE.

VAT fraud amounting to R46-m uncovered in Gauteng

It had also intensified its campaign to prosecute tax defaulters.

A test by Sars on a sample of taxpayers in October last year revealed that 30% of them would receive free shares from the demutualisation of life assurer Sanlam.

About 24 000 of them who were due to get shares but owed more than R5 000 in back taxes for more than three months had their share certificates attached.

To date, Sars had collected R28,7-million in this manner and it was still holding about 14 million shares in terms of the attachment order.

In Gauteng, VAT fraud amounting to R46-million was uncovered. Two companies were placed into liquidation and three people were arrested.

Sars's national special-investigations division had also improved tax collection capability. Between April and December last year its investigations resulted in an extra R750,7-million being collected.

Custom-post controls were also improved.

Last year Sars had introduced a system whereby people could pay their income tax at First National Bank. As from August last year, an average of about 16 000 payments a month were made via this facility.

A new computerised income-tax system to electronically link Sars's various systems would be introduced this year. – Sapa

Revamped revenue service looks ahead

(320) BD 1/3/99

Hilary Joffe looks at the strategy the SARS has developed to tackle future challenges

JUST more than a year into its transformation programme, the SA revenue service (SARS) faces a long list of challenges. Yet it can also claim some notable successes, reflected in the efficiency gains which boosted government revenue in the latest fiscal year and are set to do so again in the next year.

The SARS, which was taken out of the public sector late in 1997, must turn itself into a more skilful and effective collector of taxes and customs duties at the same time as it continues to keep revenue rolling in. And its mandate is not narrowly focused on raising more money in the shorter term — it is also tasked with changing citizens' attitudes to their obligations.

Essentially, this is about collecting taxes and customs revenues in a democracy. The SARS has advantages which its predecessors did not. It has the political credibility to bring new taxpayers into the net and the ability to draw on international assistance.

Also, in its customs activities, it can draw on co-operative, rather than adversarial relations with neighbouring countries. Yet the SARS was, until recently, a neglected and archaic bureaucracy, with few of the resources necessary for a modern revenue-collecting service. What it is trying to do now is to build the capacity, in terms of technology, people and processes, to become one, at the same time as it tackles SA's pervasive culture of nonpayment — or what tax people would call lack of tax morality and compliance.

The changes at the SARS are being driven by a comprehensive strategic plan which was launched in June. This followed an intensive "self-examination" process begun in late 1997 when the SARS was given administrative autonomy. That process, led by Deputy Finance Minister Gill Marcus, began the internal changes at the SARS. It also brought in the assistance of the UK customs office on the custom's side and, on the tax side, of Sweden's National Tax Board.

Traditionally, much of the SARS's activity revolved around moving mountains of paper and its operations were dominated by clerical work.

As the SARS put it in its report submitted to the parliamentary portfolio committee on finance last week: "Administrative functions currently take 80% of the time and bring in 20% of the revenue."

Central to the new strategy, says SARS deputy commissioner Pravin Gordhan, is the shift from a manual, paper-based organisation to one which is more skills based. That will enable the SARS to provide a better service to taxpayers — and to exert greater control.

Investment in information technology has been a priority in the past year. Seven thousand new personal computers have been installed and the SARS's 112 offices, including customs posts, are all linked up to the new network. Downtime has been cut from 88 000 man days a month to 4 500.

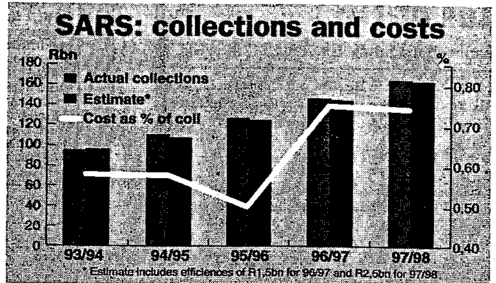
In the past, there were different "silos" for income tax, value-added tax and customs duties. Now the SARS will create a single file for each taxpayer, enhancing its ability to monitor and control abuses.

To get tax compliance, says Gordhan, the SARS must be able to provide a good service and reduce the cost to the taxpayer of complying. Yet it must also have effective controls. "We must be able to show our teeth and use them," he says.

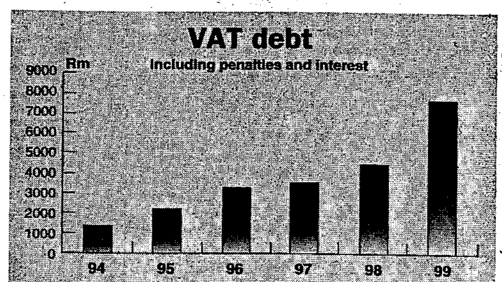
Central to that is a new focus on auditing — and new tools to do it. The Swedes have helped to train auditors and the SARS has purchased 70 laptop computers, which its people use to visit companies and download their general ledgers for tax auditing. Gordhan says the SARS is working to develop a better grasp of each economic sector so that it can understand trends and tax practices and better identify risks.

It has also beefed up its special investigation units. It is relying in part on co-operation from the public — it has opened a tax fraud hot line and has already received a few good tips, which are under investigation.

Yet all of these activities need skills, which have been in short supply in the SARS.



KUBEN DAVID Source: SOUTH AFRICAN REVENUE SERVICES



KUBEN DAVID Source: SOUTH AFRICAN REVENUE SERVICES

Gordhan says about 100 new people will be brought in, changing the "mix of talents" in the organisation. It is trying to attract skilled professionals, generally paying market rates less 10%.

Arguably, one of the major problems faced, even by a more efficient SARS, is that it can clamp down on tax fraud and tax evasion, but it will still be relatively disadvantaged when it comes to tackling the more sophisticated forms of tax avoidance invented by many of business's better brains. Gordhan concedes the problem but, he says, "we want to get more skills on our side so that we can at least try to level the playing field".

The SARS concedes too that it is fighting something of a losing battle on the tax debt side, particularly on VAT collection. It reported to Parliament last week that tax debt rose 16% to R17bn since last April, with company tax debt up 19,5% and VAT debt up 31%. The record on PAYE and personal income tax debt was better, with little increase in either category. Efforts are being made to improve debt collection systems and the SARS believes the new systems could bring in substantial income.

Stamping out fraud and chasing up debtors are two elements of the "efficiency gains" that the SARS's transformation process is bringing about. The other, and in some ways even more challenging, element is broadening the tax base.

Last year the SARS sent questionnaires to more than 600 000 businesses. It found 37% were not registered for one or more types of income tax, VAT or PAYE. The result: 181 000 new taxpayers were added to the tax base.

Many are small to medium-sized businesses and the SARS figures suggest the money involved is relatively small — for instance the 142 360 new income taxpayers who were registered together owed a mere R6,7m for the period prior to registration.

If raising revenue were the only issue, the SARS might arguably do better to spend its time on large-scale evaders and avoiders. Bringing thousands of smaller taxpayers into the net is expensive and does not necessarily yield large sums in the shorter term.

Yet this, says Gordhan, is not the issue. "It is about nation building. In terms of the constitution, citizens have rights. Yet they also have obligations. We have to establish a culture in which paying tax is seen as one's obligation as a citizen."

That applies as much to wealthy individuals and larger companies as it does to smaller businesses and those lower down the income scale. The SARS is trying to engage both worlds.

To do so, it is changing its own "architecture", as Gordhan puts it, relocating its offices, or opening new ones, in areas accessible to businesses and individual taxpayers. It also wants to do more educational work, in schools and other institutions.

There is already plenty of anecdotal evidence of the SARS's new look: companies which have been audited by the tax man for the first time in 40 years; small contractors caught out for VAT evasion and obliged to pay over large sums; ordinary taxpayers who are impressed when they phone a SARS office and find a helpful and reasonably competent person at the other end.

In hard figures, the evidence is there too: Marcus estimates that in the three years to the end of the 1999/2000 fiscal year, SARS efficiency gains will have brought government an extra R13,4bn in revenue which has made possible tax reforms such as the cutting of company and personal income tax rates and the reduction of fiscal drag in the latest budget.

In theory at least, the efficiency gains will eventually run out. At that stage, though, the tax base will be larger and all those who should be paying their taxes might have got into the habit of doing so. Establishing that habit is the SARS's biggest challenge.

(320)

Contract workers can claim pension plans against tax

Contract work

I AM a contract worker and recently signed a contract for 12 months. Because I work on contract, I do not qualify for any company benefits. As a result, I pay tax but don't claim any back — so the taxman really loves me!

Three months ago I took out a hospital plan with Fedsure and I have contributed to a retirement annuity with Sanlam for seven years.

Is there any way I can claim from the Receiver of Revenue for these contributions and any other expenses?

Unemployment insurance (UIF) is also not deducted from my salary. Should I make provision for it and, if so, what?

Beric Croome, tax partner with Grant Thornton Kessel Feinstein, replies: As a basic rule, contract workers can only claim expenditure for tax purposes if those expenses were incurred in the production of their income.

If your employer gives you an office and the necessary equipment to perform the required tasks, I do not believe that you can justify any work-related deductions for tax purposes.

However, if you must supply certain stationery, office space or other equipment, these costs can be deducted from your taxable income.

RANDS AND SENSE

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Another exception would be if you were obliged to travel on your employer's business. In this case, you may be able to claim travelling costs incurred for the purpose of your work, less an adjustment for private travelling.

Remember that driving to and from work is specifically regarded as a private travelling expense by the Receiver.

With your hospital plan, the rules relating to the deduction of medical expenses come into operation. You will only obtain a tax deduction if your total medical costs are in excess of 5% of your taxable income for the tax year in question.

Only the excess over this amount can be deducted from your taxable income. If, for example, your taxable income is R60 000 and medical expenses amount to R5 000, you can claim only R2 000 (that is, 5% of R60 000 is R3 000 so the excess you can claim is R2 000).

Your retirement annuity contributions should be deductible for tax purposes as you are not a member of your employer's pension or provident fund. The maximum tax deduction is 15% of taxable income for the year. For example, if you earn R60 000 a year, the maximum retirement annuity contributions that can be claimed is 15% or R9 000.

As far as UIF is concerned, your employer must deduct contributions from your salary if you earn less than R88 920 a year or R7 410 a month.

If you earn below this amount, your employer must deduct 1% from your salary and contribute this to UIF. Your employer will also have to contribute an equal amount.

If you are in this income bracket and UIF contributions are not being deducted, you should take up the issue with your employer. If your employer does not comply, notify the Department of Manpower.

You cannot contribute or make use of UIF if you earn more than R88 920 a year. If this is the case it may be advisable to take out income protection insurance or some other form of investment in case your employment ends.

Domestic's pension

MY DOMESTIC worker, who works two days a week, has asked me to put R50 towards her pension every month. Can you tell me how to go about this?

Dave Crawford, independent financial adviser in Johannesburg, replies: There are two practical possibilities here.

The first is to contribute to a formal domestic workers retirement fund. These are available from most assurers for a regular monthly premium.

In this way you can provide a funeral benefit — usually about R4 000 or R5 000 for a funeral for your domestic worker and/or the members of their family — as well as a capital fund which will grow to retirement.

The amount available at retirement will depend on how much of the premium goes into investment, and how well the fund's investment performance was over the period.

The second option is to provide an amount for pure investment in some sort of savings account or unit trust fund. This is usually an option if the domestic worker already has funeral assurance — but it's imperative you discuss it with her first.

If she is only working with you two days a week, she may work for someone else as well, so there may be an existing arrangement.

It's important to get the whole picture because one of the classic problems that arises later from the domestic worker schemes is that of why the investment account is so low. This happens when part of the contribution is being used for funeral cover and other risk benefits.

If this situation is unnecessarily duplicated in a multiple employer situation, it could lead to future misunderstandings.

● *We regret no personal correspondence can be entered into. The Sunday Times accepts no responsibility for the advice given in BT Money.*

Picture: FROM 'SENT', VIDEO VISION ENTERTAINMENT

DON'T BE CHAINED ... take out insurance against loss of employment if you are a contract worker

E ARGUS, FRIDAY, APRIL 30, 1999

Taxman eyes prostitutes and informers

(320) ARG 30/4/99

ARGUS CORRESPONDENT

Johannesburg – If you are a freelance prostitute, rural taxi baron, informal trade kingpin, professional gambler or police informer and think tax is not part of your life, think again – sooner or later, the taxman will get you.

The SA Revenue Service (SARS) is out to broaden the tax base to lower the burden on the individual and people who have slipped through the net for years are starting to feel the heat.

An SARS spokesman said teams were tracking the 1,2 million to 1,5 million individuals and small businesses still not paying up and meeting with some success.

He said last month (March) SARS raked in R21-billion, a record for a single month.

New SARS forensic unit recovering millions as it nets tax evaders

By Ryan Cresswell

The taxman's growing force of forensic and legal experts is making inroads into tax evasion and fraud around the country.

Early last year the South African Revenue Service (SARS) formed a new section of its national special investigations unit, called the forensic task team, and hired former commercial-branch detectives, attorneys, advocates and forensic experts to complement veteran tax investigators.

In March the unit was prosecuting 151 cases of VAT fraud, 82 cases for Customs fraud, 18 cases for income tax fraud and six cases of sales tax fraud.

Between April and December last year, investigators recovered more than R153-million, compared with R96-million in the same period for the previous year - nearly R58-million more.

SARS spokesperson Christo Henning said the unit intends to form an alliance with the Department of Justice to speed up prosecutions.

The SARS has also established a joint mobile border police/Customs team that seized goods worth R12-million in a few months last year.

Fraud hotlines have been established so that irregularities can be reported anonymously.

Star 3/5/99

(320)

Labour's planned BIG tax 'aims at alleviating poverty'

(300)CT(BR)6/5/99

Frank Nxumalo

Johannesburg – Organised labour's solidarity tax or Basic Income Grant (BIG) of R100 a month for every citizen, as proposed at last year's historic Presidential Jobs Summit, was aimed primarily at alleviating poverty rather than discouraging people from working, Neil Coleman, the head of Cosatu's parliamentary office, said yesterday.

Writing in the latest edition of the South African Labour Bulletin, Coleman said as everyone would receive a grant, the system was a real component of developmental social welfare . It avoided the problems experienced by welfare states where the possibility of welfare created a disincentive for people to work.

To ensure the system targeted the poor and the unemployed, those earning R2 000 a month, for example, would pay back the BIG of R100 while those earning above R5 000 a month would pay back double what they received as BIG or solidarity tax.

"The money would be claimed back from higher income earners through the South African Revenue Service, and the balance would paid by the fiscus.

"Preliminary calculations indicate that the cost of a BIG of R100 a month from 1998 may peak at R23 billion in 2003-04, assuming 75 percent take-up rate within six years," Coleman said.

He said BIG would contribute towards making people more economically active through access to cash resources, improve community health and enable poorer households to pool cash resources.

BIG grants would be paid into people's accounts electronically and at a reformed and extended Post Office bank system.

Coleman said the state's old age pension should remain in place as it had proved to government's most effective system of poverty alleviation.

Zero-tolerance approach to tax collection nets R183-bn

By Ryan Cresswell (320)

The South African Revenue Service's new hardline approach to tax collecting brought in R183-billion last fiscal year, which was about R4,4-billion above the projected budget, according to the head of the organisation, commissioner Trevor van Heerden.

Van Heerden spoke about the successes of the zero-tolerance approach and the transformation of the service yesterday at the start of a three-day SARS National Forum in Midrand. The forum will present a strategic review and an action plan for 1999/2000 to managers from around the country.

Van Heerden said a prosecution drive in KwaZulu Natal, the Eastern Cape and the Western Cape had helped the revenue surge. The establishment of 17 customs posts between South Africa and neighbouring countries had already brought in VAT worth R67-million and a new investigation branch had also recovered millions.

The recouping of R98-million and the collection of 12 million shares from Sanlam shareholders who owed taxes at the time of demutualisation is also a major achievement. SARS now expects to get as much as R300-million from Old Mutual shareholders.

Van Heerden said there were many hurdles to overcome – one of the worst being "the low tax morality in South Africa".

■ Taxpayers who try to use the Y2K bug, which may crash many older computers, as an excuse not to pay certain taxes will be disappointed next year. Van Heerden said taxpayers were being warned that this would not be treated as a mitigating factor.

Star 13/5/99

ST 23/5/99

SANTOSH BEHARIE

(320)

New tax blow for civil servants

CIVIL servants who have not been taxed on their cushy fringe benefits are in for a shock.

The taxman is to crack down on employees who have evaded paying perks tax on rent for state houses, car allowances, interest-free loans and meal and refreshment vouchers.

State departments who have failed to deduct the taxes from their employees will also face the wrath of the taxman.

The first group to be targeted were about 50 doctors in Mpumalanga who, during the past three months, were forced to pay out thousands of rands in backdated fringe benefit taxes they owed for occupying official houses.

South African Revenue Service commissioner Trevor van Heerden said that anyone who did not pay would be singled out. This included civil servants.

"They would then be subject to legal or other action as prescribed in the Act."

He said the only civil servants exempt from fringe benefit tax were those earning less than R20 000 a year.

However, a Sunday Times survey found that there was confusion in various provinces over whether or not civil servants had been paying perks tax. One reason for the confusion was the establishment of nine provinces.

It is estimated that in Mpumalanga and KwaZulu-Natal thousands of civil servants have not paid the fringe benefit tax on the state-owned houses they occupy.

More than 65 000 state-owned houses are being rented by civil servants and private individuals nationwide.

The SARS clampdown began in Mpumalanga in March.

Doctors were forced to pay up to R2 000 a month for March and April. But in May they were stunned when as much as R5 000 — more than half their net income — was deducted. The deductions date back to March last year.

One doctor, Mbongani Kabila, said he was stunned when he found out that doctors in other provinces were not paying fringe benefit taxes for state homes they occupied.

In a memorandum handed to the Department of Health in Mpumalanga, the doctors said they were aware that not all state employees occupying official houses paid fringe benefit tax.

SARS media spokesman Christo Henning said there were no exceptions to the rule when it came to paying taxes.

"No one is above the law, not even provincial or state employees. When it comes to paying taxes everyone is treated equally, including the President of the country," he said.

Meanwhile thousands of unsuspecting public servants working and living in official houses in KwaZulu-Natal may soon find themselves in the same dilemma as their Mpumalanga counterparts.

A senior official at the Department of Finance said that none of the thousands of civil servants in the province was paying fringe benefit taxes.

KwaZulu-Natal's head of health, Professor Green Thompson, said that if the more than 1 000 health workers occupying state houses in the province were taxed, serious problems could arise.

"It is already difficult enough trying to get health workers, including doctors, to work in rural areas. Providing them with homes at a nominal rent is one way of getting our professionals to work in rural areas."

According to Brian Caswell of the Department of Finance in the Western Cape, all civil servants in that province have paid fringe benefit taxes since around 1992.

Zakes Dube of the Department of Finance in Gauteng said civil servants had been paying fringe benefit tax since the time of the old Transvaal Provincial Administration.

SARS targets employment contracts made to close corporations

BD (320)

Tim Cohen

CAPE TOWN — THE SA Revenue Service (SARS) has decided to target unconventional employment contracts made with close corporations that are affecting national revenue flows.

Tertiary educational institutions have become the initial targets of the aggressive new approach by the taxman against tax-avoiding employment contracts — a move which has serious implications for similar schemes which exist in both public and private sectors.

Already, Technikon SA and the University of Stellenbosch face charges of tax arrears for tens of millions of rands as a result of the new approach, according to several reliable sources.

The schemes involve attempts to avoid tax by paying lecturers and other experts consultancy fees via close corporations, for example, instead of paying them ordinary salaries.

For educational institutions, this system has the advantage of making it possible to offer "salaries" beyond the scope of public service regulations, which often restrict salaries to levels not competitive with the private sector. This makes it possible for the institutions to attract more highly skilled staff.

The system is also tax-efficient because of the difference between high personal tax and comparatively low corporate tax.

However, it is understood that the taxman is taking the approach that these contracts are essentially employment contracts and therefore the institutions are liable for forward pay-as-you-earn (PAYE) payments.

One expert says the receiver is particularly sensitive to "salary sacrifice cases" in which former employees effectively accept salary decreases, but are then paid via a service contract and end up receiving more.

It is not necessarily illegal for an institution to enter into a service contract with an individual via a close corporation, but certain requirements must be met for the institution to avoid being regarded as effectively an employer.

It is in this grey area that the dispute has arisen regarding Stellenbosch University and Technikon SA, which may take the matter to court.

The two institutions have been targeted as the start of a broader clampdown by the SARS on these kinds of contracts, which are thought to be common in the public and private sectors.

"They don't have the capacity to do all the institutions together, so they are going to do one or two organisations at a time," says one insider who is familiar with the subject.

The dangers for the SARS have been exacerbated by government's decision to reduce the corporate tax rate, which increases the incentive to pay corporate rather than personal tax.

Fani Zulu, spokesman for the SARS, declined to comment on the case, because the Income Tax Act prohibits employees of the service from publicly discussing matters between individual taxpayers and the service.

He argued that it was the right of every taxpayer to have his tax matters handled with the utmost confidentiality and said he would therefore not comment on the existence or nonexistence of the dispute.

Taxman gets tough on corruption, gifts

The South African Revenue Service had fired nine people in four weeks for internal fraud and corruption, Fani Zulu, a spokesman for the service, said yesterday. This was after 11 people were dismissed for misconduct between January last year and June this year. The service also introduced "a total ban on acceptance of gifts by employees" with immediate effect. This included offers of meals, a day of entertainment at a racecourse with one of the country's leading audit firms, invitations to braais by clearing agencies and free training offered by an accounting firm. Most of those employees who had already accepted had to cancel – *Zintle Filtane, Johannesburg*

(320) CT (PMB) 6/8/99

Transforming the taxman

(320) M+G 3-9/9/99

Howard Barrell

Question: where can Minister of Finance Trevor Manuel invest R1-million of government money and realistically expect a return of R10-million within a year or two?

Answer: in the South African Revenue Service (SARS).

Since the SARS became a semi-autonomous government agency under the Department of Finance in 1997, it has been one of the institutional successes of the post-apartheid era.

In the last available tax year, the SARS collected R4,6-billion (6%) more in personal and individual taxes than Manuel had expected.

The SARS also collected more value-added tax (VAT) than targeted despite a slowdown in consumer spending. The number of people registered as taxpayers rose by more than 12%, and the number of tax defaulters whose returns were outstanding dropped by nearly 9%.

This performance has been the product of an extraordinary institutional transformation. Strategy at the SARS has been rewritten. Management has overhauled its structure and personnel policies. The SARS also pays market-related salaries and performance incentives. All this has been made possible by the SARS's departure from the civil service.

The contrast between the performance of the SARS and many government departments has prompted a few civil service managers to ask how the autonomy granted the SARS might be adapted to their departments.

With improved revenue collection has also come an incipient change in South Africa's tax culture, says Pravin Gordhan, the SARS acting commissioner, who took over this week from Trevor van Heerden, who is retiring.

An improvement in tax collections is seldom popular. But it spreads the tax burden more evenly. It discourages a government from thinking that, to increase revenue, it must impose higher tax rates — which, again, only the conscientious would pay.

"We're beginning to create a new mindset among people," says Gordhan.

Gordhan says the SARS has had to develop its ability to monitor the most sophisticated financial deals and to draw into the tax net many once marginalised, often poorer people. It has also recently taken over responsibility for customs collection and appointed Nthikeng Letsoalo as programme manager for customs transformation.

The SARS strategy to get more people to pay their taxes rests, Gordhan says, on three legs. First, it has to improve the service it provides. New computer systems and auditing software will soon enable the SARS quickly to interrogate the accounts of any individual or business. The SARS is integrating previously separate operations such as pay-as-you-earn and VAT. And it wants a situation where each taxpayer will have a single tax number and a single file.

In short, the SARS is trying to cut the "compliance cost" for any taxpayer. At present, a small business person, for example, "has to fill in 65 forms — which is wrong", says Gordhan.

The second leg is tax education — telling people "they have obligations alongside their rights in South Africa", says Gordhan.

And the third is to "show our teeth" — to prosecute those involved in tax evasion or fraud, says Gordhan. Here, the SARS is beefing up its capacity. Its new general manager (special investigations) is Ivan Pillay, formerly in state intelligence and a no-nonsense, skillful front-line ANC operative, according to former colleagues.

The number of registered taxpayers rose by more than 12%, and the number of tax defaulters whose returns were outstanding dropped by nearly 9%

"There is a climate of criminality out there, and we have got to put our foot down," says Pillay. His strategy involves trying to "work smarter" by, among other things, identifying "risk areas" and then focusing resources on them. And, once people are caught and convicted, the SARS is naming and shaming them, ensuring their cases get publicity to bolster deterrence.

Pillay's department has also set up a new anti-corruption unit, headed by Gene Ravele, another former ANC operative. Ravele explains: "Some cases of tax fraud and evasion involve internal SARS players. In some cases, SARS employees have been bribed to change records they have access to; in others extortion has been involved. That's where my unit comes in. We hit people involved with criminal charges and internal misconduct proceedings."

The change of culture among the SARS's 12 000 staff has been profound. Human resources head Judy Parfitt, formerly at Volkswagen, explains the agency's pyramidic civil service structure — with 17 levels, each with about four legs, ranks or notches — has been levelled out to 10. This has improved communication, flexibility and innovation. Career paths have been mapped out for 80% of SARS employees.

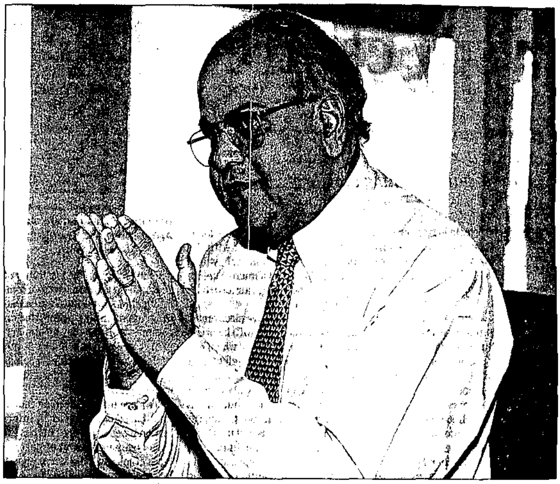
And the SARS is modernising its pay incentive system. The scheme of a few years ago allowed for a bonus of up to half an employee's annual salary — irrespective of an employee's contribution to improved performance. The SARS is now developing ways to reward good performance by smaller units of the SARS and individuals.

"Promotion is now results driven — not by qualifications or length of service," Parfitt says. This emphasis has run well alongside "robust" affirmative action. "SARS has been largely a white and female organisation. As we have begun to change this, the merit principle has not been sacrificed — that's a myth. A lot of the black people who have joined over the past year have been incredibly good."

Much of the credit for the nitty-gritty in the SARS's turnaround goes to Stan Shrosbree, general manager (operations), who lived through the frustrations of the civil service. Where change at the SARS has succeeded, he believes this is because "people have bought into it and are part of it".

SARS staff give credit for the broader strategic vision to Van Heerden, former deputy finance minister and now Deputy Governor of the Reserve Bank Gill Marcus, and to Gordhan.

Asked what "transformation" means to him, Gordhan said: "Changing the operational processes, infrastructure, people's skills and competencies, the technology they use and their organisational culture."



New broom: SARS acting commissioner Pravin Gordhan. PHOTOGRAPH: JULANI VAN DER WESTHUIZEN

Farmers resist proposed land tax legislation

Linda Ensor

(3)
(320)

CAPE TOWN — Draft legislation that proposes to tax urban and rural land, including agricultural land, has encountered stiff resistance from farmers, provincial and local government deputy director-general Chippy Olver said yesterday.

The proposed legislation, the Local Government Property Rates Bill, has overtaken the Katz commission recommendations on land tax and provides for the imposition of equitable property rates in urban and rural areas throughout the country.

Olver said AgriSA, formerly the SA Agricultural Union, was not in favour of any new taxes, arguing that they already paid regional service council (RSC) levies. "They argue that if we are going to tax agricultural land, then we should take away RSC levies." But Olver said it was not certain that RSC levies would be abolished when the new rates structure was implemented.

However, discussions were under way with the finance department about the restructuring of RSC levies.

AgriSA could not be contacted for comment yesterday.

Parliament's finance committee, which is holding a public hearing into the Katz commission's proposals for a rural land tax, was told by provincial affairs and local government chief director Jackie Manche that constitutional imperatives had compelled the department to proceed with the drafting.

The constitution gave municipalities the right to impose property rates in urban and rural areas. If they went ahead in the absence of national framework legislation, as they were entitled to do, the situation would be chaotic, Manche said.

She expected the draft bill to be presented to the cabinet before the end of the year for tabling in Parliament next year. It would include a clause allowing the minister to cap municipal rates.

There would be a three-year period of transition for those municipalities which lacked the capacity to implement and collect the tax. The bill also provided for a compulsory annual review of rates policies.

The bill would allow for exemptions for example, of tribal or communally owned land from the taxes.

Manche criticised the Katz report for the lack of detail about the economic effect of a land tax, the capacity of municipalities to implement it and the benefits versus costs of introducing it.

Land Affairs director-general Geoff Budlender said the land tax as proposed by Katz would have limited effect on land reform. He argued against a land tax on tribal land, pointing to the practical difficulties involved and that it would further impoverish the poor.

BD 8/10/99

Flawed property tax Bill could undermine economic policy

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Cape Town – The department of provincial affairs and local government was on Friday urged to ensure that the proposed Bill on property rates did not have an adverse effect on economic activity.

Barbara Hogan, the chairman of the national assembly's portfolio committee on finance, said that while it was recognised that a land tax of some kind had been provided for in the Constitution, the way the tax was implemented could prejudice national economic policy.

She urged the department to liaise with other departments, such as finance and trade and industry, to set in motion ways of monitoring the implementation of the Act.

Denis Davis, a member of the Katz Commission, warned that the draft Bill contained so many inconsistencies that it could be a "constitutional litigator's paradise".

Geoff Budlender, the director-general of the department of land affairs, told the committee during its two-day hearing on the proposed tax that it had been calculated that a "non-onerous" tax of three percent a year on the site value of rural land could raise R1,3 billion a year. Of this, more than half would come from non-farm rural properties, highlighting the fact that the tax would not only target farmers.

Denis Davis warned of inconsistencies in the Bill

But a submission by AgriSA (formerly the South African Agricultural Union) said the two percent rate mooted for the land tax would raise about R18 billion, or 14 percent of farm income, which was "totally unaffordable".

The South African Council of Business said a rural land tax would be discriminatory and difficult to administer.

Jackie Manche, a chief director in the provincial affairs and local government department, said she realised that the "very soft" draft Bill did not address all the concerns raised during the hearings, and that she would have to re-look several aspects in consultation with the Katz Commission's sub-committee on land tax.

Because the Bill would introduce "major changes", it was envisaged that it would be phased in over three years to soften the impact, especially on the poor.

Manche said the Bill would not be re-worked and she expected that it would be available for public comment by the beginning of next year.

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