6: REVENUE ISSUES AND TAX PROPOSALS

INTRODUCTION

Government strives for a tax system that is fair, efficient, effective and internationally competitive, and that yields sufficient revenue to finance its expenditure commitments.

Tax policy and administrative efficiency

The Katz Commission has consistently advised that tax reform and tax policy must move hand in hand with efforts to ensure that the tax authorities have sufficient administrative capacity. Without solid administration, tax law and tax policy cannot be given practical effect. For this reason, the current emphasis is on enhancing the operational effectiveness of the South African Revenue Service (SARS) as a precondition for more fundamental tax reform.

The drive to improve administrative performance will continue. Key developments include progress towards establishing new and more effective computer systems, which will enhance collection capacity and help to narrow the tax compliance gap.

Taxation and globalisation

The increasing integration of the world economy encourages global convergence of tax policies and structures. Traditional tax principles are also facing new challenges, such as the growth of electronic commerce. In a rapidly changing commercial environment, continuing to apply the "source principle of taxation" may give rise to a narrowing of the tax base if economic transactions migrate outside the borders of South Africa. Providers of capital and skills increasingly take account of tax policy in their location decisions. South Africa's tax reform is in part aimed at adapting to international tax practice and minimising the costs to the economy of international tax arbitrage.

Key tax proposals

In response to the challenge of globalisation and in line with the strategy for growth, equity and redistribution, a far-reaching reduction in the company tax rate from 35 per cent to 30 per cent is proposed.

In terms of personal income tax, Government is able to go beyond eliminating the effects of fiscal drag. The proposed adjustments to the income tax brackets and rates will bring about an across the board cut in the tax burden. Other tax relief measures include a 19 per cent cut in the excise tax on soft drinks and selective reductions in transfer duties aimed at encouraging home ownership.

For health reasons, increases in tobacco taxes will again exceed the rate of inflation. The fuel levy is to increase by 4c/litre, and which is below inflation. Specific excises on alcoholic drinks are raised.

The Skills Development Levies Bill, due to be tabled shortly, will allow for the introduction of a payroll levy to finance the National Skills Fund and Sectoral Education and Training Authorities.

Demutualisation levy

The 1998 Budget announced Government's intention to impose a once-off charge on the demutualisation of Sanlam and Old Mutual, at a rate of 2,5 per cent on the free reserves at the date of demutualisation. The proceeds will be used to capitalise the Umsobomvu Fund.

Umsobomvu Fund

Proposals for the design and management of the Umsobomvu Fund are currently being finalised. It will be established under section 21 of the Companies Act, of 1973. The Articles of Association will be published shortly.

TAX ADMINISTRATION

Transformation of the South African Revenue Service

SARS transformation

In June 1998, SARS launched a transformation programme aimed at:

- Improving operational efficiency and effectiveness.
- Improving client relationships.
- Encouraging tax morality.
- Increasing the level of compliance.
- Making the organisation demographically representative through affirmative action.

Key developments of the transformation programme include:

- Regionalisation and decentralisation of functions.
- The creation of an Advisory Board.
- Improvements in information technology and systems, including the phased introduction of the New Income Tax System (NITS). In 1999/00, efforts will be made to integrate the Income Tax, VAT and PAYE systems.
- Revisions to human resource policies and the introduction of a code of conduct for employees, underpinned by basic principles of honesty, human dignity, integrity, excellence and service.
- Mobilisation of international technical assistance for the Customs Transformation Programme.

Administrative efficiencies

Since SARS became autonomous in 1997, it has focussed its attention on devising strategies to improve tax collection. Some of the important initiatives introduced thus far include:

- Improving its audit capacity through the introduction of new computer-aided audit systems.
- Rationalising head office functions to focus on strategy and policy design.

- Introducing regional offices to co-ordinate and monitor the 112 local offices where revenue collection and customs control are executed.
- Enhancing the capacity to investigate and prosecute tax evaders.
- Improving debt recovery procedures.

Tax base broadening

SARS has achieved considerable success in its base-broadening initiative, aimed at registering persons, businesses and employers and reducing the rate of non-compliance with tax legislation. Between October 1997 and December 1998, SARS evaluated 760 606 income tax, VAT and PAYE cases, of which about 181 000 proved to be eligible for registration.

Tax base broadening goes beyond the campaign to identify and register unregistered taxpayers. It involves cultivating a culture of voluntary compliance. The base broadening efforts also involve changing the adversarial relationship between the tax collector and the taxpayer. SARS is making progress in this regard by being visible, accessible and fair in its dealings with taxpayers.

Agreements for the avoidance of double taxation

During 1998/99, progress was once again made in reaching agreements with other countries for the avoidance of double taxation in respect of income accruing to South African taxpayers from foreign sources or to foreign taxpayers from South African sources. The present position is as follows:

- Comprehensive agreements are in place with Austria, Belgium, Botswana, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Iran, Ireland, Israel, Japan, Korea, Lesotho, Malawi, Malta, Mauritius, Namibia, the Netherlands, Norway, Poland, Romania, Singapore, Swaziland, Sweden, Switzerland, Thailand, the United Kingdom, the United States of America, Zambia and Zimbabwe. The treaty with the United Kingdom also extends to Grenada, the Seychelles and Sierra Leone.
- Comprehensive agreements have been ratified in South Africa with Algeria, Indonesia, Italy, Namibia, Pakistan, the Russian Federation, the Slovak Republic and Uganda.
- Comprehensive agreements have been signed but not ratified with Greece, Luxembourg and the Seychelles.
- Comprehensive agreements have been negotiated or renegotiated, but not signed, with Australia, Botswana, Ethiopia, Gabon, Germany, Malawi, Malaysia, Morocco, Swaziland, Tunisia, Ukraine, Zambia and Zimbabwe.
- Comprehensive agreements are being negotiated or renegotiated but have not been finalised with Mozambique, the People’s Republic of China, Portugal, Spain and Turkey.
- Limited sea and air transport agreements exist with Brazil, Greece, Italy, Portugal and Spain.

A number of other countries have expressed the desire to negotiate double taxation agreements with South Africa.

Administrative agreements

Agreements in respect of administrative assistance cover the exchange of information, technical assistance, surveillance, investigations and visits by officials. During 1998, such agreements were finalised with Algeria and France. It is likely that this network of agreements will be expanded in the future.

VAT administration

During 1998/99, measures were implemented to improve the administration of VAT as it relates to the export and import of goods.

Exports

In last year's Budget Review, certain measures were announced to curb VAT evasion on fictitious exports to neighbouring countries. These measures, which were limited to liquor and tobacco products and introduced with effect from 11 March 1998, had the effect that the zero-rating of exports to such countries would apply only where the goods were consigned or delivered by a South African vendor to a purchaser outside the Republic, and not where the purchaser took delivery in South Africa.

With effect from 16 November 1998, these measures were extended to cover exports of all types of products to the BLNS countries (Botswana, Lesotho, Namibia, Swaziland) and are embodied in a revised VAT Export Incentive Scheme published on 13 November 1998.

Imports

Since the introduction of VAT in 1991, it has been the intention that VAT should be paid at designated border posts in respect of the import of goods from the BLNS countries. Unfortunately this was not possible due to the lack of proper facilities at the borders. VAT was collected only at a later stage, which created opportunities for evasion.

Since 4 January 1999, the collection of VAT on goods imported from BLNS countries has taken place at the border posts. This brings imports from BLNS countries in line with imports from the rest of the world. The following are the designated border posts between the Republic and the BLNS countries:

- **Botswana** Groblersbrug; Kopfontein; Ramatlabama; Skilpadshek.
- **Lesotho** Caledonspoort; Ficksburg Bridge; Maseru Bridge; Qacha's Nek; Van Rooyenshek.
- **Namibia** Narogas; Vioolsdrift.
- **Swaziland** Golela; Jeppes Reef; Mahamba; Mananga; Nerston; Oshoek.

According to a survey by the Department of Transport, almost 90 per cent of the commercial traffic between South Africa and the BLNS countries passes through these posts.

Benefits

The benefits flowing from these measures include the following:

- Exports and imports will be more tightly controlled, thereby minimising the loss of revenue and the adverse impact of round-tripping and fictitious exports.

- SARS will be able to collect more reliable statistics in respect of the trade that passes through these posts.

Tax compliance

Despite endeavours to improve tax morality, a range of inappropriate behaviour persists, from downright fraud to aggressive tax avoidance schemes.

Tax evasion and tax avoidance

Tax fraud is widespread in the areas of VAT, customs and excise, involving the following:

- Fraudulent claims of input tax.
- Fictitious exports.
- Abuse of general rebate facilities.
- Diversion of goods without payment of duty.
- Mixing of diesel and paraffin to reduce the fuel levy payment.

As far as tax avoidance is concerned, both local and international courts have held that taxpayers have the right to plan their affairs to minimise their tax liability. However, it remains a fact that many aggressive tax-avoidance schemes border on tax evasion.

While SARS is committed to improving its services to the taxpaying public, it will also increase its capacity to counter fraud. Over the past year, good progress has been made in this regard. Several convictions were made and over 250 criminal cases are currently proceeding. In addition, approximately R1 billion of additional revenue was generated from concerted in-house forensic investigations.

From a tax-avoidance perspective, various initiatives are underway focusing primarily on combating transfer-pricing mechanisms, and on targeting specific categories of high-risk taxpayers and transactions.

Year 2000 compliance

SARS systems will be Year 2000 compliant well ahead of time. Nevertheless, the Year 2000 problem may have a negative impact on revenue collections. Companies with systems that do not comply may experience difficulty in calculating and, indeed, paying over PAYE, VAT and other taxes, duties and levies or may encounter a loss of profits due to problems with computerised manufacturing processes.

SARS will not accept taxpayers' non-compliance with the Year 2000 software standards as an excuse for failing to meet tax liabilities.

NATIONAL BUDGET REVENUE IN 1998/99

Total budget revenue since 1995/96 and projections (after tax proposals) to 2001/02 are set out in table 6.2. Total ordinary revenue increased by 42,2 per cent, between 1995/96 and 1998/99, from 25,3 per cent of GDP to an estimated 27,4 per cent.

Table 6.1 National government revenue 1997/98 and 1998/99

	1997/98			1998/99		
R million	**Budget estimate**	**Revised estimate**	**Preliminary outcome**	**Budget estimate**	**Revised estimate**	**Per cent change[1]**
Taxes on income and profits	93 073	93 554	95 004	100 968	105 030	10,6%
Taxes on property	2 432	2 647	2 618	2 916	2 708	3,4%
Domestic taxes on goods and services	60 194	59 789	60 512	66 878	65 617	8,4%
Taxes on international trade and transactions	7 293	6 322	5 639	6 702	6 215	10,2%
Stamp duties and fees	1 484	1 500	1 484	1 700	1 500	1,1%
Total tax revenue	**164 476**	**163 812**	**165 256**	**179 164**	**181 070**	**9,6%**
Non-tax revenue	2 840	2 922	3 161	3 037	3 373	6,7%
Capital revenue	8	5	18	7	20	7,1%
Less: SACU payments	-5 237	-5 237	-5 237	-5 577	-5 577	6,5%
Total ordinary revenue	**162 087**	**161 503**	**163 199**	**176 631**	**178 887**	**9,6%**

1. Percentage change of revised estimate 1998/99 over preliminary outcome 1997/98

Table 6.2 Total revenue 1995/96 to1998/99

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
R million	**Actual collection**		**Preliminary outcome**	**Revised estimate**	**Budget estimate**	**Forward estimate**	
Taxes on income and profits	68 884	82 876	95 004	105 030	111 680	121 647	128 585
Taxes on property	2 234	2 359	2 618	2 708	2 885	3 108	3 402
Domestic taxes on goods and services	48 683	53 438	60 512	65 617	71 075	76 065	81 616
Taxes on international trade and transactions	6 170	7 201	5 639	6 215	6 625	6 787	7 828
Stamp duties and fees	1 025	1 202	1 484	1 500	1 621	1 675	1 887
Total tax revenue	**126 995**	**147 077**	**165 256**	**181 070**	**193 886**	**209 281**	**223 319**
Non-tax revenue	2 676	3 368	3 161	3 373	3 546	3 575	3 805
Capital revenue	23	15	18	20	21	23	26
Less: SACU payments	-3 890	-4 363	-5 237	-5 577	-7197	-7 557	-7 935
Total ordinary revenue	**125 804**	**146 097**	**163 199**	**178 887**	**190 256**	**205 322**	**219 214**
Recoveries of loans and advances	131	154	123	430	644	278	286
Grants received	123	269	170	651	750	750	750
Skills development levy						1 000	2 000
Total revenue	**126 058**	**146 519**	**163 492**	**179 968**	**191 650**	**207 350**	**222 250**

1997/8 preliminary outcome

Total ordinary revenue collected in 1997/98 was R163,2 billion, 1,0 per cent higher than the revised estimate published in March 1998 and 0,7 per cent higher than the 1997 Budget estimate. The higher revenue outcome can be attributed mainly to higher than anticipated personal income tax receipts.

1998/99 revised estimate

The revised estimate of ordinary revenue for 1998/99 is R178,9 billion, which is 1,3 per cent higher than the 1998 Budget estimate. Details of the National Revenue Fund receipts are set out in tables 1 and 2 of annexure B.

Explanation of significant deviations from Budget estimates

In the 1998 Budget, overall tax revenue was expected to yield R179,2 billion. This figure has been revised upwards to R181,1 billion, an increase of 1,0 per cent.

Taxes on persons and individuals are expected to contribute R76,4 billion of total revenue, which is R4,6 billion greater than the Budget estimate of R71,8 billion. This increase reflects higher than anticipated growth in nominal average wages, the success of SARS in broadening the tax base and improving tax administration, as well as a possible under-estimate of the personal income tax potential when the 1998 Budget was prepared.

It is estimated that revenue from companies (other than mining) will be R20,0 billion, which is R1,2 billion lower than the Budget estimate. This reduction is due largely to a downward revision of anticipated company profits following the weaker than expected growth in GDP.

Income tax from gold mines is projected at 27,8 per cent higher than the Budget estimate of R180,0 million. Revenue from this source is now estimated at R230,0 million, primarily as a result of cost-cutting initiatives in gold mining and the increase in the ‘rand-price’ of gold following the depreciation of the currency.

The revised estimate of collections of VAT is R43,6 billion, which is marginally higher than the Budget estimate of R43,4 billion. Improvements in collections appear to have compensated fully for the impact of the unexpected slowdown in domestic consumption expenditure.

Since the demand for excisable goods was strongly affected by the adverse economic conditions, the revised estimate of revenue from the specific and *ad valorem* excise duties of R7,8 billion and R500 million, fell short of the Budget estimates by 5,2 per cent and 27,8 per cent respectively.

Estimated revenue from taxes on international trade and transactions has been revised downward to R6,2 billion from R6,7 billion. This decrease may be related to the trading conditions that prevailed for much of 1998.

PROJECTED REVENUE BEFORE TAX PROPOSALS

Revenue estimates

Based on the 1998/99 tax rates and brackets, and given the assumptions outlined in chapter 2, it is estimated that total ordinary revenue collections, comprising tax revenue, non-tax revenue and capital revenue, will reach R193,8 billion for 1999/00. Total revenue is estimated to be R195,2 billion, which is 7,8 per cent higher than the revised estimate for

1998/99. The details of the so-called first print of revenue are set out in the Estimate of Revenue (RP3), and in summary form in table 6.3.

Tax revenue (net of payments in terms of the Southern African Customs Union Agreement) for the first print amounts to R190,3 billion, which is 8,4 per cent higher than the revised estimate for 1998/99.

Taxes on income and profits

It is anticipated that, without any adjustments in rates, R86,5 billion can be raised from taxes on persons and individuals, which is 13,2 per cent higher than the revised estimate for 1998/99. While the effects of fiscal drag are partly responsible for the strong increase in the first print estimate, continued growth in wages in excess of inflation will ensure that income tax revenue remains buoyant.

First print revenue from gold mines is projected at R250,7 million, which is 9 per cent above the revised 1998/99 estimate. Revenue from non-gold mines is projected at R1,6 billion, which is also 9 per cent greater than the 1998/99 revised estimate.

Table 6.3 Total revenue (before tax proposals): 1999/00

	Revised estimate 1998/99 R million	First print 1999/00 R million	Per cent change
Tax revenue (net of SACU payments)	175 493,4	190 262,9	8,4%
Non-tax revenue	3 373,4	3545,6	5,1%
Capital revenue	19,7	21,3	8,1%
Total ordinary revenue	178 886,5	193 829,8	8,4%
Recoveries of loans and advances	430,0	644,0	49,8%
Grants received	651,2	750,0	15,2%
Total revenue	**179 967,7**	**195 223,8**	**8,5%**
Gross domestic product	**654 000,0**	**708 400,0**	**8,3%**

It is projected that revenue from companies other than mining companies could increase by 6,0 per cent over the 1998/99 revised estimate of R20 billion, to R21,2 billion.

STC is expected to yield revenue of R1,7 billion and revenue from the tax on the retirement fund industry will grow by 8,5 per cent to R5,1 billion.

Taxes on property

It is anticipated that taxes from property (primarily transfer duties) will raise revenue of R2,95 billion, which is 8,8 per cent higher than the revised estimate for 1998/99.

Domestic taxes on goods and services

With an assumed growth in private consumption expenditure of 0,5 per cent and average GDP inflation of 6,4 per cent, it is projected that revenue from domestic taxes on goods and services will be R69,3 billion, which is 5,6 per cent greater than the revised estimate for 1998/99 of R65,6 billion. The major component of this tax revenue is VAT, which is projected to yield R46,8 billion.

According to the first print estimate, revenue from excise duties will rise by 2,4 per cent over the 1998/99 estimate to R22,5 billion.

Expected revenue from the fuel levy is R13,9 billion, which is 2,2 per cent higher than the 1998/99 revised estimate of R13,6 billion.

Taxes on international trade

Customs duty collections of R6,5 billion are anticipated, which is 5,0 per cent higher than the 1998/99 revised estimate of R6,2 billion, reflecting patterns of international trade.

Stamp duties

Tax revenue from stamp duties is estimated at R1,6 billion.

Total non-tax and capital revenue

Non-tax revenue is projected to equal R3,6 billion, an anticipated increase of 5,1 per cent over the 1998/99 revised estimate of R3,4 billion.

Recoveries of loans and advances

Revenue from the recoveries of loans and advances is expected to increase to R644,0 million.

Grants

It is anticipated that South Africa will receive R750 million in foreign grants in 1999/00.

TAX POLICY

Tax policy changes since 1994

Since 1994 Government has introduced numerous changes to improve both the efficiency and equity of the South African tax system. These include:

- The amendment of various tax laws in order to comply with the Constitution, including the revision of the procedures for search and seizure and the elimination of discrimination based on gender.
- The harmonisation of the tax systems of the former TBVC states with the South African tax system.
- The withdrawal of the exempt status of various bodies and institutions.
- The granting of tax amnesties to persons outside the tax system to encourage registration.
- The introduction of a unified income tax rate structure for individuals.
- The introduction of tax relief for low- and middle-income taxpayers.
- The reduction of the number of income tax brackets from ten to six.
- Further reform of the system of fringe benefit taxation to ensure equity between the tax treatment of fringe benefits and cash remuneration, such as the revision of the taxation of residential accommodation fringe benefits, travelling allowances, and the inclusion of a portion of the contributions to medical schemes.
- The extension of the deemed source provisions to tax residents on their passive income from a foreign source.
- The reform of the system of taxation applying to Trusts.
- The reduction of the company tax rate to 35 per cent and the STC to 12,5 per cent.

- The introduction of tax incentives for a limited period of time in the form of a Tax Holiday Scheme and accelerated depreciation allowances.
- The withdrawal of the income tax exemption in respect of the general export incentive scheme.
- The introduction of measures to facilitate the rationalisation of certain groups of companies by granting them exemption from stamp duty, transfer duty and STC.
- The introduction of provisions regulating the incurral and accrual of interest for tax purposes.
- The incorporation of transfer pricing and thin capitalisation provisions in the Income Tax Act.
- The abolition of Non-resident Shareholders Tax.
- The abolition of the Levy on Financial Services.
- The extension of VAT to fee-based financial services.
- The introduction of Uncertificated Securities Tax to replace Marketable Securities Tax and Stamp Duty on the transfer of beneficial ownership in dematerialised shares.
- The introduction of the Tax on Retirement Funds at 17 per cent on gross interest and net rental income, which was subsequently raised to 25 per cent.
- Reforming customs duties in accordance with the general tariff reductions as prescribed by the WTO agreement.
- Significant reforms in respect of excise duties, including efforts to tax alcoholic beverages on their alcohol content and the consolidation of the seven duty bands on spirits into one.
- A significant reduction in rates in respect of *ad valorem* excise taxes.
- The conclusion of a large number of double tax treaties with foreign jurisdictions.

The Katz Commission

Since the appointment of the Katz Commission in 1994, eight interim reports have been released.

- The first interim report (November 1994) makes far-reaching recommendations regarding the restructuring of the revenue service into an autonomous entity. This recommendation has been implemented and SARS continues to improve efficiencies in revenue collections.
- The second interim report (June 1995) proposes the inclusion of more effective anti-transfer pricing provisions (thin capitalisation measures) in the Income Tax Act.
- The third interim report (November 1995) deals with a variety of tax issues, including the taxation of the retirement industry, land tax,

STC, group income taxation, dedicated taxes, capital gains tax and tax avoidance issues.

- The fourth interim report (March 1997) deals with the question of capital transfer taxes. Currently, South Africa imposes an estate duty payable on death and a donations tax on *inter vivos* transfers of wealth.
- The fifth interim report (March 1997) considers whether South Africa should base its tax system on the residence principle of taxation as opposed to the source principle.
- The sixth interim report (June 1997) recommends the introduction of further measures to control tax leakage in respect of medical aid schemes, friendly societies and other benefit funds.
- The seventh interim report (July 1998) provides a synthesis of policy recommendations with regard to provincial taxation and other revenue raising measures.
- The eighth interim report (September 1998) discusses the possible implications of introducing a land tax.

The following two reports will be released shortly:

- The ninth interim report (February 1999) will evaluate possible fiscal matters that affect non-profit organisations.
- The tenth interim report will consider certain changes to the South African mining tax system and evaluate issues such as the depreciation of pipe lines (permanent structures) and market-based incentives/disincentives for the holding of mineral rights.

The Commission is currently compiling a final report that will advise on the future direction of tax reform and tax-policy design in South Africa.

Provincial taxation – seventh interim report

The seventh interim report on "A Synthesis of Policy Recommendations with regard to Provincial Taxation" has been referred to the Technical Committee on Finance (TCF). In addition, a comprehensive audit of existing provincial own-revenue sources will also be undertaken.

Some provinces are exploring other revenue sources such as user charges and levies. The Commission concluded, however, that Government should proceed with caution in respect of the introduction of expanded provincial tax powers, particularly with regard to surcharges on personal income tax and the fuel levy. The Commission recommended that efforts should first be made to ensure current own-revenues are efficiently collected.

The Financial and Fiscal Commission has consistently called for the introduction of the surcharge on personal income tax as the only viable revenue source for sub-national levels of government. In this connection, the Commission raised the following caveat:

"…it is not in the national interest for the national framework legislation relating to tax devolution to be prepared with undue haste … The contention is sometimes advanced that tax devolution prompts sub-national structures towards more fiscally responsible conduct and accountability. It is, however, 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 (see paras. 7.2 to 7.3).*"*

Land tax – eighth interim report

Following the release of the report on "The Implications of Introducing a Land Tax in South Africa", Parliament's Portfolio Committee on Finance has been requested to schedule public hearings on the matter and prepare a report on its findings and suggestions. This will contribute significantly to the transparency and completeness of the tax-reform process.

The Department of Finance is currently formulating a position on the national framework legislation required to introduce a rural property rating system on an equitable basis. The Department of Constitutional Development is finalising a draft "Local Government Property Rating Bill". Both the urban and rural property rating bills will provide for consistent national framework legislation to regulate the rating procedures and minimise the potential economic dislocation associated with the introduction of these imposts.

Tax Advisory Committee

The Tax Advisory Committee deliberated on a number of issues relating to taxation during 1998, including:

- The taxation of financial instruments.
- Considering whether certain entities should be regarded as educational funds for purposes of section 18A of the Income Tax Act.
- Considering the value to be placed on trading stock for income tax purposes when a business is sold as a going concern.
- Determining whether trading in second-hand policies should affect the concept of trusteeship.
- The implications for tax practice of the abolition of section 16A of the Income Tax Act.
- Evaluating a submission from the Department of Trade and Industry regarding changes to the tax holiday scheme and the introduction of the Industrial Development Zone concept.
- Clarification of the tax position of South African residents regarding passive offshore income.
- Considering the tax implications with regard to recipients of free shares in terms of a demutualisation scheme.
- Evaluating the possibility of bringing currency speculators into the tax net to discourage speculative activity against the rand.
- Reviewing a proposal that retirement fund vehicles be used for pre-funding of medical expenditure in retirement, following the withdrawal of paragraph (c) from the definition of "benefit fund" in the Income Tax Act.
- Determining the tax implications of scrip-lending.

Some of the issues addressed by the TAC have been and will be the subject of tax practice notes published by SARS.

TAX PROPOSALS

Personal income tax

Tax rate and bracket adjustments

As is currently the case, a single scale of rates for all individuals is proposed, reaching a maximum rate of 45 per cent at a taxable income of R120 000. The rate structure incorporates the following changes:

- The primary rebate is increased from R3 515 to R3 710, increasing the tax threshold by the projected rate of inflation.
- The secondary rebate in respect of individuals 65 years of age and older is increased from R2 660 to R2 775.
- Because of the changes to the tax rates and brackets, relief is granted mainly to individuals with taxable incomes of less than R70 000.
- The tax brackets are restructured so that the marginal rate of tax on taxpayers with taxable incomes in the range of:

  R46 000 to R50 000, is reduced from 39 per cent to 30 per cent;

  R50 000 to R60 000, is reduced from 39 per cent to 35 per cent;

  R60 000 to R70 000, is reduced from 43 per cent to 40 per cent.

Table 6.4 Proposed tax rates for individuals, 1999/00

Taxable income in rands	Rate of tax
0 – 33 000	19% of each R1
33 001 – 50 000	R6 270 + 30% of the amount above R33 000
50 001 – 60 000	R11 370 + 35% of the amount above R50 000
60 001 – 70 000	R14 870 + 40% of the amount above R60 000
70 001 – 120 000	R18 870 + 44% of the amount above R70 000
120 001 and above	R40 870 + 45% of the amount above R120 000
Rebates of tax:	
Primary	R3 710
Age 65 and over (additional to primary rebate)	R2 775
Tax threshold:	
Below age 65	R19 526
Age 65 and over	R33 717

The benefits of these changes for a person who is under the age of 65 and earns R35 000 a year will be a reduction in the tax liability of R415 a year, while a person earning R55 000 will pay R975 less a year. In the case of a person over 65 earning R35 000, the tax liability will be reduced by R530, while a person earning R55 000 will pay R1 090 less income tax a year.

Table 6.5 Distribution of tax relief

Income	Taxpayers per bracket (per cent)	Share of total tax (per cent)	Percentage of tax relief
0 – R60 000	75,3%	16,0%	35,7%
R60 001 – R120 000	18,1%	38,2%	46,8%
R120 001 and above	6,6%	45,8%	17,5%

The loss of revenue associated with the personal income tax changes will be an estimated R4,85 billion in 1999/00, composed of the following two elements:

- The cost of compensating for fiscal drag in respect of all individual taxpayers is estimated to be R3,0 billion.
- The balance of R1,85 billion represents the cost of restructuring the tax table, by restructuring the brackets and adjusting the rates.

Restructuring income tax brackets and rates

Government has gradually reduced the number of income tax brackets for individuals from ten to six. Table 6.6 shows the amount of relief that has been conferred on individual taxpayers since 1995 as a result of Government's efforts to restructure the tax rates and brackets.

Table 6.6 Tax relief granted to individual taxpayers 1995-1998

Year	Amount
1995	R2,0 billion
1996	R2,0 billion
1997	R2,8 billion
1998	R3,7 billion
Total	**R10,5 billion**

Justification for income tax reforms

There is an international consensus that high personal income tax rates impact adversely on work effort, encourage participation in the underground economy and trigger distortions in investments. One pre-condition for the reduction in the personal income tax burden is to curb the use of fringe benefits which erode the income tax base and create distortions between cash remuneration and other forms of compensation.

Company tax

Cutting company tax rates

It is proposed that the tax rate applicable to undistributed profits of non-mining companies be reduced from 35 per cent to 30 per cent. The deadline for specific tax incentives in respect of accelerated depreciation allowances or tax holiday schemes will not be extended when they expire on 30 September 1999. The Secondary Tax on Companies remains unchanged.

Gold mining companies

The rate of tax applicable to gold mines is determined according to a formula. In line with the reduction in the corporate tax rate, it is proposed that a corresponding adjustment be made to the tax formula applicable to gold mines.

In the case of a company, which is not exempt from the payment of STC, the proposed rate of normal tax will be:

$Y = 37 - 185/x$,

where Y represents the tax rate expressed as a percentage; and x the ratio, expressed as a percentage, which the taxable income from gold mining bears to the gross revenue from gold.

In the case of a company which is, by virtue of an option exercised by it, exempt from the payment of STC, the proposed rate of normal tax in respect of its income from the mining of gold will be determined in accordance with the following formula:

$Y = 46 - 230/x$, with the same definitions for Y and x as above.

A rate of 38 per cent will however apply in respect of the income of such companies, so exempt from STC, other than from the mining of gold.

Mining companies other than gold mining companies

The reduced normal tax rate of 30 per cent and a STC rate of 12,5 per cent will also apply to mining companies other than gold mining companies.

Branches of foreign owned companies

South African branches of foreign-owned companies are currently taxed at a rate of 40 per cent. It is proposed to reduce this rate to 35 per cent, in accordance with the principles contained in our double-tax treaties.

Long term insurers

It is proposed that the tax rate applicable to company policyholder funds held by long term insurers should be reduced from 35 per cent to 30 per cent. In the case of the corporate fund, the same rates would be applicable as for non-mining companies.

Cost to the fiscus

The above rate adjustments will apply in respect of years of assessment of companies ending during the period from 1 April 1999 to 31 March 2000. The revenue loss associated with these proposals is expected to be R2,5 billion.

Benefits to the economy

The benefits of this reform measure are twofold. First, South Africa will become significantly more attractive to both domestic and foreign investors. Second, these reforms will translate into significant cash flow benefits to small, medium and micro enterprises, which play a leading role in job creation and economic development.

International trends

The international trend in recent years has been to reduce the rates at which company profits are taxed. There is a convergence towards company tax rates in the range of 30 to 38 per cent (table 6.7). South Africa’s combined company tax rate is currently 42,2 per cent, comprising the standard rate of 35 per cent on corporate profits and the STC of 12,5 per cent on the distribution of profits. The double tax treaties that have recently been concluded treat STC as a tax on company profits and not as a tax on dividends received in the hands of shareholders. The combined tax rate therefore exceeds the company tax rates applicable in many countries with which South Africa competes.

As a result of the proposed reduction in the standard rate, the combined rate of tax in respect of a company that distributes all its profits, based on a normal tax rate of 30 per cent and a STC rate of 12,5 per cent, is 37,8 per cent. However, by assuming a more realistic 33 per cent profit distribution, the combined rate will be reduced to 32,6 per cent.

Tax incentives

In its first interim report, the Katz Commission advanced that the range of tax incentives that were in place at the time should be narrowed. The Commission argued that tax incentives:

- Create loopholes open to exploitation.
- Erode the tax base.
- Raise the standard rate.
- Complicate the tax system.
- Add to the administrative burden of the revenue authorities.

The Government therefore aims to eliminate special tax preference schemes which only benefit particular industries or narrow sectoral interests and which, over the long run, compromise horizontal equity.

Table 6.7 International comparative analysis of company tax rates

Jurisdiction	Company rate in %
Argentina	33
Australia	36
Austria	34
Botswana	15
Brazil	33
Canada	38
Chile (overall tax burden)	35
Egypt	42
France	41
Germany	45
India (domestic and foreign controlled)	35 and 48
Ireland	28 - 36
Italy	37
Ivory Coast	35
Japan	37,5
Kenya	32,5
Korea	16 - 28
Malawi	38
Malaysia	30
Mexico	34
Namibia	35
Nigeria	30
New Zealand	33
Norway	28
Peru	30
Philippines	35
Singapore	26
Spain	35
Swaziland	37,5
Sweden	28
Thailand	30
Uganda	30
UK	31
United States	35
Zimbabwe	39,4
South Africa - current (incl. 12,5% STC)	**42,2**
- proposed (incl. 12,5% STC)	**37,8**

Source: Coopers and Lybrand, 1998 International Tax Summaries

Transfer duty

The current rates of transfer duty and exemptions in respect of natural persons were fixed in 1993. To provide further relief on property transactions of lower-income groups, it is proposed that the value interval in respect of which the 1 per cent rate of transfer duty applies be extended from the current R60 000 to R70 000. In addition, it is proposed that the exemptions in respect of the acquisition of property by natural persons be increased as follows:

- In the case of the acquisition of a dwelling house or residential apartment held under a sectional title deed, the exemption will be increased from R60 000 to R70 000.
- In the case of unimproved land acquired for the purpose of erecting a dwelling house, the exemption will be increased from R24 000 to R30 000.

These measures will become effective in respect of the acquisition of all property on or after 1 April 1999.

Cost to the fiscus

It is expected that the cost to the fiscus of these proposals will be R60,4 million for a full year.

Stamp duty

It is proposed that the stamp duty in respect of customs and excise documents be increased from 40 cents to 100 cents per instrument. This rate has been unchanged since 1983.

The stamp duty that is collected on some instruments is very small and not cost-effective from an administrative point of view. It is therefore proposed to abolish stamp duty in respect of:

- Antenuptial and postnuptial contracts.
- Duplicate originals.
- Partnership agreements.
- Powers of attorney.

These measures will become effective in respect of the execution of all instruments on or after 1 April 1999.

Revenue gain

The net additional revenue to the fiscus as a result of these proposals is estimated to be R1,2 million.

Exempt institutions

Public Investment Commissioner

The Marketable Securities Tax Act, 1948 and the Uncertificated Securities Tax Act, 1998 provide for exemptions from the payment of marketable securities tax and uncertificated securities tax in respect of sales of equities to the Public Investment Commissioner. In effect, these exemptions reduce the cost of equity purchases to the Government Employees Pension Fund, thereby compromising the horizontal equity between public- and private-sector pension funds. It is therefore proposed that the exemption be withdrawn with immediate effect. This amendment will result in a revenue gain of R20,0 million.

Other exempt institutions

SARS has continued to review the exemptions from income tax granted in terms section 10(1)(cA) of the Income Tax Act, as amended in July 1997. In terms of the amendments, all exempt bodies were required to re-apply for exemption. To date 265 applications have been received, of which 52 have been approved and 30 rejected. There are still a number of previously-exempt entities, which have not reapplied for the income tax exemption. They therefore became liable for income tax from 1 October 1997.

In terms of section 10(1)*(t)* of the Income Tax Act, a number of bodies are identified by name as exempt from income tax. Over the last number of years, the tax-exempt status of some of these entities has been withdrawn. The Commissioner for SARS will examine the status of the remaining exempt bodies in the course of 1999. Where appropriate, the exemption will be withdrawn or consideration will be given to accommodating the exemption in terms of section 10(1)(cA) of the Income Tax Act.

Specific excise duties

It is common practice to adjust specific excise duties annually to compensate for inflation, in addition to other revenue considerations. The proposed adjustments for this year are set out in table 6.8. These adjustments are based on a projected inflation rate for 1999/00 of 5,5 per cent.

Revenue gain

The adjustments, as set out in table 6.8, will take effect from 17 February 1999. Together with the anticipated efficiency gains in excise collections, additional revenue of R818 million will be collected in 1999/00.

Tobacco products

For several years, in recognition of health considerations, excise duties on tobacco products have been raised by more than the expected inflation rate. The duty on cigarettes, together with VAT, is now about 45 per cent of the retail price of the most popular brands. The tax incidence as a percentage of the retail price in a number of other countries is shown in table 6.9.

Government aims to maintain a total tax incidence on cigarettes of 50 per cent. It is therefore proposed to increase excise duty on cigarettes by 20,1 per cent to R2,45 per packet of 20 in the most popular price category. A similar tax incidence should apply to other types of tobacco products (cigarette tobacco, pipe tobacco and cigars) as similar health considerations apply to these products. This requires the following significant upward adjustments:

- 76 cents on a 50 gram packet of cigarette tobacco.
- 39 cents on a 25 gram packet of pipe tobacco. Furthermore, the existing two duty bands for pipe tobacco shipped in different consignment weights will be consolidated into a single band with immediate effect.
- 733 cents on a typical 23 gram packet of cigars, which currently only attracts excise of 20 cents a packet.

It is estimated that these proposals will yield an additional R495 million in 1999/00.

Table 6.8 Proposed changes to specific excise duties and additional revenue collections

Product	Proposed increase or decrease in excise duty	Current excise duty rate	Estimated additional revenue R million	Percentage change in excise duty	Approximate real percentage change in excise duty
Beer (excluding sorghum beer)	4,57 c/ litre or 1,55 c/ 340ml can	101,6 c/ litre, or 34,5 c/ 340ml	98,8	4,5%	-1,0%
Sorghum beer	0,0 c/ litre	7,5 c/ litre	0	0%	-5,5%
Sorghum flour	0,0 c/ kg	7,5 c/ kg	0	0%	-5,5%
Unfortified wine	3,4 c/ litre	61,0 c/ litre	8,5	5,5%	0%
	2,5 c/ 750ml	46,0 c/ 750ml			
Fortified wine	7,6 c/ litre	138,0 c/ litre	1,8	5,5%	0%
	5,7 c/ 750ml	104,0 c/ 750ml			
Sparkling wine	9,3 c/ litre	169,0 c/ litre	0,5	5,5%	0%
	6,97 c/ 750ml	126,8 c/ 750ml			
Mineral water and soft drinks	-2,83 c/ litre	14,83 c/ litre	-56,0	-19,1%	-24,6%
	-1 c/340ml can	5,04 c/340ml can			
Ciders	8,04 c/ litre	100,0 c/ litre	10,9	8,0%	2,5%
	2,7 c/ 340ml can	34,0 c/ 340ml			
Wine spirits	75,5 c/ litre	1 161 c/ litre	26,6	6,5%	1%
	56,6 c/ 750ml	870,8 c/ 750ml			
White spirits	75,5 c/ litre	1 161,0 c/ litre	14,8	6,5%	1%
	56,6 c/ 750ml	870,8 c/ 750ml			
Grain whisky/spirits	75,5 c/ litre	1 161,0 c/ litre	12,4	6,5%	1%
	56,6 c/ 750ml	870,8 c/ 750ml			
Other spirits	75,5 c/ litre	1 161,0 c/ litre	5,1	6,5%	1%
	56,6 c/ 750ml	870,8 c/ 750ml			
Cigarettes	41,0 c/ 20s	204,0 c/ 20s	348,0	20,1%	14,6%
Cigarette tobacco	76,0 c/ 50g	153,0 c/ 50g	0,1	49,7%	44,2%
Pipe tobacco	39,0 c/ 25g	23,5 c/ 25g	140,0	166,0%	160,5%
Cigars	733,0 c/ 23g	19,96 c/ 23g	6,9	3669%	3663,5%

Tobacco smuggling

Government is mindful of the extent of smuggling of tobacco products and related criminal activities. Other countries with higher tobacco tax rates than neighbouring states face the same tax compliance problems and consequent high policing costs. The Department of Finance and SARS are determined to combat fraud aggressively, in consultation with tobacco manufacturers.

Table 6.9 Tobacco tax as a percentage of retail price – June 1998

	Country	Incidence (per cent)
Africa	Botswana	41,3%
	Ghana	53,2%
	Kenya	54,4%
	Lesotho	42,0%
	Namibia	46,9%
	South Africa	**44,5%**
	Swaziland	36,8%
	Tanzania	43,4%
Americas	Argentina	68,3%
	Brazil	73,5%
	Canada	51,4 - 71,2%
	Mexico	49,9%
	USA	17,3 - 41,8%
Asia	India	53,8 - 58,6%
	Japan	59,1%
Europe	France	76,0%
	Germany	68,9%
	Italy	74,5%
	Portugal	82,0%
	Spain	73,1%
	United Kingdom	78,0%

Source: Tobacco Documentation Centre

Alcoholic beverages

Tax on alcoholic beverages in South Africa follows the international practice of taxing high-alcohol content products at a higher rate than low-alcohol products. The overall aim is to tax beer, wine and spirits broadly in line with international benchmarks. However, as in other countries, revenue considerations and market developments are also taken into account.

Alcohol consumption trends

As table 6.10 shows, the level of alcohol consumption per person in South Africa is moderate in international terms. Moreover, South African consumption of spirits has dropped since 1980 and that of wine has stayed broadly constant, but the consumption of malt beer has increased significantly. The trends are encouraging from a health perspective as they show a switch away from high- to low-alcohol products.

Ciders

In respect of their packaging, marketing and alcohol content, ciders are close substitutes for malt beer. In recent years, the duties on ciders and other alcoholic fruit beverages have been progressively raised to levels comparable to the excise levied on malt beer with a 5,0 per cent alcohol content.

It is proposed to maintain this by raising the excise duty on ciders by 8,0 per cent. This increase is estimated to generate additional revenue of R10,9 million.

Table 6.10 World per capita alcohol consumption by country (litres of absolute alcohol)

Country	1997
Portugal, Luxembourg	11,0 - 11,3
Czech Republic, Spain, Hungary, France	10,0 - 10,9
Republic of Ireland, Romania, Switzerland, Austria, Germany, Denmark	9,0 - 9,9
Netherlands, Slovak Republic, Greece, Belgium	8,0 - 8,9
Finland, New Zealand, Russia, Bulgaria, Australia, United Kingdom, Cyprus, Italy	7,0 - 7,9
Canada, Poland, Uruguay, Japan, USA, Argentina, Latvia	6,0 - 6,9
Sweden, Venezuela	5,1 - 5,9
Brazil, Norway, Colombia, Chile, **South Africa**	**4,0 - 4,9**
Iceland, China	3,0 - 3,9

Source: World Drink Trends*, 1998 Edition.*

Table 6.11 South African per capita alcohol consumption

Year	Spirits (litres of pure alcohol)	Beer (litres)	Wine (litres)	Total (litres of pure alcohol)
1980	1,26	28,4	8,8	3,7
1985	1,07	38,8	9,7	4,2
1990	1,17	52,4	9,3	4,9
1995	1,00	55,5	9,0	4,9
1997	0,85	55,1	8,7	4,8

Source: World Drink Trends *1998 Edition*

Malt beer

At present, taxes on malt beer constitute 34,2 per cent of the weighted-average retail price. The local tax burden is therefore close to the international average of 35 per cent. It is proposed that the excise on beer be increased by 4,5 per cent to R21,22 per litre of absolute alcohol, which is approximately 35 per cent of the suggested retail price. This increase is estimated to raise additional revenue of R98,8 million.

On 1 May 1998, the excise duty structure for malt beer was simplified. The previous eight duty bands were consolidated into a single band within which the duty payable is proportionate to the alcoholic strength of the beer. The switch was intended to be approximately revenue-neutral.

Sorghum beer

Sorghum beer has a similar alcohol content (4,2 per cent) to malt beer, but is taxed less heavily as this beverage is consumed mainly by low-income groups. No change is proposed to the duty rate for sorghum beer.

Wines

It is proposed to increase the excise on fortified, unfortified and sparkling wine by 5,5 per cent. After this increase, the total tax burden on wine is broadly in line with the United States and other wine-producing jurisdictions in the southern hemisphere (see table 6.12).

Table 6.12 Alcohol tax as a percentage of retail price on beer, wine and spirits in wine producing countries

Country	Beer	Wine	Spirits
Australia	43	23	55
France	24	19	53
Germany	20	13	61
Italy	31	14	40
New Zealand	36	24	64
Portugal	28	5	50
South Africa	**34,2**	**20**	**28**
Spain	20	14	55
USA	19	21	45

Source: Brewer's Association of Canada.

Spirits

In the 1998 Budget, the differentiated excise rates for the seven categories of spirits were consolidated into a single band, in the light of the fact that all of the spirits have an alcohol content of about 43 per cent. It is proposed to maintain this single band and to increase the rate by 6,5 per cent to R28,76 per litre of absolute alcohol.

Soft drinks

The imposition of excise taxes on carbonated soft drinks is an anomaly in international terms. Many countries have abolished excises on soft drinks and, since 1992, new tax codes in the EU prohibit such excises. It is recognised that the scrapping of excise taxes could contribute to significant volume growth, benefiting primarily lower income groups. However, it was acknowledged in last year's Budget that affordability issues must delay the abolition of the tax. It is proposed to reduce the excise on soft drinks by 2,83c/litre to 12c/litre, at an estimated revenue loss of R56 million.

It is trusted that the manufacturers of soft drinks will honour their commitment to pass on the reduction in excises to consumers in the form of lower retail prices. Moreover, the Federation of Soft drink Manufacturers undertook to plough the secondary benefits back into the South African economy by providing direct support to small and medium-sized enterprises, particularly those with close links to the industry.

Ad valorem excise and customs duties

***Ad valorem* duties**

Current *ad valorem* excise duties are levied at either 5 or 10 per cent. These rates follow substantial reductions in recent years from levels as high as 37,5 per cent.

Traditionally, *ad valorem* excises have been charged on what are perceived as luxury or non-essential items. Although both the Margo and Katz Commissions considered the possible abolition of these duties, the revenue implications of eliminating the entire regime were acknowledged. The Katz Commission also noted that *ad valorem* taxes on luxury goods could assist in addressing the regressivity in respect of the VAT system.

Ad valorem excises continue to generate significant revenue. Any decision to rationalise the list or eliminate certain goods must be informed by its affordability.

Base changes

Government has decided to propose only minor adjustments to the list of goods to which *ad valorem* excises will apply in 1999/00. It is proposed to eliminate *ad valorem* excises on wrist watches, at a revenue cost of R14,6 million, and, on certain road wheels, with minimal revenue implications.

It is proposed to apply new *ad valorem* excises to certain products which are complementary to goods already in the excise tax base and to fireworks, which are non-essential products carrying a significant health and safety risk. The new excises are (with revenue gains indicated in brackets):

- Scrapping the existing exclusion of unrecorded media (R11 million).
- No exclusion for un-perfumed petroleum jelly (negligible).
- Pre-shave and shaving preparations (negligible).
- Loudspeakers (R37,2 million).
- Fireworks (R1,4 million).

A full list of excisable goods in the *ad valorem* excise tax base, showing applicable rates of *ad valorem* duty, is in annexure C.

Revenue gain

The proposed changes to the existing *ad valorem* excise tax base result in a net revenue gain of R35 million. These measures will come into effect from 18 February 1999.

Fuel levy

Fuel consumption is expected to increase by approximately 3,9 per cent in the case of petrol and 3,8 per cent for distillate fuel (diesel) in 1999/00. On the basis of the existing rate of the fuel levy, this would generate R13,9 billion, 2,2 per cent higher than the revised estimate for 1998/99.

Currently, the fuel levy is fixed at 86,6 cents per litre in respect of leaded petrol and 76,1 cents per litre in respect of distillate fuel (diesel). In respect of unleaded petrol it is fixed at 80,4 cents per litre. Alongside the fuel levy there are three other imposts on the same tax base, namely:

- The Equalisation Fund contribution to subsidise the South African synthetic fuel industry (8,0c/l for petrol and diesel).
- The Road Accident Fund contribution (14,5c/l for petrol and 10,3 c/l for diesel).
- The customs and excise charge of 4,0c/l for both petrol and diesel.

For tax purposes, it is the consolidated tax of 113,1c/l on petrol and 98,4c/l on diesel that is relevant. Government is reviewing the possible consolidation of the various levies on fuel, although this will be held in abeyance until the Departments of Transport and Minerals and Energy have completed reviews of the Road Accident Fund and the Equalisation Fund, respectively.

Increase in levy

It is proposed to increase the fuel levy on leaded and unleaded petrol by 4 cents a litre with effect from 1 April 1999. This is below the expected inflation rate and will yield an additional R472 million in revenue.

Attacking the illegal blending of illuminating paraffin and diesel

The different tax regimes applicable to diesel and illuminating paraffin create incentives to evade tax. Because diesel attracts imposts of approximately 99 cents per litre, while illuminating paraffin attracts only VAT, there are incentives to substitute illuminating paraffin for diesel.

In the Taxation Laws Amendment Act, 1998 provisions were introduced that illuminating paraffin be "marked" with a chemical marker. This will enable SARS to test diesel at the premises and in vehicle tanks of end users for the presence of the marker. Severe penalties will be imposed for evasion – even the confiscation of the vehicles involved. By clamping down on this fraudulent practice, SARS expects to increase revenue by at least R166 million a year.

National Road Fund

In terms of a Cabinet decision of 3 December 1997, the National Road Agency will receive appropriations for road construction and maintenance, converted to a dedicated assignment of part of the existing fuel levy. In the 1999/00 budget the Department of Transport has been allocated R805 million for the function of National Roads which translates into a 5c/litre share of the total fuel levy.

Synthetic fuel subsidy

Towards the end of 1995, Government announced its intention to phase out the tariff protection afforded to the synthetic fuel industry. Government resolved that the tariff protection afforded to the synfuels industry (Sasol and Mossgas) be phased-down to US$16/bbl with effect from 1 July 1999 and that the associated reductions in the Equalisation Fund levies on petrol and diesel be passed on to the fuel levy.

From January 1996 to October 1998 the Equalisation Fund levies on petrol and diesel were adjusted from 9,4 c/l and 8,0 c/l respectively to the amounts indicated in table 6.13.

Table 6.13 Equalisation Fund levies

	Petrol (c/l)	Diesel (c/l)
3 April 1996	6,4	5,0
3 July 1996	5,4	4,0
5 February 1997	4,4	3,0
2 April 1998	0,4	0,5
7 October 1998	8,0	8,0

Since November 1996 international crude oil prices have decreased to levels far below the applicable tariff protection crude oil floor-price. This resulted in significant tariff protection for the synfuels industry and required large transfers from the Equalisation Fund. The Equalisation Fund was completely depleted at the end of October 1998, which meant that the Equalisation Fund levies on petrol and diesel had to be increased to 8,0 c/l from October 1998.

From April 1998 to November 1998, tariff protection afforded to Sasol and Mossgas amounted to R984,5 million and R211,1 million respectively. The balance of the Equalisation Fund was R36 million at 31 December 1998. The agreement under which this subsidy is paid will be reviewed in 1999/00.

LEVIES AND USER CHARGES

Definition and contribution to revenue

In 1997/98, user charges raised revenue amounting to 2 per cent of GDP. These user charges include departmental sales, hospital fees, ticket sales of museums and libraries, road tolls, etc. In 1997/98, dedicated levies outside of the national and provincial budget appropriations amounted to 1,5 per cent of GDP. The largest contributors to these off-budget taxes are social security taxes, levies on fuel for the Road Accident Fund and for the subsidisation of Sasol and Mossgas and the Regional Service Council levies. Levies also finance various industrial, research and regulatory bodies, such as the SA Tourism Board, the Financial Services Board and SA Bureau of Standards. Television licence fees are assigned to the SABC.

In general, user charges are a sound form of financing because they are a direct payment for a benefit received. By contrast, levies are taxes and do not represent a direct payment for goods and services received. Levies are accordingly only recommended where the costs are borne by the targeted group benefiting from the service so financed and where the agency so funded is accountable through its governing body to the industry or constituency who bears the charge.

Proposals for new levies

Several new levy proposals have arisen recently to make agencies more independent of government. However, Government recognises that these proposals must be accommodated within the overall tax burden imposed on the economy. Accordingly, the revenue projections for 2000/01 include the new Skills Development Levy agreed between the NEDLAC social partners.

Skills development strategy

The Skills Development Levy Bill, envisaged in the Skills Development Strategy, will be tabled in Parliament in the first session of 1999. The levy, which will be introduced at a rate of 0,5 per cent of payroll on 1 April 2000 and then be increased to 1,0 per cent on 1 April 2001, will be used to finance training initiatives. It is anticipated that R1,0 billion will be raised in 2000/01, of which R800 million will be used to fund the various Sector Education and Training Authorities and R200 million the National Skills Fund. The levy payments will be deductible for the purposes of income tax and will result in an estimated revenue loss of R300 million a year at the levy rate of 0,5 per cent.

Other new levies approved

Various measures for the assignment of dedicated taxes were approved by Parliament during 1998. These include:

- A South African Marine Safety Authority levy on marine vessels for the promotion of maritime safety.
- A marine living resources levy on fish landed and/or fish products for the purposes of the Sea Fisheries Fund.
- A levy to finance certain South African Civil Aviation Authority activities. It has since been decided that the base will be aviation fuel, provided full consensus can be achieved within the industry.

Electrification programme

Currently the electrification programme for previously disadvantaged communities is financed by a surcharge on the electricity price charged by ESKOM and local authority distributors. In 1998, this surcharge was R1,5 billion. This surcharge approach will be replaced with a dedicated electrification levy, the level of which will be determined annually and announced in the Budget. The introduction of the levy, which will enhance the transparency of the electrification programme and its financing, will not increase the overall level of funding to the electrification programme, nor will it increase the electricity price.

Other new levies under discussion

In addition to the Skills Development Levy and the Electrification Levy, the following levies are also under discussion:

- Levies on medical schemes to finance the regulatory functions of the restructured Council for Medical Schemes.
- Licence fees to fund the Independent Broadcasting Authority.
- A surcharge on road traffic services to finance a Road Traffic Management Corporation.

Principled approach

Since levies contribute to the overall tax burden, it is appropriate that mechanisms be put in place to evaluate levy proposals and maintain oversight over their use. In the light of this, the Department of Finance is building a database of levies and receipts. In addition, consensus will be sought from all government departments for a principled approach to levy financing, based on the following:

- Levies are dedicated taxes that increase the tax burden.
- Levies should be scored on the budget for the sake of transparency, accountability and fiscal integrity.
- Levy funding should be accompanied by a reciprocal reduction in the budgetary allocation to the department involved.
- Collective budgetary control over spending priorities should take precedence over the earmarking of funds for particular purposes.
- The Constitutional prescriptions with regard to tax instruments should be adhered to.
- Control over levy funding rests with the Minister of Finance through the process of introducing a Money Bill.

TAX INCIDENCE

South Africa’s tax burden in international perspective

Comparative tax-GDP ratios and their trends for South Africa and selected OECD and developing countries are indicated in figures 6.1 and 6.2.

South Africa’s tax-GDP ratio is lower than that of OECD countries. However, the OECD figures include social security contributions, which are excluded from the South African data. More importantly, one should be cautious when comparing tax ratios of countries at substantially different stages of development. In comparison to developing countries, South Africa’s ratio appears to be marginally above the average.

Figure 6.1 Tax-GDP ratios: South Africa and OECD countries

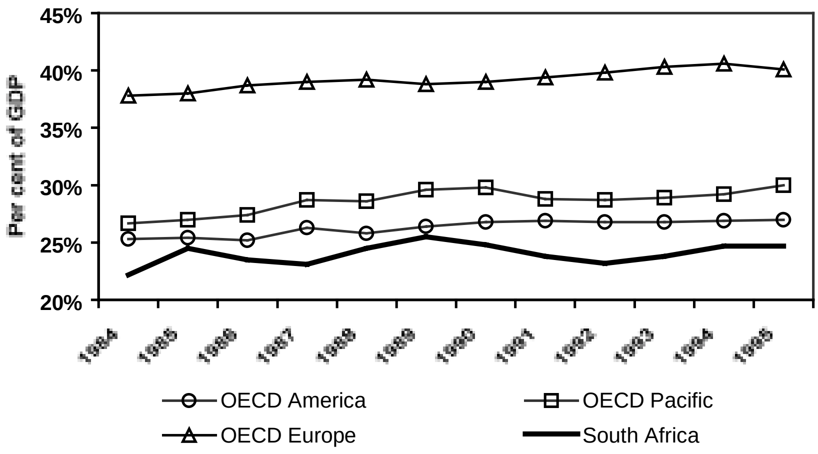
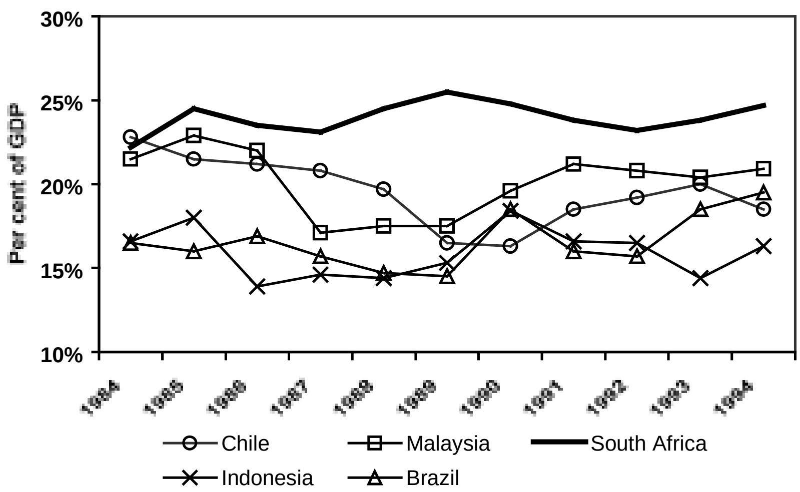


Figure 6.2 Tax-GDP ratios: South Africa and developing countries



Distribution of taxpayers in income groups

The estimated number of individuals liable for income tax is 5 821 521. Taxpayers in the income category R100 000 and above, who constitute 9,9 per cent of liable taxpayers, contribute 46 per cent of total revenue from income tax. Those in the income category R50 001 to R100 000 (27 per cent of taxpayers) contribute 38,6 and the 63,3 per cent who fall in the income bracket R0 – R50 000, contribute 15,3 per cent.

Figure 6.3 Tax burden by income category for 1998 tax year

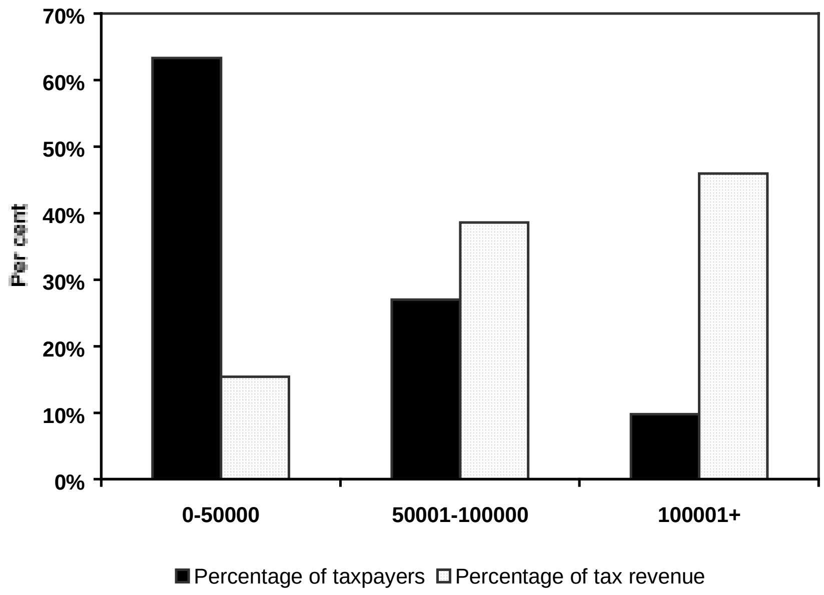


Table 6.14 Distribution of income tax burden at March 1998

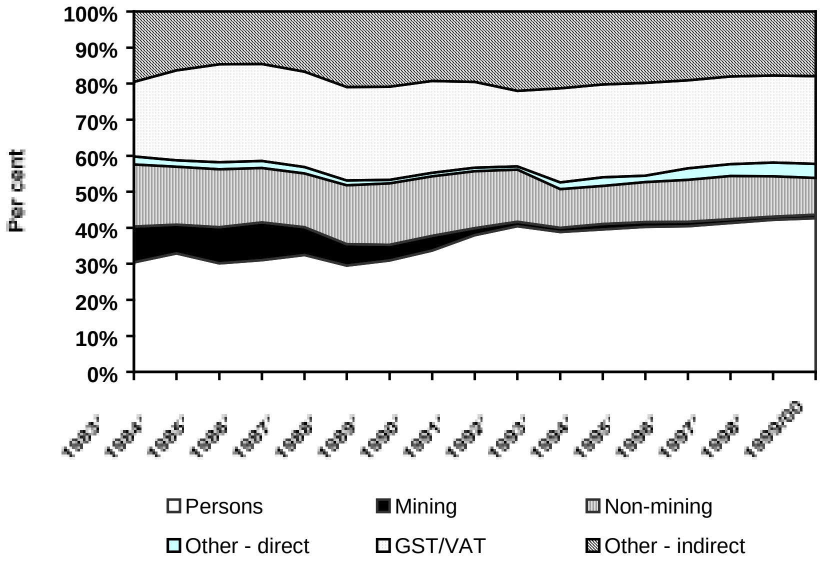
Income group	Persons liable for tax		Tax paid	
	Number	Percentage	R million	Percentage
0 – 10 000	0	0,0%	0	0,0%
10 001 – 20 000	560 558	9,6%	169,1	0,2%
20 001 – 30 000	1 161 926	20,0%	1 716,1	2,5%
30 001 – 40 000	1 185 324	20,4%	3 610,1	5,3%
40 001 – 50 000	774 749	13,3%	5 010,0	7,3%
50 001 – 60 000	587 464	10,1%	6 422,0	9,4%
60 001 – 70 000	365 551	6,3%	5 581,1	8,2%
70 001 – 80 000	256 402	4,4%	5 021,5	7,3%
80 001 – 90 000	190 723	3,3%	4 572,6	6,7%
90 001 – 100 000	168 966	2,9%	4 797,2	7,0%
100 001 – 150 000	387 584	6,7%	15 363,7	22,5%
150 001 – 200 000	109 431	1,9%	6 819,6	10,0%
200 001 +	72 843	1,3%	9 259,3	13,5%
Total	5 821 521	100,0%	68 342,4	100,0%

Table 6.15 Composition of tax revenue

	1984/85		1998/99	
Tax instrument	**Revenue raised in R'000**	**Per cent of total revenue**	**Revenue raised in R'000**	**Per cent of total revenue**
Direct taxes				
Persons and individuals	R 7 850 900	32,89	R 76 400 000	42,19%
Gold mines	R 1 598 900	6,70	R 230 000	0,13%
Other mines	R 322 600	1,35	R 1 500 000	0,83%
Companies (other than mines)	R 3 820 100	16,00	R 20 000 000	11,05%
STC	R 0	0,00	R 1 600 000	0,88%
Tax on retirement fund industry	R 0	0,00	R 4 700 000	2,60%
Donations tax	R 4 700	0,02	R 8 000	0,00%
Estate duty/inheritance tax	R 100 400	0,42	R 250 000	0,14%
Other	R 323 700	1,36	R 600 000	0,33%
Total – direct	**R 14 021 300**	**58,74**	**R 105 288 000**	**58,15%**
Indirect taxes				
Value added tax/general sales tax	R 5 943 600	24,90	R 43 600 000	24,08%
Excise duties	R 1 964 600	8,23	R 8 338 002	4,60%
Fuel levy	R 0	0,00	R 13 600 000	7,51%
Levy on financial services	R 0	0,00	R 0	0,00%
Customs duties	R 1 337 700	5,60	R 6 200 000	3,42%
Import surcharges	-R 5 100	-0,02	R 0	0,00%
Marketable securities tax	R 30 600	0,13	R 750 000	0,41%
Transfer duties	R 285 600	1,20	R 1 700 000	0,94%
Stamp duties and fees	R 243 800	1,02	R 1 500 000	0,83%
Other	R 49 100	0,21	R 94 125	0,05%
Total – indirect	**R 9 849 900**	**41,26**	**R 75 782 127**	**41,85%**
Total tax revenue	R 23 871 200	100,00	R 181 070 127	100,00%

There are several other important trends to note. Very significant among these is the declining share of tax revenue collected from the mining sector in general and the gold mining industry in particular. This is partly due to depressed commodity markets, but also because of attractive tax allowances in the tax system. The contribution of personal income tax, in contrast has grown appreciably, and now accounts for 42,2 per cent of total tax revenue. Indirect taxes, as a share of the total, have remained approximately stable. These trends are illustrated in figure 6.4.

Figure 6.4 Composition of tax revenue



SUMMARY OF EFFECTS OF TAX PROPOSALS, 1999/00

Table 6.16 Summary of tax proposals in R million, 1999/00

Changes to the following tax instruments		**Revenue gain (+) Revenue loss (-)**
Tax revenue		190 262,9
Other revenue		3 545,6
Capital revenue		21,3
Total ordinary revenue (first print)		**193 829,8**
Budget proposals:		-3 573,8
Personal income tax:		
Adjustment of table, rates and bracket restructuring	-4 850,0	
Efficiency gain	1 000,0	
Company tax:		
Reduction in the normal company rate from 35 to 30%	-2 510,0	
Efficiency gain	1 000,0	
VAT:		
Efficiency gain	400,0	
Customs duties:		
Efficiency gain	100,0	
Excises:		
Increase in duties on beer, wines, spirits and ciders	179,4	
Increase in duties on tobacco products	495,0	
Reduce duties on soft drinks by 2,83c/ litre	-56,0	
Fuel levy increase by 4c/ litre	472,0	
Ad valorem tax base rationalising	35,0	
Efficiency gain	200,0	
Stamp duty/ MST:		
Withdraw PIC exemption	20,0	
Deletion of small items, increase on bills of entry	1,2	
Transfer duty:		
Restructure table – 1% instead of 5% from R60 000 to R70 000	-55,8	
Increase exemptions – unimproved land from R24 000 to R30 000	-0,5	
Increase exemptions – improved land from R60 000 to R70 000	-4,1	
Total ordinary revenue (second print)		190 256,0