

## VAT REACTION

# Govt's last-minute move costs retailers 'millions'

THE reduction of the VAT rate to 10% had cost SA's commerce and industry millions of rands, spokesmen said yesterday.

While they welcomed the change, they said its late arrival would cost the industry a large amount of money to change the systems that many had timeously put in place.

Checkers MD Sergio Martinengo estimated that the implementation of VAT had cost the group about R15m, including changing of systems, staff, and equipment and additional working hours.

While he welcomed government's action to lower the VAT rate, he said the fact that the announcement came at such a late stage meant high cost implications for the supermarket industry.

He said Checkers had begun preparations for the implementation of VAT. The changes that will now have to be made in terms of dual pricing labels, point of sale, staff, and computer systems will bring about an estimated additional cost of R250 000 which will be absorbed by Checkers.

But, Pick 'n Pay marketing director Martin Rosen said the changeover to VAT would be moderate. This was

MARCA KLEIN and  
WILLIAM STELLAN

because all stores would be operating scanning facilities by the time of VAT's introduction.

He added that VAT had speeded up the group's decision to move all stores over to a scanning operation. Any change to price would merely entail a change in the shelf label, he said.

An industry spokesman said retailers which had high volume and high turnover rates "would probably not be too far down the road in terms of pricing their merchandise".

### Explaining

Woolworths financial director Ray Schur said the change to VAT had cost the company "a fortune initially", and Barend has just added to the cost.

Woolworths' preparation included having a VAT committee, which had been running for nine months, dual pricing labels, and having in-store signs explaining VAT and new pricing systems. "In the next five weeks we will have to change everything", he said. Woolworths staff would be

working overtime to complete the change in time.

Don CE Jamie Els said his company would be working night shifts and Saturdays to change labels on the store's 45 000 line items. He expected new labelling to cost in excess of R100 000 excluding overtime. "We were over 80% done before Wednesday's announcement," he said.

Foehchini group's VAT project head Norman Day said it was difficult to estimate the start up costs of the introduction of VAT, or what it would cost to change to 10%. However, he said there would be a marginal benefit to the company because GST on certain expenses would be replaced by input VAT.

A spokesman for a major clothing chain said the reduction in the rate of VAT would significantly increase the cost of VAT had cost his company up to R1m.

A SA Breweries beer division spokesman estimated the changeover would cost it under R100 000 which was the cost of printing new forms and pricing tables. He added that the big costs would be the associated costs in people's time and changes to its systems.

## Market waits for windfall

GOVERNMENT may raise the R10m additional revenue needed as a result of the lowering of VAT to 10% from any of its internal financing sources, including the Public Investment Commission (PIC), Finance Department deputy director-general Edwin Calitz said yesterday.

If the PIC is used, this would be done on a commercial basis at normal interest rates. The balance of R10m would either come from the PIC or the capital market, said Calitz.

The reduction in the VAT rate to 10% would reduce budgeted revenue by R1,6bn, but R10m would be raised through higher excise duties and R10m from the petrol price increase.

The money would slightly not be raised through bank loans, he said. Capital market rates increased slightly on news of government's greater borrowing requirement.

Analysts said this was in anticipation of the government coming to the market to raise about R700m.

## Home industry gets limited relief

PETER GALLI

Buildings would be taxed at a rate of 6% because of the importance of providing housing and assisting contractors and homeowners, he said - provided the contract was concluded and construction completed before March 31 1992.

And while prospective home-buyers would be granted an extra six months in which to buy their properties, the effects of the full rate would be felt after that.

Certain contractors had entered into fixed price contracts for the construction of homes before the introduction of the VAT Bill, with completion after September 30.

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The supply of construction services for new

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South African Bus Operators Association manager Eric Cornelius said yesterday there was no way the bus industry could absorb the 9% increase in the price of diesel.

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## Is the VAT reshuffle good news or bad?

## Barend in the dock

## THE ARGUMENT

## Claire Gebhardt

AT the end of the week, has Barend made things better or worse?

The Minister of Finance was at pains at his pre-emptive press conference this week to stress that the lowering of the VAT rate to 10 percent was intended to give relief to the poorer part of the population. Not so, replied the critics.

Announcing that the price of less essential goods subject to excise, such as liquor, tobacco and TV sets, would go up, the Minister commented wryly: "Surely people who can't afford to eat cannot be spending money on these items?"

But then he added the *coup de grace*, quickly disposing of any goodwill he might have attained from the VAT concession: "The price of petrol will rise by 13c a litre on Friday."

Indecent haste, said most. Taxing the poor instead of the rich, said others.

His argument that low-income commuters were already



ARCH-JUGGLER . . . Minister of Finance Barend du Plessis.

cushioned to an extent as commuter services would be exempt from VAT, was discarded out of hand.

The battle raged on this week with the ANC, Cosatu and other critics of VAT rejecting the Government's concession as "inadequate and not negotiated", and vowing to continue the fight.

Consumer organisations de-

cried the fact that when petrol went up basic foodstuffs followed, as did the cost of public transport.

Hardest hit were people who had to travel a long way to work, they said.

Pick 'n Pay chief Raymond Ackerman confirmed that there was no question of just taking 2 percent off the VAT price as marked up in his store, though he would try to do so.

"Manufacturers are already saying prices will have to be renegotiated to take account of the petrol-price rise."

The Sunday Star spoke to numerous people and applied its own judgment to answering the question on everyone's lips after the Minister's dramatic back-down on VAT.

"Are we better or worse off?" All agreed that Mr du Plessis had tried to play the role of the arch-juggler, conceding on the one hand while imposing penalties for his concessions on the other.

Here is our scorecard.

PROS	CONS
<ul style="list-style-type: none"> <li>Two percent reduction in VAT benefits all. Likely increase in inflation rate (CPI) of 1.5 percent, compared to 2.5 percent predicted before the cut.</li> <li>The Minister has tried to respond to political pressure.</li> <li>R100 increase in all social allowances.</li> <li>R100 million to building industry as a transitional measure for six months volunteered as solving problem for home-owners committed to buy but unable to finance additional costs. Also relief to business facing completed sales.</li> <li>Relieving of income tax for patients who qualify for treatment at state hospitals by 10 percent. More people will qualify for subsidised medical services.</li> <li>Poverty relief not.</li> </ul>	<ul style="list-style-type: none"> <li>Storm faced with remarking millions of goods at great cost.</li> <li>He waited until maximum disruption had been reached before acting.</li> <li>Amounts to about R10 a month for about 2.4 million people — definitely little, but better than nothing.</li> <li>In medium term will still see a 3 percent increase in house-building costs.</li> <li>VAT of medical services no concessions here and others believe he could have zero-rated this with very little loss of revenue.</li> <li>No increase in amount allocated but will be reviewed next year.</li> <li>Tuition of private but not public health care could place a burden on State hospitals, already under-staffed.</li> <li>Parsons forecast hard-ship and predict that costs will rise, food prices increase.</li> <li>Reverses of strategy are predictions of ripple effect on economy. SAMP's assessment rise in black tax-haves.</li> </ul>
<ul style="list-style-type: none"> <li>All State and State-subsidised hospital services VAT exempt, others for about 20 percent of people — a plus-point.</li> </ul>	
<p>The 13c-litre increase in the price of petrol and the 10c-litre diesel hike definitely no plus-point here.</p>	

## THE VERDICT

AT the end of the day, adding up our pros and cons, we decide that the picture was still murky. So we asked three leading economists the usual question: will the petrol-price hike hit the rich or the poor?

We got different answers. Two said: "Obviously the rich — they own the cars. The tax will fall heaviest on black tax-payers who earn about R1 000 a month compared with the average taxpayer who earns only R400 to R500."

The other said: "Obviously the poor — they travel the furthest to work and will be hit by fare increases and more expensive food." At the end of the day Sunday Star believes that no matter how well-intentioned the Minister's actions were, the changes which Government has been forced to make should have

Many believe a differential rate would have done the trick — high on luxury goods and zero-rated on food.

This would have taken into account the very narrow band of high earners as opposed to the millions of poor. Things like VAT on medical services — acceptable from a tax point of view but not from a moral and economic stance — could have been excluded at the little loss of revenue to the fiscus.

Perhaps more should have been done to tax business and the credits on capital and intermediate goods phased in over three years as was originally intended.

But the experts say business has made commitments on the strength of the announced measures and can back-track now only at enormous cost.



# Coordinating Committee on

# VAT

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## Memorandum on Value Added Tax

Meeting between State President, F.W. de Klerk and Co-ordinating Committee on VAT - 24 September 1991

### 1. Introduction

We come to this meeting today with three major concerns.

Firstly, we are extremely concerned that the implementation of VAT in its present form will have a serious impact on the standard of living of the majority of South Africans.

Secondly, we believe that South Africa is in a very delicate stage of transition where the foundations for a negotiated settlement are being laid. The possibilities for consensus were well demonstrated by the conclusion of the National Peace Accord.

However, the issue of VAT has the potential to split the nation and seriously jeopardise the fragile process of negotiations and the possibilities of achieving consensus in a whole range of arenas including the political and socio-economic.

Thirdly, our deliberations with the government have shown that the introduction of VAT is part of a more far reaching process of economic restructuring. It is not acceptable to the major players in the economic and political field that such a far reaching restructuring should be unilaterally implemented.

The Working Group between the Co-ordinating Committee on VAT and the Department of Finance were not able to substantiate the claims made to justify the urgent need to implement VAT or the benefits that VAT would bring to the economy.

The structural economic crisis in which we find ourselves can not be solved easily or quickly and we do not believe that the implementation of VAT will achieve economic growth unless it is part of a much more substantial negotiated programme.

# 'Put VAT off for a year' pleads Ackerman as storm rages on

FRANS ESTERHUYSE and SORCHA VASEY

Weekend Argus Reporters

THE storm over the government's controversial Value Added Tax rages on with new threats of widespread industrial action.

In a dramatic plea, supermarket chief Mr Raymond Ackerman has called on the government "in the interests of peaceful negotiations" to put off VAT for at least a year.

Amid a new wave of protests, more than 20 anti-VAT organisations have urged the government to enter into negotiations for a more acceptable system.

Pick 'n Pay boss Mr Ackerman said on Friday night: "In the interests of peaceful negotiations the implementation of VAT should be delayed for at least a year."

Mr Ackerman, chairman and chief executive of the company, emphasised he was speaking in his personal capacity.

"If I was wearing my Pick 'n Pay hat I would say go ahead with it," he said.

If VAT was delayed his company stood to lose the R10 million it had spent on implementing the system.

But he said: "Mr De Klerk should overrule everyone and

make a decision that is good for the country."

Mr Ackerman said the implementation of VAT on September 30 would result in a tax revolt.

"VAT is dividing South Africans at a time when the country's peace process can ill-afford the conflict.

"The leftwing feels very bitter about not being consulted. The public perceives it wrongly and the last things we need are demonstrations and marches in the streets."

The Receiver of Revenue was considering allowing retailers to sell goods already marked up at the 12 percent VAT rate on the understanding that this would be reduced to 10 percent at the time, Mr Ackerman said.

"This is absolutely crazy and I am totally opposed to it. It would be very confusing. Can you imagine the bewilderment of customers and the potential for chaos in the stores?"

Meanwhile the Democratic Party has called on the government to convene an urgent meeting of all political organisations, business, trade unions, consumer organisations and



Mr Raymond Ackerman

major relief organisations to negotiate amendments to the VAT proposals.

The Democratic Party has listed the government's "funda-

mental mistakes" in introducing VAT. These were that:

- It failed to consult widely with the major political organisations not represented in parliament, including the trade unions;

- It overruled key recommendations from Vatcom, the committee established to hear and consider representations;

- It had in-depth discussions with an International Monetary Fund (IMF) delegation, much of whose advice was accepted without substantiating the reasons for acceptance;

- It failed to allow parliament to consider final recommendations and motivate amendments. The consultation process was therefore incomplete and consensus was not obtained;

- It failed to react in time to key lobbying groups such as local authorities and the medical profession.

The party said the number of basic foods zero-rated should be increased; targeted relief programmes should be in place by September 30 when VAT is introduced; adequate money should be available to cushion the impact of the tax; and VAT should not be imposed on medical services and prescribed medicines.

*Weekend Argus 29/8/91*

## Countdown

**V**ALUE added tax comes in a week from today. That leaves seven days for government to succeed where it has failed in as many months and more: to clear up confusion about the new tax, and to publicise its benefits and attractions.

If government had decided to reduce GST from 13% to 10%, but to extend its application to previously exempted goods, it would have found a way to get both messages across to the buying public. The job must now be done by the government-sponsored Vatwatch committee, whose members have found an alarming degree of ignorance and plain exploitation as the implementation date for VAT nears.

The decision to implement VAT

was taken in February 1988; the VAT committee report, published this February, put what should have been the finishing touches to the tax. A lack of government clarity about the rate, and dithering and backtracking about the rate, exemptions and subsidies, have aided the confusion and compounded the resentment.

If Vatwatch is to be a public watchdog, it needs to be seen to bite. That means humiliating exploiters by publishing their names. The publicity would help eliminate the ignorance which makes the exploitation possible. And if it brings down some prices, that is what VAT was supposed to do. Because of those wasted months, the few who remember don't believe it.

## TWO OPPOSING VIEWS ON WHETHER THE ANTI-VAT LOBBY HAS A FAIR CASE

**V**AT victory — But most tax-payers still can't vote. This headline, from the latest Labour Research Service publication, pinpoints nicely the underlying motive for the union-African National Congress opposition to Value-Added Tax.

It refers to the reduction of the VAT rate to 10 percent, and other concessions.

The "no taxation without representation" theme is a valid one, and a neat trick to chase the government further in the direction of an interim government. But it should be stripped out of the host of other real and imagined problems with and opposition to the implementation of VAT.

It is politically unfair to lump the perceived illegitimacy of the government with, say, the supposed unpreparedness of the business sector in handling

# Unions seize on VAT as a blunt political weapon ...

VAT, or VAT's presumed discouragement of the building industry.

The circus that the implementation of VAT has become is due in no small part to the union movement confusing a political issue with technical ones — as well as crisis management by the government.

Take, for instance, the leader of South Africa's largest union grouping in a television debate with Finance Minister Barend du Plessis simultaneously admitting VAT is in principle a good tax, and calling for its delay and a host of exceptions which will make it less efficient.

We're a week from VAT Day and the controversy still rages. We asked two writers to argue the case for and against, starting with VAT enthusiast **REG RUMNEY**

The Congress of South African Trade Unions is in favour of extending the social services net, yet it promotes militant action against a tax which will raise desperately needed revenue to fund those services. All

this on the grounds of a lack of consultation, even though the Finance Ministry has agreed to negotiations with the Cosatu-led Co-ordinating Committee on VAT.

Just as amusing is Cosatu finding itself in bed with interest groups such as the Estate Agents Board and the dispensing doctors with whom it normally has next to nothing in common.

On the government side we have Du Plessis fiddling with VAT in a way which only gave the impression of weakness to friend and foe alike, and did not serve to stave off union resistance.

The danger behind the circus-like antics has been that a fairer tax would be irreparably damaged in pursuit of a political demand which could be attached to almost any except the most technical legal changes. This Du Plessis seems to have realised.

The strangeness of Cosatu's bedfellows goes beyond irony.

For example, it now by implication subscribes to the zero-rating of all medical services — public and private.

Doctors in campaigning for zero-rating want a better deal under VAT than they had under GST: zero-rating means, for instance, that a radiologist can claim back all the tax he has paid on expensive medical equipment. Exemption would be the same as the GST system. Now, he charges no GST on his services to patients, but gets no tax back. And why should doctors get tax back, when others don't? Surely they should be pressed to pass on to patients those savings they will have than get even more?

Again, why should food producers be favoured by zero-rating when clothes producers are not? And so on.

But concede for a moment Cosatu has the right to lead the fray in the battle of specific interest groups to serve their own interests.

What validity do Cosatu's general objections to the implementation of VAT on September 30 have?

The union movement has argued that the poor will suffer most from VAT.

The argument is that the poor spend more on foods than on anything else, and that the taxing of VAT will cause not only hardship but starvation.

The government has countered that tax relief for the poor is a clumsy instrument: the rich benefit as much if not more than the poor. Better then to give direct food aid in the form of handouts, say, than tax breaks.

To this Cosatu's Jay Naidoo has argued variously that the R220-million or so advanced so far for the poor is not enough, and that the aid structures cannot dispense the money.

Those critically concerned should rather insist that aid be speeded up than VAT delayed. The Co-ordinating Committee on VAT need not have rejected subsidisation as an alternative.

Crucially, the Cosatu-led grouping has argued that savings available to business under VAT will boost corporate profits rather than be passed on to the consumer.

Higher corporate profits mean more money is available for better wages.

Another line of thought (not necessarily Cosatu's) is that VAT, as a broader indirect tax, forms part of a trend towards shifting tax from companies to individuals.

And herein lies an economic misunderstanding. The distinction between the tax business pays and the tax individuals pay is somewhat artificial.

What's good for business, in a competitive economy, is in global terms good for the individuals who work for businesses.

If you work for the government it doesn't matter who pays the tax, of course.

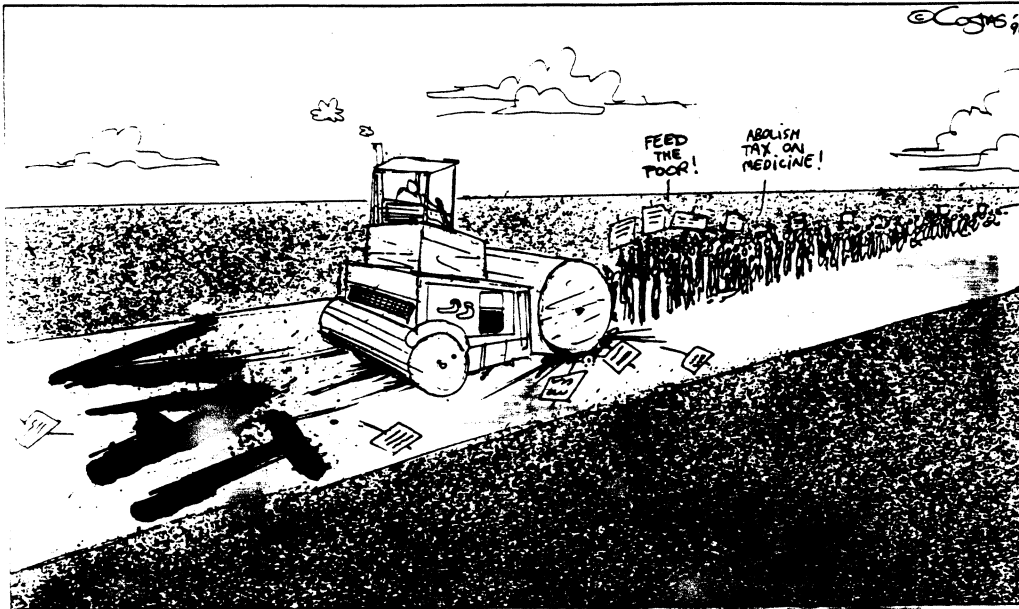
Many unionists are employed by the private sector. It is in their interest that business flourishes.

Where we should be concerned about the relationship between VAT and profitability is in its inflationary effects. Business profitability should not be at the expense of the country, in pushing up inflation.

And here Cosatu and those who have linked up with it to push their own interests have contributed to a self-defeating and self-fulfilling cynicism about VAT. The more people who believe the benefits of VAT won't be passed on, the more likely it is to happen.

That is sad and ill serves the community at large. VAT could have galvanised consumers into actively protesting about price rises instead of passively accepting them.

That opportunity has been wasted, and instead a host of ad hoc exemptions have been made to VAT, which is supposed to work better because it doesn't allow exceptions.



## It's the tax of the technocrats

**N**O one — not even the Congress of South African Trade Unions — denies that Value-Added Tax is a technically superior instrument to General Sales Tax, particularly at higher levels of taxation.

But South Africa's proposed VAT system appears to be the work of technocrats with little understanding of its broader economic and political ramifications.

In the short-term, it is widely accepted that VAT will be inflationary — particularly as it has now been coupled with a fuel price hike. The "wrecking crew" of government representatives and VAT critics is understood to have agreed that it will bring a three to four percent rise in the cost of living for low-income groups.

It is the poor who will be worst hit — those earning up to R16 000 a year shall eat a third of their income on food. Most essential foodstuffs were GST-exempt and will now be taxed, as will medicines and medical services.

The government has effectively conceded this by pledging R220-million for poverty relief. This is almost certainly inadequate — Vetcom identified 16-million South Africans currently below the minimum living level, who would each receive R2.25 a month in relief — but the quantum is not the issue.

How will the "needy" be identified, and the money allocated? Through registered welfare organisations, says

Value-Added Tax may be a better taxation system but it is the poor that will be hardest hit, responds **DREW FORREST**

the government — but welfare bodies themselves say they will not cope. The government has also hinted it may use the disgraced black local authorities, a political last-resort.

One study does indeed show that VAT's long-term impact on 63 percent of our countries has been non-inflationary. But these were mainly in a normal growth cycle, stresses Centre for Applied Legal Studies at the University of the Witwatersrand. In countries with major inflationary expectations, such as South Africa, the effect had largely been to fuel inflation.

What of the savings to manufacturing industry through the removal of indirect taxes on machinery — will these not be passed on to the consumer? In a recessionary environment, they will almost certainly be used to bolster profits, the unions believe.

Significantly, two major food producers last week equivocated on the issue, one saying it would pass on lower costs "provided retailers and wholesalers do not increase their profit margins", the other stressing that input credits on machinery would affect only a fraction of its sales.

It is worth pointing out that many

countries have coupled the introduction of VAT with price freezes or price controls. Our government has so much faith in the business community that it shrinks from statutory controls.

One may reasonably doubt another claim advanced for the swift introduction of VAT: that a delay will further impede "substantial" local and foreign investment. No hard evidence has been adduced for this, and many other factors — including business confidence and South Africa's political stability — clearly have a role.

Why is South Africa only one of three countries worldwide to levy VAT on medical services, the others being New Zealand and Morocco? The fact is that we have taken New Zealand as our model — a social democracy with a developed welfare safety net, developed welfare organisations and an advanced infrastructure.

It is suggested that the unions have no rational motive for opposing VAT, and are merely using it as a blunt weapon to assuage the legitimacy of the National Party government.

It is hard to believe that Operation Hunger and the National Council for the Ageing, which also sit on the Constitutional Co-ordinating Committee on VAT, have this agenda. And insofar as the unions are genuinely concerned about the impact on the poor, the claim is false — but there is a kernel of truth to it.

Why should labour not demand a bilateral approach to taxation? The government's record is hardly inspiring,

Finance Minister Barend du Plessis' record on the VAT rate had all the hallmarks of political panic. Public information has been scanty; the government has still not issued its interpretation of the tax, nor a single explanatory video. South Korea produced 88.

The fact is that through VAT, the government is embarking on a major restructuring of the economy, without negotiating it with labour or what will soon be South Africa's dominant political force, the African National Congress.

Through input tax credits, it will take capital goods out of the tax system, handing manufacturers a R6-billion bonanza, while some R4-billion will be clawed back from the consumer through the broader-based VAT. In effect, manufacturers will be encouraged to mechanise — with the resultant impact on jobs — at the expense of the consumer.

Leaving aside the effect on government revenue — most other countries have phased in input tax credits — the measure is politically lathery. What if an ANC-led government merely scraps the new tax?

The unions have not rejected VAT as such. But because they fear it will further depress the needy, they want it postponed, if necessary subject to a time limit, or the zero-rating of essential foods and services.

In the longer term, they want the re-negotiation of the tax system as part of a comprehensive programme of economic reconstruction.

# Viewpoints

The page that tells you what people are thinking

## COMMENT

### VAT a powderkeg about to explode

**T**HE government's highly controversial Value Added Tax (VAT) is implemented next week against a backdrop of mass resistance with the country's largest trade union federation, Cosatu, and black political organisations threatening a general strike which could cripple the economy.

Cosatu demands a postponement of VAT until government addresses the following:

- A zero rating on food, medicine, medical services, electricity and water;
- Amendments to the VAT Act to avoid prejudice to small business;
- Negotiated poverty relief programmes and;
- Much stronger control on abuse of the system.

But Finance Minister Barend du Plessis is adamant that the implementation of VAT will not be postponed, saying it would disrupt business.

One concession is its undertaking to subsidise foodstuffs like samp, mielie rice and powdered milk.

It is clear that Du Plessis has missed a crucial point.

He may have had good intentions in introducing VAT. Experts support VAT as the best tax system in the world. Others believe a new government would benefit from the system.

This may be true.

But the way in which VAT was introduced has cast serious questions on the government. Given the volatile political situation and the deepening recession, Du Plessis should have consulted a broad section of the community.

Having overlooked this vital issue, Du Plessis must be mature enough to admit his guilt.

However, we do not think Cosatu's collision course with Du Plessis is a solution.

Our country has suffered enough economic hardship. A future government will inherit a wasteland - which will be reason enough to spark a revolt.

A solution is still possible if Du Plessis goes back to the drawing board and reviews Cosatu's demands.

Cosatu's march through Johannesburg this week should be a warning to the government of further possible economic disruption.



LIVING OFF THE VAT OF THE LAND

# Last-ditch talks to break VAT deadlock

ALAN FINE

FINANCE Minister Barend du Plessis will meet the Cosatu-led Co-ordinating Committee on VAT today for last ditch talks aimed at reaching consensus on the implementation of the tax, scheduled for September 30.

The joint working group, established two weeks ago, completed its work on Sunday and has produced a document described by Du Plessis as the "most realistic" proposal for the restructuring of VAT.

He noted that the committee's proposals would be taken into account in the Finance Department's restructuring of VAT.

## VAT

ment and the committee. Rather, it was a tentative proposal and contingency plan, he said. Government officials had been "in a co-operative mood".

He said the co-ordinating committee's proposals were aimed at alleviating the effects of VAT as well as focusing on VAT's perceived inability to ensure that price cuts justified by the conversion from GST were made.

Regarding the stand on postponing VAT if sufficient measures to alleviate its effects were not taken in time, Du Plessis said the committee had noted government's fear that postponement would delay the economic upswing by causing business to postpone new capital investments because of the capital input credit system that is part of VAT. The committee was therefore willing to consider interim measures to remedy this problem.

Sapa reports that the committee said last night it would request that the Finance Department zero-rate food, medicines, medical services, electricity and water. It also requested that the VAT Act be amended to allow the VAT Act to avoid prejudice to small business, that poverty relief programmes be negotiated and that a stronger control on abuse of the tax be implemented.

The information provided by the working group indicated VAT was intended to be a restructuring of the economy by increasing competition in the manufacturing industry, but the co-ordinating committee said this would take place at the expense of the poor. It said the restructuring of the economy would cost about R10m in

From Page 1

lost revenue to government with about R10m being made up by the consumer programme could not compensate for the effect of VAT on the poor.

The committee charged that government had provided no evidence that the cost benefits of VAT would filter through to the consumer. "In a recessionary situation with high inflation it seems likely that these benefits will instead be used to increase corporate profitability," it said.

A Cosatu official said the union and the committee were not looking for inordinate delays in the implementation of VAT. "We just want enough time to sort out the problem."

MARCIA KLEIN reports that Premier's Wrighton said the timing of VAT was "partly insensitive" as the country is on the threshold of negotiations for a new and democratic SA. This is a moment when further negotiation is absolutely necessary, especially for introducing a tax system which requires general support.

He urged government to consider a postponement and to investigate further possibilities of zero-rating.

Sarob has, however, issued an urgent message to Du Plessis urging government not to postpone VAT. It said by postponing VAT, it would exacerbate the current business conditions and delay the start of any new upturn in the economy. "This would severely affect employment levels. There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

# Wider input sought on re

ALAN FINE

GOVERNMENT'S tax advisory committee may be restructured to enable greater input on revenue matters by labour organisations and opposition political groups.

Cosatu officials and VAT Co-ordinating Committee technical specialist Dennis Davis disclosed yesterday that the issue had been discussed by the joint working group set up to investigate VAT problems. He said the committee would be restructured to include people acceptable to such groups.

"The co-ordinating committee's approach is that government cannot manage tax and fiscal policy on its own. It needs to achieve consensus."

From Page 1

process of consultation. There appears to be some flexibility, although it is not clear whether it is yet sufficient."

He said some in government might, at this stage, be considering merely more consultation with groups like Cosatu and the ANC on tax matters. He believed the committee needed to be revamped to include people acceptable to such groups.

"It seems they may agree to a long-term restructuring of the advisory committee," a Cosatu spokesman said.

Davis said: "There is a need to treat tax in the same way as labour law. Government is aware of this need to broaden the

# VAT 'could be govt's downfall' — Cosatu

LESLIE LAMBERT

request an urgent meeting with President F W de Klerk, Sarob and the Afrikaans Handelinstaat, Cosatu general secretary Jay Naidoo said.

If the outcome of these meetings was unsatisfactory, it would be time to further action at a VAT seminar on Saturday, he said.

Naidoo said the committee's 93 affiliates, including Cosatu, the ANC and Nats, would consider launching a programme of sustained mass action if government pushed ahead with the tax in its present

form on September 30.

"We told the Finance Minister on Tuesday that just as the British public warned Thatcher about poll tax, government will not succeed with a tax which is against the will of the people," he said.

Proposals for the mass action included a national general strike and the boycotting of VAT and other taxes, such as income tax. Yesterday, thousands of workers joined protest marches in Johannesburg and Bloemfontein.

When asked how Cosatu intended to boycott the payment of income tax, Naidoo

To Page 2

## VAT

1/1/91

said he believed the trade union movement had "sufficient power to pressure employers to halt PAYE deductions". Medical associations such as the National Medical and Dental Association had spoken of not sharing resources with the state.

The committee's main objections to VAT are its effect on the poor and the "unilateral" manner in which it is being implemented.

Financial authorities responsible for the new tax are frustrated at the last-minute resistance campaign.

The authorities also want leading trade union and political organisations were invited to discuss VAT with government. They were also invited to make proposals and to be represented on Vatcom, the committee appointed earlier this year to investigate amendments to the new tax. They refused the latter invitation.

Since VAT was first raised, major amendments have been made to VAT legislation to accommodate proposals to Vatcom. In addition, Du Plessis used his discretionary powers to make concessions, such as the reduction of the rate to 10%, and a range of measures outside the tax system to compensate for the higher cost of food.

He increased state pensions by R10 a month from August and would place a 10% subsidy on certain basic foodstuffs which would, in effect, zero-rate them for a year. These two concessions would bring the total allocation for direct aid to R420m. Of the R220m originally allocated, R200m had been paid to welfare organisations providing targeted aid, a Finance spokesman said.

Economists argue that more concessions would destroy the integrity and viability of VAT, and a delay in implementation could jeopardise the economic recovery.

From Page 1

See Pages 1 and 2

COMMENT

## Get on with it

There is strong evidence to indicate that Cosatu representatives were comprehensively briefed on VAT at an early stage, but then did not respond to government's invitation to submit the organisation's views to Vatcom.

Government's handling of VAT's introduction has at times been inept. The recent hurried rate cut and the latest subsidies on staples have left many people believing Pretoria was uncertain about VAT's decision and had therefore moved to pressure from its opponents.

We agree with critics who say they achieve socially desirable ends as well as raise money for the state. Excise duties on petrol, for example, could encourage drivers and transport operators to be more economical and help cut pollution. Excise duties on cigarettes could be a better protection from lung cancer than any switch to mild brands.

But South Africa was supposed to be moving away from regulation and away from the economic distortions of subsidies. Now subsidies are being reintroduced, no doubt more will follow and no doubt they will be misused.

Government must stop dithering and occupations are entitled to tax certainty. If VAT has to be fine-tuned or adjusted, it must be done after its effects have been properly evaluated. Now is not the time for political trade-offs, it is the time for getting on with the changeover.

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by Paula Gray  
Consumer Reporter

18/9/91

## Deadlock in VAT talks, but Govt to subsidise some foodstuffs

Government faces a roundwell of resistance against the implementation of value added tax on September 30 after talks between Finance Minister Barend du Plessis and the Co-ordinating Committee on VAT ended in deadlock last night.

Mr du Plessis told the committee the implementation of VAT would not be postponed.

However, the Government, instead of zero-rating foodstuffs, was prepared to subsidise staple milk at 10 percent for at least one year, he said. Dry beans and lentils would also be considered for subsidisation.

"According to the best available information, the subsidisation of these food items will negate any negative effect VAT will have on low income families," Mr du Plessis said.

But the Co-ordinating Committee on VAT has labelled the Minister's poverty relief programme as "unacceptable".

Chairman Bernie Fanoorff said the committee had gone out of its way to find a settlement and had left the Minister with a "reasonable compromise".

He said he would consider further funds to watchdog body Watwatch.

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Act to avoid prejudice to small business.

There has been an increase in the price of foodstuffs in recent weeks for more foodstuffs to be zero-rated.

Yesterday, Pick 'n Pay Supermarket said it had made a final appeal for more zero-rated foodstuffs.

The Congress of South African Trade Unions (Cosatu) plans to take the controversial issue to the streets.

However, he said the inflation rate could drop to about 13% by October 1992.

# VAT WILL NOT BE DELAYED

18/9/91

citizen

FROM PAGE 1

There are clear indications that there will be a significant revival in the level of economic activity when VAT is introduced.

But the Co-ordinating Committee on VAT disagreed, saying that there was a possibility of a sharp drop in economic activity.

The committee added that it appeared a much wider range of factors was involved in this assumption.

However, he said the inflation rate could drop to about 13% by October 1992.

THE imposition of South Africa's new value-added tax will not be delayed, the Minister of Finance, Mr Barend du Plessis, told the Co-ordinating Committee on VAT at a meeting in Pretoria yesterday.

But according to a statement released by the Minister's office, Mr du Plessis, made several concessions, including proposing to subsidise various basic foodstuffs for "at least a year".

"These offers were not acceptable to the Co-ordinating Committee," the statement said.

VAT, which is due to replace the GST system at the end of this month, has been strongly criticised mainly by traders union groupings which have called for a postponement pending further negotiations.

The Co-ordinating Committee, which met Mr du Plessis yesterday afternoon, represents the Congress of South African Trade Unions (Cosatu) and the National Council of Trade Unions (Nactu), among other organisations.

The trades unions, which have organised a week of protest against the imposition of the new tax, have demanded a zero rating for basic foodstuffs, medical services, medicines, water and lights and trade union subscriptions.

Mr du Plessis said he proposed at the meeting that instead of giving food a zero-rating, the South African Government was prepared to subsidise certain foods at 10 percent of the retail price for at least a year.

The foods included milk powder and crushed wheat. Subsidies could also be considered for dried beans and lentils, depending on their availability.

"According to the best available information the subsidising of these foods will negate any negative effects that VAT will have on low-income families," Mr du Plessis said.

The government would also subsidise water and lights and trade union subscriptions.

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Thousands of Cosatu supporters marched through Johannesburg yesterday threatening industrial action — which would culminate in a general strike — if government implemented VAT at the end of the month.



## VAT 'might lift inflation'

GERALD KILKADDER

PRETORIA — VAT's introduction and the recent fuel price increase could push the inflation rate as high as 16% or 17% in October, a study by the Stellenbosch Bureau for Economic Research has found.

Bureau economist C J de Jager said a recent study showed the major causes of inflation could remain in place for years.

VAT would be an additional aggravating factor.

The inflation rate would probably remain about 15% for September, while VAT was likely to add an extra percentage point and push the rate as high as 16% to 17% in October if the effect of the fuel price hike was taken into account.

VAT would add almost five percentage points to the CPI's food component and was likely to worsen unrest.

However, he said the inflation rate could drop to about 13% by October 1992.

## **2. Review of events**

- 2.1. Our letter, dated 19 September 1991, to you requesting a meeting spelt out the events to date. A copy of this letter is attached.
- 2.2. Yesterday, 23 September 1991, a second VAT Summit was held. It was attended by 47 organisations including organisations which had not previously allied themselves with us. This makes a total of 104 organisations now supporting our initiative.
- 2.3. The Summit heard reports of the upsurge of support in all sectors of the public for the campaign.
- 2.4. The Summit unanimously rejected as inadequate the amendments made by the Minister of Finance at a meeting between the Co-ordinating Committee on VAT and himself on 17 September 1991. Instead the meeting re-affirmed their support for the proposals adopted at the first VAT Summit on 22nd August. Section 3 (below) lists our present proposals to resolve the VAT dispute.

## **3. Proposals to resolve the VAT dispute**

- 3.1 The Summit supported the view of the Co-ordinating Committee, based on the opinion of our Expert Group, that a postponement of all or part of VAT would be the best solution to allow a substantive process of negotiation to resolve the shortcomings of VAT.
- 3.2 The following is a summary of our demands to address these shortcomings:
  - 3.2.1. Zero-rating of the following foods: Fresh meat, poultry, fresh vegetables, fresh fruit, legumes (dried, canned or fresh), fresh milk and powdered milk, grain and grain products, cooking oil and tinned fish. This list has been provided to us by nutritional experts.
  - 3.2.2. Zero-rating of scheduled medicines and exemptions on medical services.
  - 3.2.3. Zero-rating of water and electricity.
  - 3.2.4. Negotiation of poverty relief programmes.
  - 3.2.5. Measures to assist small business to overcome the problems created by VAT.
  - 3.2.6. Stronger controls against price abuse.



# Barend's cle stick packag

25/8/91  
By CURT VON KEYSERLINGK

THE GOVERNMENT painted itself into a corner that forced last-minute changes to Vat this week, say businessmen.

"It's crisis management," says a business leader, who asks not to be named.

"Although the International Monetary Fund recommended 13% Vat, the Government was warned that anything over 10% would cause political problems."

Ernst & Young tax partner David Clegg says: "Given the decision to go with 12%, the Government should have coupled publication of this figure with an announcement of huge projects to help the poor."

"The relief measures announced beforehand were not enough."

Business Times has learnt that Finance Minister Barend du Plessis decided to reduce Vat from 12% to 10% as late as last Sunday. He worked into the night to draft the revised Vat structure.

It received Cabinet approval on Wednesday shortly before being announced.

The result is a package that economists say will hinder economic growth.

## Fuel

Aubrey Dickman, honorary professor of economics at Wits Business School, says: "The amendments were probably necessary to meet popular opinions and political demands, but they do not help tax reform and long-term growth."

"They merely defer the inevitable. People may feel they have won this round against the Government, but concessions made now will have to be paid for by painful adjustments in the future."

He considers the plan to recover revenue lost through the lower Vat rate by raising the fuel tax to be a retrogressive step because it negates Vat's cost-containing effects. Because fuel tax is not rebateable, its increased cost will cascade through all businesses whose costs are affected by the price of petrol and diesel. This is so to a lesser extent as a result of increased excise duties.

"I accept that there should be a tax on fuel. But a higher fuel tax is very much second best to higher Vat."

"Reducing the Vat rate will also increase the Government's deficit which has inflationary implications and could delay the reduction of nominal interest rates."

"Mr Du Plessis says the lower Vat rate could delay the reduction of corporate tax and the top marginal income rate to 40% which the Government hoped to achieve in the next three years."

"Our effective company and personal tax rates are

high by world standards. If they are not reduced, SA will remain relatively unattractive for both foreign and domestic investment."

Rand Merchant Bank economist Rudolph Gouws says: "Ideally, the Government should not have compromised on Vat. However, it had no option but to take account of political realities."

Professor Dickman says of the claim that Vat takes money from consumers and puts it in the pocket of business: "This does not sound very good, but we must remember that the business sector is the key to the country's economic survival."

"If we do not have investment we will have no new jobs."

Professor Dickman says Vat is a vital element of the process of transition, courageously embarked on some years ago, and the additional economic restructuring needed to make industry more competitive.

A sound Vat system will allow for the reduction of company taxes. This will permit a phased reduction of import tariffs as SA manufacturers will be better able to compete with foreign producers who pay low company taxes.

This, in turn, will enable them to sell at more competitive prices in both domestic and foreign markets.

## Boycotts

It will also reduce the need for costly export subsidies, financed by the taxpayer, which are in any event unacceptable in terms of the General Agreement on Tariffs and Trade (GATT).

Another economist says one advantage of the Vat concessions is that they will increase revenue from those blacks who escape their share of tax burden through rent and electricity boycotts.

From now on they will pay higher excise taxes on such things as television sets, cigarettes and beer, more than 88% of which is drunk by blacks.

Black taxi operators, who do not receive State subsidies, will pay more for petrol.

Mr Du Plessis said at his news conference that increased excise duties could not be called a burden on the very poor because "those who cannot afford to buy food certainly cannot afford these items".



AUBREY DICKMAN: The worst merely deferred by the concessions

## Sacob pleads for consumer

Business Times Reporter

THE SA Chamber of Business (Sacob) has appealed to business to pass the benefits of VAT to customers.

"Business is under the public microscope on its role in Vat. Competition must be seen to work," says the country's largest employer organisation in a four-point programme for business.

The call comes amid renewed claims that suppliers and retailers have increased prices ahead of the new tax.

Louise Tager, head of the Government-appointed watchdog body Vatwatch, says that in recent months a wide range of post-Vat price increases have been announced on products and services currently exempt from GST.

They range from short-term insurance and airfares to theatre season tickets.

Professor Tager appeals to business to calculate post-Vat prices again and to take into account the cost benefits that will result from Vat.

"If business uses the imminent introduction of Vat alone as a reason for increasing prices it will be a severe blow to attempts to curb inflation."

Sacob says capital intermediate goods have been exempted from Vat in the interests of economic growth, job creation and international competitiveness.

The cost savings will take time to permeate through the system, depending of the rate at which investment decisions are made. Compliance costs are also high.

General price increases also make it unlikely that the full cost savings can be passed to consumers.

"But industry and commerce should be seen to be identified with tangible benefits from the implementation of Vat."

The rate cut to 10% can also be included in constructive marketing strategies, says Sacob.

## Renege

The organisation also warns business that failure to register with the Receiver of Revenue can lead to higher costs and the inability to claim credits.

Companies must ensure they are geared to handle Vat before September 30.

Sacob says businessmen should "take every opportunity to urge Government not to renege on its commitment" to lower personal and company tax.

"Unless Vat is eventually supported by personal and corporate tax relief, economic performance will continue to be adversely affected."

"Direct taxation is now the Achilles' heel of tax reform."

## COMMENT

# Tax dodge

IT is no way to introduce a new tax. But perhaps we should spare some sympathy for Finance Minister Barend du Plessis. The clamour over VAT and the row over government's dirty tricks spending have put him under tremendous pressure, so there are grounds for excusing an unsure political touch.

This week's VAT decisions certainly bear the hallmarks of crisis management and of some lack of sensitivity to the political dynamics of today's South Africa. It was over a year ago that Du Plessis and his Cabinet colleagues decided we were to have VAT, and that was to be the end of the story.

That might have been fine under the old regime, it doesn't work like that any longer. These days, consensus is all important. It's no good blaming the politicking of extra-parliamentary groups when VAT was being formulated last year -- politicking which might have prevented opposition groups from publicly participating with government in tax planning. The realistic response to approaches blocked by public posturing would have been private approaches to opponents. In any case, Du Plessis was distracted by his accession to his party's Transvaal leadership and last year's events.

Government was given timeous and politically realistic advice by organised business and the other interest groups it consulted. Advice that the initial rate be no higher than 10%, that social exemptions or zero rates be applied and so on. Instead it almost went along with the IMF, which suggested 13% and no exemptions.

This is all water under the bridge and, on the whole, critics of the original VAT proposals will support the present relaxations. Cutting the proposed initial rate to 10% could take some of the wind out of Cosatu's sails and leave employers less charitably inclined towards the union federation's call for compensatory pay increases.

On the other hand, business is unlikely to be impressed with some of the proposals to make good any shortfall in government's VAT haul. The National Party's election pledge of lower personal and corporate tax rates is about to be broken. Du Plessis warns that's not surprising. The party has already reneged on its pledge to cut the budget deficit to 3% of GDP and to continue with privatisation.

Slippages in income tax cuts will influence business decisions on fixed capital investment -- the very spending VAT was intended to encourage and the very spending our depressed economy needs.

Nor does the decision to hike luxury prices and excise duties on "luxury" goods, cigarettes and liquor display any great flight of imagination. Again it is symptomatic of the quick fix of crisis management.

Everyone acknowledges that the need for urgency outweighed many other considerations. But once dust has settled, some calmer decisions need to be taken. Du Plessis' next chance comes with his Budget in March. Between now and then he would be advised to do some painful fence mending by consulting more major players about the country's financial give and take.

**C**OSATU does not believe that Finance Minister Barend du Plessis' announcement on VAT on Wednesday adequately addresses all the problems associated with the tax.

We therefore stand by our position that the Department of Finance needs to postpone the implementation date of VAT. We are prepared to enter into negotiations as a matter of urgency with a view to completing them as rapidly as possible. A process of negotiations in which the parties are seriously committed to reaching agreement is the only effective way of dealing with conflict.

Du Plessis has argued that the costs of postponing the implementation date of VAT will be too high. However, we believe that the costs of social and industrial conflict if the government insists on pursuing its present course, may be far higher.

The Minister and his department have failed properly to negotiate or even consult in several respects. Organisations have not been privy to the calculations upon which the VAT rate was set. The revenue targets have not been made clear.

Even now we do not know on what basis the 10% figure was arrived at. It seems that the recommendations of the many organisations to Vaalcom were not heeded. The only input which was taken seriously was that of the IMF, which is not as familiar with South African conditions as the other organisations.

In recent weeks, as the opposition to VAT has mounted, the Minister has still been reluctant to consult properly. Following our meeting with him on July 16, at which he undertook to consult with Cosatu, we were unable to obtain a reply to numerous faxed and phone calls for several weeks.

Even now the Cabinet's response is an attempt to undermine and pre-empt consultation rather than to strengthen it. The Minister's announcement is an attempt to strengthen it.

# Cosatu wants VAT talks to prevent a national disaster

JAY NAIDOO

poor, the unemployed and other disadvantaged groups. There have been differential rates, with lower or zero-rating of essential commodities and services and a higher rate for luxuries. The SA government is fond of quoting the overseas experience of VAT, but appears to be ignoring its lessons.

Items previously exempt or excluded from GST will be taxed.

These include basic foodstuffs, medicines, medical services, such as pay contributions, water and electricity. The addition of tax on these items will fundamentally affect the living standards of the unemployed, aged and lower-paid workers.

We support the view of the health sector that VAT on medicines and medical services is immoral. The partial exemptions announced on Wednesday are not good enough.

It has been calculated that a 12% VAT rate could increase the inflation rate by about 2.5 percentage points. While figures still need to be established about the inflationary effect of a 10% VAT rate, the petrol and diesel price increases announced on Wednesday will also be inflationary.

There is no guarantee that the inflationary effect of VAT will only be short term, as the government is trying to suggest. Furthermore, even a short-term rise in inflation will be disastrous in the present climate.

We are also concerned that VAT will be abused by the commercial sector to raise prices. We do not believe that VAT alone is an adequate safeguard in other countries, far-reaching measures have had to be introduced to prevent price rises during the implementation stage. Other countries have more developed mechanisms and organisations to safeguard the consumer.

The costs of administering VAT, especially for the small business sector, will be huge. These will inevitably be passed on to the public in other countries provisions have been made to assist small businesses.

The amount of poverty relief granted by the government remains inadequate and there has not been proper thought or consultation on the VAT summit.

mechanisms to distribute it. Without carefully considered programmes and the participation of the affected communities and organisations poverty relief will not achieve its objective.

It also does not make much sense to introduce poverty relief while at the same time removing subsidies on basic staple foods such as maize and bread. Further, the targeted groups for poverty relief are the "indigent". This effectively excludes the lower paid worker who will therefore not benefit from these programmes.

It is not too late for the government to reconsider its position. Even after the government has adopted such a high-handed approach, we are prepared to enter into genuine negotiations to resolve the conflict.

Unless we can reach consensus we will be facing a national disaster. There will be a decline in the standard of living for all, and for those not protected against cost of living increases, starvation will stare them in the face.

The inkblot scandal involving government abuse of taxpayers' money, together with the fact that the majority of the people in SA are taxed without representation, has already created widespread anger. If tax changes are introduced without the widest possible consultation and consent, heightened conflict could jeopardise the transition process in its current delicate phase.

Furthermore, government should not underestimate the sensitivity of its population to unpopular taxes -- advice which Margaret Thatcher would give them for free. We believe that opposition to VAT from the man in the street cuts across all racial and other barriers, even after the latest announcements. This is a position which the government ignores at its peril.

(J) Naidoo is Cosatu's general secretary. This article is based on Cosatu's submissions to yesterday's VAT summit.

# Cosatu march in two cities against VAT

By Naomi Kisch and Sapa

## TENS OF THOUSANDS OF SUPPORTERS

SANDS of supporters of the Congress of South African Trade Unions (Cosatu) marched through Johannesburg yesterday, threatening to strike if the government goes ahead with value-added tax at the end of this month.

In Johannesburg the bulk of the marchers converged on John Vorster Square, police headquarters, where Cosatu's assistant general secretary, Mr Sam Shiba, presented two memoranda. One was addressed to the Finance Minister, Mr Barred du Plessis, and

the other to the Law and Order Minister, Mr Hendrik Verwoerd.

In Bloemfontein, about 6,000 demonstrators marched to police headquarters, where Cosatu's treasurer, Mr Arthur Mupfema, handed over a memorandum for Mr Du Plessis.

Addressing demonstrators in Johannesburg, Mr Shiba warned the government that Cosatu would engage in industrial action, culminating in a general strike.

It would meet its rival, the National Council of Trade Unions (Nactu), to plan the action, which might take place in November.

A large police contingent kept a close watch on the proceedings, but there were no incidents.

Cosatu and Nactu, through the Co-ordinating Committee on VAT, have recently stepped up calls for the implementation of VAT to be delayed to give them time to negotiate a better deal.

They say inflation will increase by three to four percent and the government has provided no evidence of cost benefits filtering to the consumer.

## Post and phone costs join VAT price hike

City Press

Telkom SA is to increase telephone rental fees by R2 to R26 a month for these clients would increase from R25 to R27 and the monthly rental from R18 to R19.40.

The Post Office has announced that postage on an ordinary letter would increase from 25c to 27c, while the tariff for a parcel of 1kg would be increased from R2.50 to R2.70. If the same parcel is dispatched by air mail, the tariff would increase from R3.50 to R3.70.

Mr De Villiers said that the tariff would increase from R3.50 to R3.70.

## Not included

A Sapa report on Finance Minister Barred du Plessis' meeting with the Co-ordinating Committee on VAT incorrectly stated that 'crushed wheat' would be subsidised by the State for at least a year. The basic foodstuffs to be subsidised are samp (stamppot), crushed maize or mealie meal (mie), legumes and milk powder. Subsidies on dried beans and lentils could still be considered, depending on their availability. Crushed wheat is not included. Sapa



Demonstrators protested against value-added tax in Johannesburg yesterday. Several concessions have been made by the government, including proposing to subsidise various basic foods for a year.

## Confusion over VAT slammed by opposition

Political Correspondent

CAPE TOWN — Opposition spokesmen were sharply critical yesterday of the confusing stream of last minute changes to the VAT system, but agreed that VAT must be introduced on September 30 to end the uncertainty, which affects consumers, producers, manufacturers and retailers.

The Conservative Party spokesman on finance, Mr C. J. van der Linde, said the public was 'totally confused', while the economic effects were even more serious.

The Democratic Party's spokesman on consumer affairs, Mr Jasper Walsh, said of the many changes: 'It has been a costly and unnecessarily inefficient exercise'.

Mr Uys asked how the

Minister of Finance, Mr Barred du Plessis, expected businessmen to prepare for VAT's introduction in little more than a week, when every few days there were new additions and deletions to the system.

It was clear that the business and industrial sector were already delaying purchases of capital goods to take advantage of VAT rebates and zero ratings when these were introduced. There could therefore be no further delaying in introducing VAT.

He found it strange that when the CP and others in Parliament objected from the start to VAT on basic foodstuffs, hospital services and prescribed medicines, these were brushed aside. But when Cosatu and the ANC ob-

jected, very late in the day, the Minister received delegations from them and listened to their arguments.

Mr Uys also questioned the proposed subsidy of 10 percent on crushed maize, and 'possibly' also on beans and lentils. 'How do you charge 10 percent on one hand and subsidise by 10 percent on the other, and at what level do these transactions take place?' he asked.

'We still say hospital services must not be taxed — you do not tax universities, clinics, ... said Mr Uys.

Mr Walsh said that, in fairness, direct subsidies for basic foodstuffs were to be welcomed as these would provide food relief for the poor.

# VAT could rise to 18pc before long: ex-official

By Keith Abendoroth

A FORMER top tank official of the Department of Finance and one of the architects of VAT yesterday said it would "not be long before we see piecemeal increases in VAT until it reaches up to 18 per cent."

Dr Frits Berkhout, a retired former director of internal economy in the department, claimed the state appeared to have made a "blunder" in its estimates of VAT receipts and was heading for a shortfall of between R5 billion and R7 billion. Using official Central Statistics Services and Reserve Bank figures, he said it could be shown that the state was "over-shooting" in its estimate of an income of R21.5 bil-

lion from VAT. "Somewhere along the line an error of judgment has been made in calculating VAT revenues, and my prediction is that it will not be long before we see massive increases in the tax in line with the VAT rates of the richer western European countries," he said.

By now, the government's salami policy — a well-known soft-soaping approach — It was far from the truth to advertise and explain that VAT was "leakproof" and the best tax for the country. "At best, it prevents some of the leakages caused by Black traders and the fast decreasing numbers of pupa-and-mama shops," he said.

On the eve of country-wide protests against the implementation of Value Added Tax the South African Chamber of Business has urged the Minister of Finance not to postpone the introduction of the new tax.

VAT comes into effect on September 30. The Congress of South African Trade Unions plans to take the controversial issue to the streets tomorrow to urge government to delay the implementation of the system until effective negotiations have taken place on the tax. Pickets were held at the Vereeniging and

Klerksdorp Receiver of Revenue offices yesterday while countrywide protest meetings have also been planned. In a statement the Coordinating Committee on VAT said the pickets would continue until September 30, the date when the controversial tax would be implemented.

Yesterday, Sabco said the private and public sectors had already invested large sums in the new tax system and postponement would be "an enormous national waste". Sabco also appealed to big business not to refrain from purchasing from smaller firms that were not registered as VAT vendors who would not furnish VAT invoices.

● Help keep check on rises — Page 7

## Business urges Barend to go ahead with VAT date

By Paula Fray  
Consumer Reporter

On the eve of country-wide protests against the implementation of Value Added Tax the South African Chamber of Business has urged the Minister of Finance not to postpone the introduction of the new tax.

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● Help keep check on rises — Page 7

## Doctors threaten mass action over VAT

Citizen Reporter

THE Society of Dispensing Family Practitioners (SDFP) — the highest representative body of doctors who dispense their own medicines — yesterday warned of joining in mass action if the government does not suspend VAT.

The society's co-ordinator, Mr Fazel Muladani, said in a meeting of 22 organisations, hosted by the society in Durban on Wednesday.

At the Cape Town meeting, hosted by the African National Congress, the National Council of Trade Unions and Coasta, a warning was sounded of "mass protests" if the government does not negotiate the more contentious aspects of VAT.

The SDFP meeting also decided unanimously to demand "immediate consultation" with representative organisations on the VAT issue.

The SDFP meeting was held on the same day as a similar meeting in Cape Town of trades unions and community organisations.

Mr Muladani said it was recorded that if the government did not respond his society was "fearful of the grave consequences that may ensue".

Among the other bodies represented at the SDFP meeting were the Medical Association of South Africa (Medsa), Midlands Doctors' Guild, IMA, ANC, NEC, Academy of Family Practice, Medical Council, Durban Doctors' Guild, WU, Durban North Doctors' Guild, Durban South Doctors' Guild, Durban Eastern Society, Durban Education and Health Workers Society, Durban Porwa, SAHW, Durban Academy, Phos, Durban Hospital and the SA Chamber of Commerce.

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# Vatwatch reports large, widespread price hikes

VATWATCH is receiving reports of massive increases in the prices of certain groceries, municipal fees, holiday accommodation and pharmaceuticals introduced in the run-up to VAT's introduction. These alarming reports by consumers are being received by VATWATCH from the last week of August, the biggest price increases were reported in certain washing powders, breakfast cereals and soft drinks. The supermarket chains were criticised again during the first week of September.

But other sectors also came under fire. Consumers queried higher municipal fees, which were reported to have risen by an average 22%, holiday accommodation by 33% and pharmaceutical products by 41%.

They reported several instances of shopkeepers charging VAT in August, and charging both GST and VAT at the same time.

- LESLIE LAMBERT**
- A Bloemfontein pharmacy increased the prices of headache tablets by 58%.
  - A Kempton Park supermarket had begun charging VAT to "let people get used to the idea and alleviate the shock of September 30". In another, a dentist was reported as having charged a R100 "VAT deposit".
  - Also reported were several cases of shopkeepers blaming VAT for sudden and exceptionally high price increases. For example:
    - A retail multiplicity increased electricity and water fees by 87% in July.
    - A short-term insurance company announced that premiums would increase by 44% in October.
    - Holiday flat rentals in Durban and Hermanus increased by up to 26%.
    - A medical equipment company informed customers prices would rise in October by 17%.
    - A dealer in school uniforms said his 80% price increase was accumulated by VAT.

She said VAT was following up all suspected cases of unjustifiable VAT-related price increases. Generally, business was cooperative and willing to review pricing decisions. Cases of misleading advertising were handed over to the Advertising Standards Authority.

## Informal trade VAT-proof

THE informal trading sector's sustained growth should not be significantly affected by the imposition of VAT, according to business consultants Perry and Associates.

Senior consultant Neil Ross said in a statement yesterday that conventional wisdom was that GST evasion had facilitated growth in the informal sector — primarily among hawkers and spaza shops. It was also believed that the whole-sale sector had benefited indirectly, but that under the proposed VAT system the opposite would apply.

However, many of the whole-sale sector's suppliers of the whole-sale sector are in-built, police effect because these companies charged GST unless customers produced GST certificates. This made it unlikely that GST evasion at the informal retail level had been significant. Ross said the effect of VAT would therefore only temporarily slow

down the informal sector's growth. The VAT system would not affect the informal sector's growth, he said, because the informal sector's suppliers are in-built, police effect because these companies charged GST unless customers produced GST certificates. This made it unlikely that GST evasion at the informal retail level had been significant. Ross said the effect of VAT would therefore only temporarily slow

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## Cosatu slammed on VAT threats

By Cosatu's engagement in industrial action which could end up in a general strike if VAT is introduced without adequate negotiation.

Reacting to the threats the president of the South African Housewives League, Mrs Lyn Morris, said that because her organisation was non-racial she was not in a position to make any political comment.

"I cannot understand, however, Cosatu's view that the introduction of VAT would spell out a national disaster and that general resistance against the system would also spread to PAYE."

According to Cosatu's assistant general secretary, Mr Sam Shiloa, the organisation would

not be taking any action. He said that its commitment to the government's inflexibility and determination to implement VAT on September 30 was not to be extended that protest to other aspects of the tax system, including PAYE.

"We believe the government hasn't thought

## by ANC

A BREAKDOWN in consensus during negotiations on value-added tax between the Finance Ministry and consumer groups could have a ripple effect on negotiations.

Mr Cyril Ramaphosa was said yesterday. He said that the Finance Ministry could have sought confirmation on VAT, when so many people had argued that a socio-economic consensus in South Africa could greatly facilitate the negotiations concept.

"It is reasonable to assume that Mr (Baron) du Plessis knew throughout the VAT negotiations that a breakdown would have a ripple effect on the entire process."

Mr Ramaphosa said it was improper for the Minister to insist the matter should be settled in "such an undemocratic manner" by his insistence that the final decision rested with him.

His organisation had fundamental objections to the overhauling of the tax system on the eve of a major constitutional negotiations. — Sapa.

## Govt is on collision course with Cosatu

This could take the form of "active resistance" such as strikes, work stoppages, general boycotts and mass marches.

Mr Coleman said the Coordinating Committee on VAT had tried to go through the whole process of negotiation with the government on the question of VAT.

At its last meeting with the government, the committee proposed the introduction of a six-month transitional period where basic food, medicine, medical services, electricity and water be zero-rated. This was rejected by the government.

She found consumers' inadequate knowledge of VAT and attempts to blame VAT for prices ripped off.

She urged consumers to shop around and keep

# Widely happened in VAT scams

By Carol Hills

VATWATCH yesterday revealed that consumers nationwide were being exploited with massive increases unjustifiably attributed to VAT, as well as its early and improper implementation.

In the two weeks up to September 4, VATWATCH received 624 reports from consumers, most of whom expressed alarm at unusual price increases attributed to the imminent introduction of VAT.

In the last week of August, consumers complained of planned price increases by the country's main supermarket chains, ranging from 30 percent to 44 percent. Affected products included breakfast cereals (27 percent up), soft drinks (19 percent up) and certain washing

## VAT rip-offs

FROM PAGE 1

ance company had announced premiums would rise by 44 percent in October because of VAT.

An increase in holiday flat rentals in Durban and Hermanus of up to 26 percent was ascribed to VAT, and a Reef municipality spokesman blamed

through VAT. It is going ahead with its despite growing resistance.

Mr Coleman said the Coordinating Committee on VAT had tried to go through the whole process of negotiation with the government on the question of VAT.

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She urged the public not to gullibly accept the excuse that VAT was responsible for price hikes and said VAT, at 10 percent, should in fact lower the prices of goods currently subject to GST.

"In the long run, VAT ought either to bring prices down, or at least arrest the rate of price increases of recent years."

Prof Tager said consumers and the business sector had to understand that VAT should not be a cost borne by business and said VAT's input tax credit concept would lead to a reduction in businesses' production marketing and other operating costs.

Businesses had generally been co-operative and willing to review pricing decisions. Misleading advertising was charged by VATWATCH, which could not be resolved by VAT.

VATWATCH chairman, Professor Louise Tager, found that the exploitation of consumers being charged VAT already and those being charged VAT and GST at the same time was most unacceptable.

She found consumers' inadequate knowledge of VAT and attempts to blame VAT for prices ripped off.

She urged consumers to shop around and keep

**GOVERNMENT REVENUE:** South Africans are paying too much, according to worldwide trends, reports REG RUMNEY

**T**HERE is little scope to increase taxes in South Africa, according to South African Fiscal Think Tank chairman Marius van Blerck.

The reason, Van Blerck remarks in a paper on international tax trends delivered at a seminar this week, is that South Africa is effectively one of the most highly taxed nations in the world in all categories of tax, with the notable exception of social security taxes.

Van Blerck looks at both the overall tax burden and the distribution of tax in South Africa and abroad, using International Monetary Fund, SA Reserve Bank and Receiver of Revenue statistics.

The overall tax burden is measured by taking the amount of tax central government receives as a percentage of the measure of national activity, gross domestic product (GDP).

In South Africa, central government revenue as a percent of GDP was 24.6 percent in 1987 — up from 21.4 percent in 1975.

The corresponding average for industrialised countries in 1987 was 27.4 percent; the figure for developing countries in Africa was 21.6 percent.

South Africa is more of a developing than an industrialised country, though it is ahead of many other African states.

Even more extreme is the disparity between South Africa and the rest of the world in the areas of direct tax on income, profit and capital gains.

In South Africa in 1987 central government got 51.2 percent of its tax from this source.

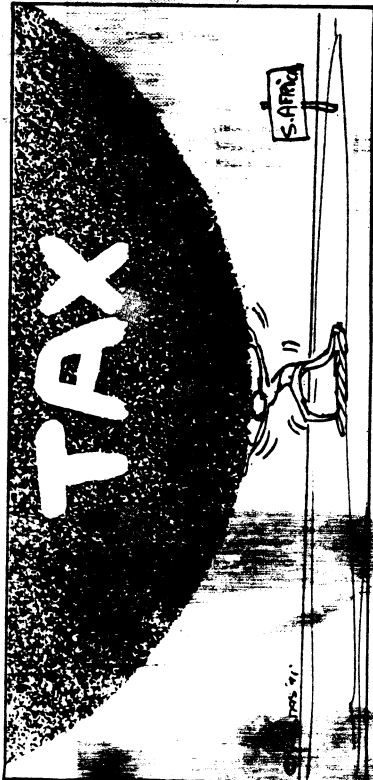
The average for the world was 37.2 percent.

Van Blerck comments that the high direct tax burden doesn't include a capital gains tax.

So the imposition in South Africa of a capital gains tax will have to be accompanied by a substantial drop in income tax, if the combined burden will be too great.

So what scope is there for raising taxes? Van Blerck argues that can only happen if there is

# SA's tax burden: Enough already



higher economic growth.

Turning to the distribution of tax, Van Blerck expands on the shift in the tax burden from companies to individuals.

This shift, he says, needs to be examined in context.

"Firstly, part of the shift has resulted from external factors, namely the softening of a wide range of mineral prices since 1985 which has seen the profitability of the mining sector decline dramatically.

"Secondly, despite the shift, the corporate tax burden in South Africa is, relative to the individual burden, still high by OECD standards... in 1987 in the OECD countries personal tax generated on average four times as much as corporate

## Two-tier VAT system is answer

THE government should not have dropped the Value-Added Tax rate to 10 percent.

Instead it should raise the rate to 15 percent — and tax a wide range of basic foodstuffs at a special lower rate of about 5 percent.

This is the simple solution, according to South African Fiscal Think Tank chairman Marius Van Blerck, to the VAT conundrum, since most opposition to VAT tends to focus on its effect on basic foodstuffs.

It is also the fairly widespread practice adopted in other countries.

"There is every likelihood that this system will generate VAT revenues at least 40 percent higher than our current system."

Van Blerck reckons that removing problems with VAT is essential for another important part of tax reform, reducing the corporate tax rate to 40 percent.

tax; in South Africa in 1987 personal tax only generated about 50 percent more than corporate tax."

South Africa is most out of line with most other countries when it comes to social security taxes — basically a form of compulsory national insurance.

In South Africa social security tax means essentially the Unemployment Insurance Fund, and stood at two percent of central government revenue compared with the world total of 28.1 percent.

South Africa's social security tax figure is close to the average for developing countries in Africa, at 1.8 percent. But since it is better developed than most countries on the continent, it should arguably have a higher proportion of such tax.

Van Blerck also surveyed tax trends between 1980 and 1990 in 40 countries chosen at random. The average rate of corporate tax in those countries dropped from 45.80 percent in 1980 to 40.36 percent in 1990. Of those countries, 13 have dropped their rates by more than 10 percentage points and only three have raised their rates by five points or more.

The average rate of individual tax in the world dropped far more dramatically from 1980 to 1990, from 17.5 percent to 47.77 percent. Planned future cuts could push the average below 40 percent, says Van Blerck.

But 24 countries reduced their rates by more than 10 percentage points in this period, led by Tanzania with a stunning 55 point reduction. The average rate of individual tax, however, raised individual

taxpayers' burden, which indicates the extraordinary nature of individual tax reform is needed. Of the 40 countries surveyed imposed maximum tax rates of over 60 percent in 1980, but only four did so in 1990 and of these, one (Sweden) will show a reducing its rate to 50 percent by the year 2000 (in 1980).

He notes the government has expressed it doubts that it can continue the process of reducing the corporate tax rate from its present 48 percent, after cutting it from 50 percent earlier this year. Hence his solution.

In accord with worldwide trends, South Africa has seen a systematic removal of tax deductions in the last decade, resulting in an increase in the tax base.

"However, at the same time we have experienced an increase in corporate tax rates... This aberration could not have occurred at a worse time for South Africa, given the simultaneous sanctions campaign, the descent into inflation and the softening of a wide range of mineral prices, and it has undoubtedly contributed to the low rate of gross domestic fixed investment in the country since 1985."

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# Chain stores vow to pass on VAT savings

MAJOR retail chains and manufacturers yesterday made a public pledge to pass on to customers the cost benefits derived from VAT.

They also promised their pricing policies would fairly reflect these benefits.

In a separate statement, Woolworths announced it would subsidise until October 13 the prices of basic foodstuffs previously exempt from GST.

The pledge by 17 companies, including Pick 'n Pay, Checkers, Spar, Metro, Score, Game, Fedfood, Premier Food Industries and Unilever, arose from a meeting called by Vatwatch last week and out of concern that there would be huge price hikes following VAT's introduction.

Major companies were called on to adopt the pledge which urged suppliers to pass on to them any cost benefits, to pass these on to customers, to ensure pricing policies fairly reflected any VAT benefits, and to encourage others in the business community to adopt the pledge.

Vatwatch's Prof Louise Tager said the pledge was a message aimed at both consumers and business in an attempt to make them aware of VAT savings.

"I am very concerned that the full implications of the system have not connected in the minds of the entire business section," she said.

Tager pointed out that because of the savings businesses would enjoy, prices should not increase at all.

Some signatories said yesterday the expected savings derived from VAT would be minimal.

MARCIA KLEIN  
and SUSAN RUSSELL

Premier Food Industries MD Willem de Kok said while his group subscribed fully to the pledge, it did not expect any significant savings to flow through following the introduction of VAT.

He said Premier had done a straight calculation on the effect of the introduction of VAT on its food basket. With only brown bread and maize meal being VAT exempt there would be a 4.8% increase on the price of the basket.

Fedfood MD Jan du Toit said his group would make every effort to keep the food prices as low as possible. However, he said the huge figures which had been mentioned in terms of savings on input tax were hypothetical, especially regarding the mass produced products where savings frequently were only a fraction of a cent.

The first major group to announce it would actively pass on VAT savings to customers was Woolworths.

Woolworths financial director Ray Schur said more than 200 basic food items which were free of GST would be subsidised by Woolworths, effectively keeping the prices at pre-VAT levels.

Meanwhile, Cosatu spokesman Neil Coleman said while the signatories' intentions were laudable, this meant the public had to rely on the good faith and promises of retailers.

What was needed to prevent price abuse, Coleman said, was statutory enforceable safeguards.

© Comment: Page 10

# Doctors slam Govt over VAT

ON the eve of a massive anti-VAT summit today, more than 300 angry doctors yesterday resolved to resist Value Added Tax on medical services and prescription medicines unless the Government zero-rated them.

One of the possible strategies the doctors put forward was to refuse to collect VAT on their services or pay VAT for those services to the Government - a proposal they will put to the

Cosatu-led Co-ordinating Committee on VAT summit in Johannesburg today.

The summit, of representatives from about 93 organisations, is meeting to formulate a plan of action against VAT which comes into effect at midnight on Sunday.

The dispensing practitioners also called on State President FW de Klerk to debate openly on prime time television the morality of introducing VAT on medical services and prescription medicines.

"Since the Minister of Finance (Mr Barend du Plessis) refuses to discuss the morality of the issue, perhaps the President will," one doctor said.

Dr Joe Maelane said doctors rejected "the serious blunder made by so-called VAT experts" who included health in the VAT net.

Western Cape chairman of the Dispensing Family Practitioners' Association Dr R Rapiti said New Zealand was the only other country to apply VAT on health.

"Tax on health care is an act of sheer financial desperation," Rapiti said.

However, the desperate ones were blacks and poor whites.

He predicted that VAT on medical services would lead to mass resignations from medical aid societies, the filling of overcrowded State hospitals and the demise of more medical aid societies.

"We are not opposed to VAT, we are just saying the way it is being implemented is not good," Rapiti said.

## Dispensing doctors to fight VAT

DISPENSING practitioners have added their voice to protests against VAT on medical services, prescription medicines and essential foods. At a meeting held at a Jan Smuts Airport hotel and attended by hundreds of doctors, the Dispensing Family Practitioners' Association resolved to:

□ Call on all members not to collect VAT or to pay VAT to the Receiver of Revenue;

□ Call on the Medical Association of SA and the National Medical and

Dental Association and other bodies to make a similar call;

□ Call on the public not to pay VAT to doctors;

□ Call on medical aid schemes not to pay the 8% in lieu of VAT to doctors;

□ If they do, to pay it into a trust fund established by the Dispensing Family Practitioners' Association.

A second motion called on President FW de Klerk to debate on television the morality of introducing VAT on medical services and prescription medicines. — Sapa.

## Marchers

hold up  
19/4/91  
traffic

By Peter Davies

Congress of South African Trade Unions supporters turned Johannesburg city streets into a swaying, chanting sea of humanity yesterday during a protest march to voice opposition to the Government's implementation of VAT.

The march, which was peaceful and well organised, was marked by a heavy police presence and disrupted lunchtime traffic.

It began in Plein Street at noon and ended with the handing over of two memoranda to the station commander at John Vorster Square, Colonel A J Matthee.

One letter, addressed to the Minister of Law and Order called for a speedy, decisive end to township violence which Civic Association of Southern Transvaal general secretary Moses Mayekiso said was now spilling over into the workplace.

The other letter, addressed to Finance Minister Barend du Plessis, registered the "poverty stricken and underprivileged workers' opposition" to the implementation of VAT.

Sam Shilowa, assistant general secretary of Cosatu, said the Government's insistence on implementing VAT would have a negative effect on the economy.

The secretary of Cosatu's Witwatersrand region, Amos Maseko, said that if the Government failed to "reconsider its stance", Cosatu would consider using the only power at its disposal.

"We don't have the power to vote the Government out. Our only power is to withhold labour."

Colourful banners turned the city centre streets into a multi-coloured stage.

"Veto VAT", "VAT on food and water kills" and "VAT — a national disaster" were some of the messages supporters had for the Government.

# Militant doctors add fuel to VAT outcry

SOUTH Africa's dispensing practitioners yesterday added their voices to the outcry against the imposition of Value-added Tax on medical services, prescription medicines and essential foodstuffs.

At a militant meeting, held at a Jan Smuts Airport hotel and attended by hundreds of doctors, the Dispensing Family Practitioners' Association resolved to:

□ Call on all members not to collect VAT or to

pay VAT to the Receiver of Revenue.

□ Call on the Medical Association of South Africa (Masa) and the National Medical and Dental Association (Namda) and other medical bodies to also make this call.

□ Call on the public not to pay VAT to doctors.

□ Call on medical aid schemes not to pay the eight percent in lieu of VAT to doctors — If they do, to pay the eight percent into a trust fund established by the association.

A second motion passed called on President FW de Klerk to debate openly, on prime time television, the morality of

introducing VAT on medical services and prescription medicines.

"Since the Minister of Finance refuses to discuss the morality of the issue, perhaps the State President will," one doctor said.

"We have had no guidance from the Medical Aid Association (Rams) or Masa on how to deal with VAT," said one senior doctor.

He held Rams and Masa responsible for the "immorality of having to tax the patients who come to our rooms."

"The Minister is taking VAT from a first world country and trying to apply it here. He has always said he is not prepared to debate the moral issue of VAT on medical services. Why?"

He said lawyers would never accept the "imposition of tariffs forced on us by Rams as a scale of benefits."

An Empanjeni doctor said Masa had lost its clout and credibility.

"I believe they should be investigated by a com-

mission of inquiry," he said, before relating incidents which he said were "a legal matter."

He believed in a single medical aid society for South Africans.

Masa's Dr Reg McGill said his organisation undertook to complete its representation to the Minister, who had said he would review the situation in six months' time.

He said "Masa" had never supported VAT on any medical services — Sapa.



## Delay VAT, says Cosatu

COSATU general secretary Jay Naidoo has insisted on the Soweto/Radio Metro Talkback Show that the Government should delay the implementation of Value Added Tax.

Naidoo said on Friday that the tax would cause massive social upheaval as it would anger many poor people.

He said Cosatu supported VAT in principle. However, the Government was being undemocratic in implementing the tax without broad consultation with

a representative spectrum of South Africans, Naidoo said.

He said opposition to the tax was composed of extremely divergent political parties and organisations including Cosatu and National Council of Trade Unions.

Naidoo said the tax only served the narrow interests of big business. Moreover, the Government was merely implementing proposals by the International Monetary Fund.

Naidoo threatened that

the union would embark on spontaneous industrial action unless the tax was delayed.

Replying to Stanza's question from Ennerdale as to why the tax should not be tried out first and checked for effects, he said: "It is dangerous, the Government has a track record of abusing taxpayers money."

Patrick from Berea said the tax was unfair as it would adversely affect the underpaid.



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## Barend's WATERLOO

**O**NE week before VATday, the public has suddenly reacted. Trade unions and other bodies have opposed the tax for months, but somehow, the issue never caught the popular imagination. Until this week, when thousands marched through the streets of several towns and Cosatu threatened a national strike. For details of what opposition leaders describe as 'Barend du Plessis' Waterloo' and for discussions of the pros and cons of VAT see **PAGES 3, 14 and 19**



Man in the hot seat over the next few days, Barend du Plessis

# VAT storm fuelled by Transnet shock rate hikes

CAPE TOWN — The storm over the government's controversial value-added tax was fuelled by Transnet's shock announcement of rate hikes to the embattled South African economy.

With the introduction of VAT from September 30, Transnet announced increases in Spoornet rates of 8.9 percent, a net increase of 8.8 percent in Portnet's rates, and 9.7 percent for Petronet's services.

Consumer bodies yesterday

lashed out at the latest increases in railway and harbour rates saying the cost of transporting goods would further aggravate spiralling inflation.

## Damaging

Mr Albert Schuitmaker of the Cape Town Chamber of Commerce said: "Any cost increases at present are damaging to the economy and fly in the face of government

claims that VAT reduces costs."

Increases in the costs of rail transport will particularly affect the Western Cape, which is the most remote area from the PWV.

Mr Schuitmaker said increases in harbour charges would affect all imports.

"Export costs could also rise making South African products less competitive in world mar-

kets," he warned.

Hikes in Petronet charges will particularly affect consumers.

But once business organisations established new cost structures and savings were verified, it was hoped they would be passed on to the consumer, he said.

Mr Daan Kruger, assistant director of the SA Consumer Council in Pretoria, said the increases would affect all goods transported by Transnet and the costs would in turn be passed onto the consumer.

## Worse off

"The consumer is being confronted by a range of increases over a broad front and it looks as if the consumer is going to be worse off after VAT than he was with GST."

However, he said it was heartening that Transnet had kept the increases to less than the full VAT rating of 10 percent.

The latest increase would not affect rail commuters.

Mrs Sheila Baillie, chairman of the Cape Town branch of the Housewives League, said any increases in transport costs would have an adverse impact on the economy but expressed relief the increases were below 10 percent.

Mr Ulrich Joubert, chief economist for Transnet, pointed out that not only were the new increases below the intended VAT rate but cost increases could be claimed back from the Receiver of Revenue, he said.

Only 15 percent of Transnet's input costs were affected by GST, he added. — Sapa.



Sweden's Conservative Party leader Mr CARL BILDT (left) and Liberal Party leader Mr BENGT WESTERBERG share a laugh as they meet after general elections in Stockholm. The Conservatives, the Liberals, the Centre Party and the Christian Democrats have combined to oust the Social Democrats after almost 60 years of domination by the Socialists.

# 'No evidence of VAT savings for public'

THE Co-ordinating Committee on value-added tax yesterday said it found no evidence that the cost benefit would be passed on to the consumer, following a report by its working group.

The working group was made up of members of the Department of Finance, business organisations, trade unions and members nominated by the co-ordinating committee.

The Co-ordinating Committee on VAT has requested that the Department of Finance zero-rate food, medicines, medical services, electricity and water, trade union subscriptions and that amendments be made to the VAT Act to avoid prejudice to small business, that poverty relief programmes must be negotiated and that much stronger control on abuse of the tax should be implemented.

The information provided by the working group indicated VAT was intended to lead to a restructuring of the econ-

omy by increasing competition in the manufacturing industry, but the co-ordinating committee said this would take place at the expense of the poor.

It said the restructuring of the economy would cost about R6 billion in lost revenue to the government with about R4 billion being made up by the consumer.

"From evidence provided by the working group, it was clear that the poverty relief programme can not compensate for the effects of VAT on the poor," the statement said.

The committee charged that the government had provided no evidence that the cost benefits of VAT would filter through to the consumer.

"In a recessionary situation with high inflation it seems likely that these benefits will instead be used to increase corporate profitability," the co-ordinating committee said.

It also charged that the implementation of VAT at the present rates together with the fuel price

increases, would push inflation up by three to four percent. It said this increase would probably be higher for the poorest sections of the community.

Regarding the cost to business should VAT be postponed, the co-ordinating committee said it appeared this cost would be mainly to the retail sector.

The committee also found government and business had provided no evidence that there was substantial investment, both internal and external, awaiting the implementation of VAT, and found these investments would depend on a much wider range of factors.

It also found that business was not able to substantiate its claim there was a "dimming up" of orders for capital equipment, leaving factories idle. The committee instead charged that a much wider range of factors was involved.

The committee said it was to meet and discuss their findings with Finance Minister Barend du Plessis today. — Sapa.

# VAT in interests of economy, says Sacob

By Sapa and Citizen Reporter

ANY postponement in the implementation of value-added tax will exacerbate the current poor business conditions and delay the start of any upturn in the economy, says the South African Chamber of Business.

In a statement yesterday,

Sacob said it had urged Finance Minister Barend du Plessis not to postpone the implementation of VAT.

Sacob said any postponement could lead to a severe impact on employment levels.

"There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

Furthermore, Sacob said the private and public sectors had already invested large sums in the new tax system and postponement would be an enormous national waste.

Sacob also appealed to big business not to refrain from purchasing from smaller firms that were not registered as VAT vendors and who would not therefore furnish VAT invoices.

The chamber said it was in the interests of larger firms to assist smaller businesses with problems of VAT compliance and encourage the growth of small firms.

Sacob also indicated

there was a possibility of allowing the crediting against output VAT of a national input tax on purchases from non-registered small firms. The could be discussed with the authorities.

The chairman of the Premier Group, Mr Peter Wrighton, said VAT would only inflict additional misery on the poor and unemployed.

"The timing was particularly insensitive as the country is on the threshold of negotiations for a new democratic South Africa. Further consultation is absolutely necessary, especially for the introduction of a new tax system which requires general support," he said.

Mr Wrighton referred to the failure of the British poll tax system which was "forced upon the British public with insufficient consultation and research."

He said pressure from an infuriated British public resulted in a reversal at huge cost. "South Africa could not afford a similar financial burden at this time."

# Anti-VAT pickets in Vaal Triangle

PICKETS were held yesterday in Verwoerd and Klerksburg protesting against the implementation of VAT.

The pickets, called for by the Western Transvaal regional office of Cosatu, were held next to the offices of the Receiver of Revenue in the towns.

In a statement Cosatu said the pickets would continue until September

30, the date when the controversial tax would be implemented.

Cosatu is demanding the postponement of the implementation of VAT until effective negotiations has taken place on the tax, and the zero-rating of basic food stuffs, medicines, rent and electricity.

Pickets and demonstrations were also held at a

number of factories, shops and mines in the Western Transvaal.

According to the Cosatu statement, applications to hold demonstrations and pickets in Carletonville and Vanderbijlpark had been rejected by the Town Councils while there had been no response from the councils of Parys and Lichtenburg. — Sapa.

**I**N 1984 the SA government brought blacks into the unified taxation system together with other population groups. This resulted in one-man, one-taxpayer, but excluded the more eagerly awaited one-man, one-vote.

Despite a public outcry of "No taxation without representation", this did not lead to a tax revolt. The reason may have been that blacks were integrated into the system to a limited extent only. Each year the minimum level of income at which tax becomes payable has been raised, excluding from tax liability the majority of black wage-earners. The motives for this are mixed — including administrative problems, political considerations, and possibly fairness.

Coincidentally, the Margo Commission was also established in 1984. Its main recommendations included the exemption of dividends from the income tax net; reduction of estate duty and donation tax; separate taxation of husband and wife; reduction of corporate and individual income tax rates; and movement from direct to indirect taxation.

In response government has abolished tax on dividends; reduced estate duty and donation tax to 15%, almost separated husband and wife in the tax formula; begun gradually reducing corporate and individual tax rates; and moving from direct to indirect tax by introducing a more broadly based indirect tax — VAT.

**T**his has delighted rich people who galloped to the bank with tax-free dividend cheques. But what was in it for the poor?

Margo also recommended the introduction of comprehensive business tax. It failed to win acceptance and plans to implement it were scrapped.

One was inclined to expect that, with the scrapping of comprehensive business tax practically all the major recommendations of the Margo Commission would become defunct. But this was not to be.

Instead, government opted for the second choice — broadly based VAT. VAT entered into the SA economic structure via the back door, so to speak. Now it has become a controversial tax system. Many people — voters and voteless — are expressing anger at the way VAT is to be implemented at the end of the month. The central issues are VAT on foodstuffs,

medicines and other goods and services that will affect the poor.

The government's reduction of the VAT rate from 12% to 10% has not helped much. Many people believe Finance Minister Barend du Plessis made a mistake by increasing the fuel price when reducing the VAT rate.

Now a visible resistance to VAT in particular, especially on the part of the voteless community, is growing. The state is finding it difficult to secure a satisfactory tax obedience from the black business community too. For example, black businessmen refuse to deduct tax from their employees' wages, and they are also reluctant to register for VAT.

This culture of tax resistance and lack of obedience to the law does not exist in a vacuum. It is the result of the country's political and economic history.

For a start, tax and VAT in particular, is perceived with a political eye. The issue is you cannot tax people without giving them the vote as well. Therefore blacks view the payment of any taxes as inconsistent with democratic principles.

Secondly, a direct relationship is perceived in the relationship between the payment of tax and the utilisation of tax monies.

Many black people perceive that the tax they pay is being used by the government to buy guns and other dangerous weapons to kill them and for the furtherance of the apartheid system. They also feel there is no link between tax and their interests. The Inkathagate scandal has wors-

ened this perception of tax being used to oppress the voteless majority.

A third perception among many blacks is that the replacement of GST with VAT is nothing but a sinister motive employed by the state to transfer a greater proportion of the tax burden on to the shoulders of the poor.

The feeling is that, as blacks are more numerous, VAT is being employed to milk them. In general it is believed the Margo Commission made recommendations favouring the rich (whites), showing little concern for poor black people.

Fourthly, it is widely believed that indirect taxes — whether GST or VAT — are unfair. The argument is that indirect taxes are calculated at a fixed rate, and do not take into account the ability to pay — a regressive tax structure, a system which redistributes wealth from the poor to the rich. Income tax, which does the opposite, is seen as more appropriate.

This may not be good news to the rich who argue that income tax rates are too high.

I agree that excessive income tax rates can be a demotivating factor to increased productivity and output. However, for the sake of redressing the economic imbalance in favour of the poor, greater reliance should be made on direct rather than indirect taxes.

This does not mean we should not have indirect taxes at all. They have a place in SA's economic structure. And this greater reliance on income tax could be phased out over, say, a period of five to 10 years so as to give the voteless, poor majority some breathing space. Wealthy taxpayers must accept this, not as revenge for the years of oppression but as a "well-fare attitude".

The fifth perception is that government cannot be seen to be introducing new and major economic



□ DU PLESSIS

## MATSHERU MATSHERU

# Oppressive system is the fuel of black opposition to VAT

policies such as new taxes when constitutional negotiations are about to start. The belief is that government is trying to pre-empt any new tax policy that a new government may follow in a post-apartheid era. Further, black people need to begin to see a direct link between the taxes they pay and the application of those funds in the direct development of their communities.

Sixth, if government is that hard-pressed to introduce VAT, it should at least negotiate its implementation. Had Du Plessis swallowed his political pride and consulted properly with representatives of the masses, he could have given VAT a much wider political credibility and won acceptance for it. But, by going it alone, he missed the chance.

All this shows that the root of the problem we now face with VAT is much older and deeper than the introduction of VAT itself.

Unfortunately, the solution to the VAT problem will have to take into account these older and deeper issues. The poor feel that the implementation of VAT should not overlook these economic and political problems as they still affect the voteless communities very much.

Granted, there may be a difference between perception and reality. Nevertheless, those perceptions must be acknowledged.

**M**ajor political organisations such as the ANC and the PAC have expressed the desire to put greater reliance on direct taxes. So, we may see more of wealth taxes such as capital transfer and capital gains taxes in the future. This makes political sense. The danger to be avoided is to ensure that it is not done in such a way that it frightens the rich into fleeing.

Du Plessis had a number of options to resolve the issue amicably. The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure.

Although some have criticised the timing of VAT, I do not believe this is a major issue. The main issue is the absence of consultation. It is a pity that what appears to be a better indirect tax system for SA, now and in the future, is facing rejection. Had Du Plessis negotiated, together they would have reached a mutually acceptable approach to VAT.

□ Matscheru is an independent tax consultant and author.

## THE CITIZEN COMMENT

### Don't do it

THIS newspaper has criticised the imposition of VAT on basic foodstuffs and on medical services.

Minister of Finance Barend du Plessis is not budging on these issues, but has offered a 10 percent subsidy on samp, mealie rice and powdered milk for at least a year.

Prof Louise Tager, chairman of VAT-WATCH, says VATWATCH would like to see the subsidies extended to cover basic nutritional foods and the supply of water, electricity and sewerage in disadvantaged communities.

Others have other views, members of the public included.

But the point simply is that VAT cannot be delayed.

The cost of postponing it would be tremendous.

Furthermore, postponement of the tax, according to Mr Du Plessis, would have negative effects on the economy.

He says that the government has made firm commitments over a long period to the business sector, which includes foreign investors, over the implementation date to enable them to plan their investment programmes.

The South African Chamber of Commerce says that any postponement would exacerbate the present poor business conditions and delay the start of any new economic upsurge.

With the introduction of VAT only 10 days away, it would be ridiculous to expect the government to postpone VAT.

We are not even sure that it is possible to make any more changes at this late stage.

Cutting the VAT rate from 12 to 10 percent cost businesses millions of rands as they had to change the systems that many had put in place.

Postponing VAT would probably cost them millions, too, in wasted effort and money.

However, the agitation is not going to die down.

Feelings are still running high over basic foods, medical services and the fact that VAT applies to almost everything.

But that does not mean that Cosatu should threaten industrial action which would culminate in a general strike.

There would also be a boycott of VAT (how we don't know) and other taxes such as income tax, with the trade union movement pressing employers to halt PAYE deductions.

The Co-ordinating Committee on VAT's main objections are the effect on the poor and the unilateral manner in which the tax is being implemented.

However, Mr Du Plessis has pointed out that Vatcom has since August last year received 1 100 written submissions and evidence from 120 organisations which led to 120 changes to the draft Bill on VAT.

It's rather late in the day for Cosatu and other organisations to say they weren't consulted, when they had every chance to submit their views.

What to do now?

We suggest that since the government cannot delay VAT and there is so little time to amend it further, Mr Du Plessis should give an undertaking that, say, before the next Budget — roughly in six months' time — he will review the application of VAT and, if there is hardship, as we believe there will be, he will zero rate basic foodstuffs and medical services.

In the meantime, he should drop the price of petrol, increased by 13 cents a litre when he cut the VAT rate to 10 percent.

Cosatu should think again about its campaign of industrial action and a general strike.

The country's economy is in a poor enough state, with growing unemployment.

Nothing should be done to weaken the economy any further.

As for not paying VAT and other taxes, it is quite irresponsible.

The money that comes from taxes goes to running the country and paying for schools, housing, social services, pensions and everything else that the government provides.

Not to pay taxes means there will be less money available for essential services.

Don't do it.

# War on VAT

THE two major labour federations, Cosatu and Nactu, have urged the State President to intervene in the war over Value Added Tax as warnings of a national strike grew louder yesterday.

This comes just a week before the implementation date of September 30.

By THEMBA MOLEFE

In the meantime, a black tax expert, Mr Matsheru Matsheru, said yesterday that "taxation without representation" was fueling black opposition to VAT and many lead

To page 2



CONSUMER ANGER: Demonstrators around the country this week protested against the imposition of Value Added Tax which will replace GST on September 30.

## Socialist creation of jobs failed: Barend

THE government could not be held solely responsible for job creation, Finance Minister Barend du Plessis said yesterday.

Addressing a business symposium on the theme "One Man One Job", Mr du Plessis said the socialists and Communists had tried to make job creation the responsibility of the government and had failed.

However, his stance did not mean the government was turning its back on the unemployed. Instead, it accepted it had to contribute to the creation of "an atmosphere where there will be investment and job creation".

The solution to unem-

ployment was economic growth, said Mr Du Plessis.

Asked about the threats of mass action by the Co-ordinating Committee on VAT if the government went ahead with the implementation of the tax, Mr Du Plessis said he did not think it would get

the sympathy of people as VAT was a good tax.

It had already brought down the price of cement, he added.

Furthermore, he added, the government could not be forced to involve trade unions in tax policy-making decisions.

— Sapa

## Anger over VAT grows

From Page 1

to a tax revolt because of poor consultation.

The VAT Co-ordinating Committee, representing 93 organisations, including Cosatu and Nactu, yesterday said it had asked Finance Minister Barend du Plessis to arrange an urgent meeting with President FW de Klerk.

Du Plessis has refused to postpone the implementation of VAT.

The Office of the State President said a request for a meeting had not been received.

In a last-minute plea to Du Plessis, the Cape Town Chamber of Commerce has urged that basic foodstuffs be removed from the scope of VAT and that the R220 million set aside for poverty relief be increased.

### National strike

Both Cosatu and Nactu have indicated that a joint four-day national strike was being discussed by the federations and other non-aligned trade unions.

Cosatu general-secretary Mr Jay Naidoo has warned that VAT would lead to a "tax revolt", saying resistance would spread to income tax.

He said the meeting with De Klerk, hopefully by Monday, would determine whether the workers should go ahead with industrial action and said VAT should be postponed until consensus was reached on the zero-rating of basic foodstuffs.

Nactu general-secretary Mr Cunningham Ngcukana scoffed at the Government's pledge to set aside R220 million for poverty relief.

"This is an insult to our people. It is absolutely silly that the Government can only subsidise foodstuffs such as eggs, meat, fresh vegetables and cheese instead of zero-rating them," Ngcukana said.

### Negotiate

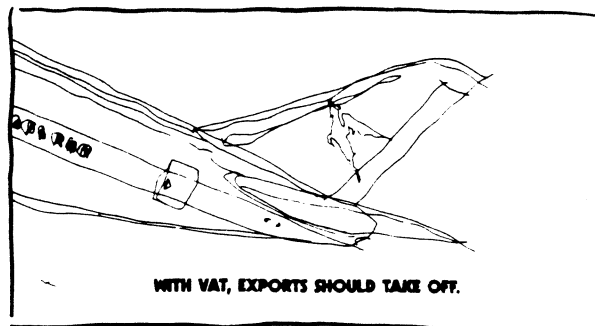
He said Nactu was agreeable with Cosatu on the possibility of a strike "because Du Plessis is not prepared to negotiate" and why it was imperative that De Klerk should intervene.

Writing in *Business Day* yesterday, Matsheru said: "Du Plessis had a number of options to resolve the issue amicably."

"The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure," Matsheru said.

In a statement on Wednesday, the independent but Government-funded Vatwatch group, said the impasse between the Government and the VAT Co-ordinating Committee was complicating the task of Vatwatch.

# V UPDATE



## How to get value from VAT

*South Africa faces a challenge*



### Your VAT questions answered

**Q: Will VAT be added on all on extra charge at shop tills?**

**A: NO!** The price you see on the goods or on the shelf is the price you pay. VAT is included in the price. This is also true of advertising and quotes for services. The price that is given is THE price, with the tax included.

**Q: How many rates of VAT are there?**  
**A:** Just two. The standard rate is 10 percent. Then there is the zero rate (nothing at all) on those items which are exempt from VAT.

**Q: Do I pay GST and VAT?**  
**A: NO!** VAT replaces GST. VAT (like GST) is an indirect tax. The direct tax many of us pay — income tax — remains in place and is not affected by the changeover to VAT, although considerable income tax relief has already been given, not only in the lowering of tax rates, but also the big improvement of married couples' no longer being taxed on their combined income.

**Q: Is there VAT on medical services?**  
**A:** It depends where you go. Private clinics and private doctors and dentists obviously make profits from their services. Tax therefore applies. The needy, the main users of State, provin-

cial and municipal medical facilities, will pay NO VAT on these services and medicines. It should be noted that 90% of these health services to the needy are subsidised by Government.

**Q: Do I, as an individual, have to register for VAT?**

**A: NO!** Only businesses with turnover of more than R150 000 a year have to register at their local tax office. They must register by August 31. Businesses which fail to register have to personally pay the VAT which they failed to collect from customers.

**Q: But what about when I carry out a little private business — for instance, selling my son's windsurfer to a neighbour for R1 200?**

**A:** Private transactions involving used or second-hand goods are NOT taxed. So, transactions carried out by an ordinary family are exempt. This is a major point of difference with GST. The old tax had to be paid when individuals engaged in the sale of goods. This system falls away with the introduction of VAT.

**Q: Do I have to pay VAT when I sell my house?**

**A: NO!** This is another form of private transaction, and so does not attract VAT. Nor does a buyer who is purchasing a home from a private seller have to pay VAT. But if you buy a new home from a COMPANY — a builder or developer — you will have to pay VAT. This is a transaction with a business, not an individual selling his or her own property. So VAT applies.

**Q: What if I use an estate agent when selling my house? Is VAT payable then?**

**A:** VAT is payable only on the estate agent's commission; NOT on the total value of the sale. And it is also only payable if the agent or his/her company is registered for VAT purposes. (Remember, only businesses with turnover of more than R150 000 a year HAVE to be registered for VAT.)

**Q: What about my bond or my rent?**

**A:** VAT does not apply to bond repayments or rent. Nor does VAT apply to sectional title or body corporate levies.

### What about scrapping tax rather than paying it?

VAT is being introduced to replace GST. But why change? In fact, why pay tax at all?

No tax at all seems ideal. But is it? Without tax, governments have no money to pay for health, welfare and education services. Our old folk get no state pensions. Our cities, roads and harbours decay.

Foreign loans are not the answer. You have to repay them, with interest. We have to pay our own way as a nation ... and one way is through tax.

Flood relief and famine relief have to be paid for. Those helicopter pilots and navy divers who did such a great

VAT-DAY, the date on which Value Added Tax will be introduced, is only weeks away. Many businesses are already geared up for the changeover. It's definite: VAT comes to South Africa on Monday, September 30.

Two other things are certain: the rate, 10%, and the fact that many more items will carry VAT than carried GST.

Few other VAT issues are so clear cut. The public remain confused about many aspects of the new system.

People resent all taxes and fear any changes to taxation mean additional tax.

What are the facts?

Experts differ on some matters, but there is broad agreement that VAT is a better tax system than the old GST system. International agencies like the World Bank recommend it. (One of its criteria for international loans is an efficient tax system in the country to receive funding.)

Countries that used to have GST are going over to VAT. Nearly 50 countries worldwide have now opted for VAT and 12 are in the process of changing over.

Under VAT the tax which business pays on machinery, trucks, equipment and certain other purchases will be refunded. This is a R6 billion a year saving to business.

This boost will help shorten the recession. There is obvious value in that.

But what about the effect on the average family?

Professor Louise Tager, chairman of

VATWATCH, points out some prices should come down in the wake of VAT. It's her job to help consumers get a fair deal out of VAT.

Internationally, the experience is that VAT has an anti-inflationary effect on the consumer price index. This form of tax helps keep the lid on inflation and therefore can help ordinary people make ends meet.

One reason for this was that the alternative GST system forced businesses to push up their prices to recover the GST they had to pay.

Businesses found themselves paying GST on items like delivery vehicles, machinery, shop fitting and advertising. All of which added to their cost structure. These additional costs were worked into the price of the goods produced by the business. The consumer then paid a price that had been inflated to take account of GST on business costs AND paid GST again when he or she bought the business's products.

Thankfully, VAT breaks the GST-on-GST effect as all businesses can subtract VAT paid on items that they use to run their business from VAT collected on sales.

Businesses will have leaner cost structures and the benefit can be passed on to consumers. In other words, an automatic 10% price rise on existing prices need not be inevitable when VAT comes in. A lower rise — OR DROP IN PRICE — would indicate the firm was trying hard to pass on savings to ordinary people.

Vigilant consumers can ensure they receive value from Value Added Tax by being very watchful of price rises and by challenging unwarranted price increases.

VATWATCH



MAKING SURE  
IT'S FAIR.

• Cont. p2

The costs of not embarking on such a process may be very high for the entire process of negotiation and may seriously jeopardise the resolution of conflict that all parties in South Africa so urgently desire.

We request you to urgently meet with the Co-ordinating Committee on VAT to seek a solution to this problem which is rapidly becoming a crisis of national proportions.

Yours faithfully,

  
Bernie Fanaroff

Convenor, Co-ordinating Committee on VAT

3.2.7. Negotiation of an adequate poverty relief programmes.

3.2.8. A commitment from the government to negotiate further changes to the tax system and on economic issues that crucially affect the major parties in this period of transistion. We are very keen to set up the appropriate forums that would engate the major players in negotiations on these economic issues.

#### **4. Conclusion**

4.1. The meeting today offers a unique opportunity to achieve consensus on a crucial economic issue and to find a way of avoiding serious prejudice to a large number of South Africans. We are committed to such a process of negotiation.



JUST A week ago, Finance Minister Barend du Plessis appeared determined to dig in his heels and impose VAT at the original rate of 12 percent.

But as the voice of opposition reached its loudest pitch, he and the rest of the Cabinet clearly decided to strike a compromise between placating the public and fulfilling the demands of the Exchequer.

Consumer bodies generally agree that yesterday's announcement of a lower VAT rate was largely a result of the "almost hysterical" public and political pressure which escalated remarkably in the last

few weeks. "The consumer came out well on this one, and I think we witnessed the extent to which public opposition to this sort of thing can have an effect," Consumer Council director Jan Cronje said.

Government sources indicated yesterday that the change of heart over the VAT rate was the result of internal pressure within the Cabinet, but appeared to be a decision made by Mr du Plessis because of ex-

## Vat regarded as recipe for disaster

By DERRICK LUTHAYI and Sapa

INDEPENDENT tax adviser Matsheru says the reduction of Value Added Tax (Vat) from 12 percent to 10 percent is to be welcomed, but with reservations.

He said the new rate was still high compared to the present GST system and that the individual income tax rate was 43 percent.

Because after-tax earnings were low consumers could not afford to pay 10 percent Vat.

Matsheru said there was no balance between tax on earnings (income tax) and tax on spending (Vat).

Du Plessis should have strived to achieve a balance between these two taxes, because the one influenced the other.

In the confusion, Du Plessis increased the price of petrol and diesel and to me this was a bad strategy.

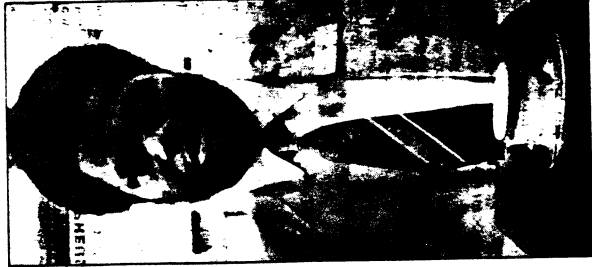
It is known that when petrol prices go up, it also pushes up the prices of other goods and services. This will still lead to inflation and if this is not followed quickly by wages and salaries increases, it may lead to industrial revolution.

Businesses may take advantage of petrol increases to put up their prices. Matsheru added that Du Plessis made another big mistake by not zero-rating all foods.

"If I were him, I would zero-rate all food and only tax them after a year and only when inflation is down. I would also tax food after a year and then only on a phased-in basis."

Matsheru said it was not certain Vat would be implemented at the end of September.

If Du Plessis did not heed Cosatu calls and consult them on Vat issues, "we may face an industrial tax revolu-



MATSHERU... Vat not the answer. BY PHIL GUSCON WILAPHO

tion of the worse kind and this may disrupt the implementation of the Vat system unless employers agree to increase wages and salaries.

"On the other hand, if Du Plessis can heed Cosatu's call and postpone Vat, business will lose confidence. He and he will also lose credibility. He cannot win either way."

# Enormous pressure forced VAT backdown

Barend du Plessis was obliged to reduce VAT this week after consumer protests against the new system rose to a crescendo. HELEN GRANGE AND PETER FABRICIUS report.

Internal public and political pressures.

"Both the Democratic Party and the Labour Party wanted a lower rate, as did others," one source said.

"Eventually there was so much pressure that one felt one had to give in."

It is known that the Minister

was saturated in the last few weeks with representations from consumer and employer groups — with an angry Mr. de Vrenging team, sporting 14 000 signatures, meeting with him only the day before the VAT announcement.

anti-VAT bandwagon, afraid that its low-income members would be worse off under the

demand for postponement. Mr

new tax.

The increasingly politicised issue of VAT placed Mr du Plessis's department in a difficult situation, which as he conceded this week demanded that the Government make its decisions known as quickly as possible.

Briefly addressing the ANC's demand for postponement, Mr

du Plessis said on Wednesday that VAT had been decided on in mid-1988 and that to postpone it now would seriously disrupt industries.

Although many of the petitioners in the consumer industry business scored a victory, these, some objectors, against VAT had no such success.

The medical industry, sorely led out on its demand for a zero rating on medical services

based on the argument that it was immoral to charge VAT on illness.

Mr du Plessis took a hard line on this sector, subjecting it to VAT notwithstanding the debate, which he dismissed as an argument that led nowhere.

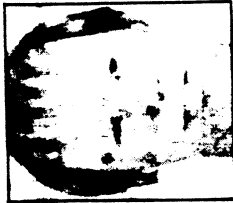
However, it was expected that whatever changes Mr du Plessis did make there would have to be the unhappy few.

As general reaction to the announcement reflected, most of those affected by the incoming tax system have accepted some more 'gracious' than others, but Mr du Plessis made a fair compromise.

## FINANCE

Sunday Star August 25 1991 3

# That 2-pc cut is just a placebo: watch this space!



MARIUS VAN BLERCK

THE Government's planned tax reform has failed under a heavy cloud, given the opposition to VAT from trade unions and the ANC.

VAT was sold to the public as the best of allowing a decrease in the tax burden on individuals and corporations.

But this will be difficult to achieve, says the economist.

He notes that the chances of an indirect tax such as VAT increasing as a proportion of government revenue are "practically nil".

He also notes that the government's plan to increase indirect taxes is in "practical" terms, however.

total taxation. However, in the Budget there was already a department from this programme which decrease rather than an increase in the ratio. 40 percent for both corporate and individual tax.

Frankel Kruger, Vin-derine economist Mike Brown says VAT at 10 percent is low, as IMF studies have shown a rate of 15 percent is needed because collections are so costly.

"The normal rate in most countries in the world is 15 to 20 percent and I expect government will move towards this as soon as it becomes politically feasible to do so."

Agreed, says Mr van next year.

He sees it rising to between 15 and 20 percent over the next five years.

"Government has met a legitimate demand to lower the rate to make its introduction smoother."

"But this rate won't last forever — watch this space next year."

# Coordinating Committee on

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# VAT



• Cartoon courtesy of City Press

## What is the person in the street saying about VAT

**Norman Scharneck, Eldorado Park:** Most businessmen will just add VAT and pocket the profits, and to hell with the man in the street.

**Maurizie Incani:** There are four categories of rates in Italy: basic foods 2%; other items 9% or 18%; luxury goods 35%. I suggest the government study VAT overseas.

**R.Gardner, Benoni:** I think it is obscene, and immoral and un-Christian for the state to profit on people's illness by taxing medicine and medical services.

In a readers poll - "The Star" 22/8/91 (after VAT had been reduced from 12-10%) only 3 people supported the way in which VAT was introduced and 70 opposed it.

## Stop VAT before it is too late!

"If VAT is introduced on 1st October, we will face a national crisis," Jay Naidoo, General Secretary COSATU

"Already 40% of the population are living below the breadline. There will be widespread starvation if VAT goes ahead on basic foods", Ina Perlman, Director Operation Hunger

## We can't allow this to happen!

The Co-ordinating Committee on VAT is calling for the introduction of VAT to be postponed until there can be effective negotiations with the Department of Finance on the problems of VAT.

### *The most serious problems are:*

- VAT on basic foods, on medicines and private medical services
- Inadequate relief for poor people.
- Price abuse
- High administration costs for small business

The Co-ordinating Committee on VAT rejects the recent concessions of the Minister of Finance when he lowered the rate to 10%. This is too little too late.

## Do something to stop VAT being implemented on 1st October!

### *The Co-ordinating Committee on VAT is calling on:*

- All those opposed to VAT should register their protest by attending public meetings which will be called in the next ten days.
- The State President to intervene and ensure that the introduction of VAT is postponed until an urgent process of negotiations is set up to resolve the problems of VAT.
- The Public to write letters and phone the State President and ask him to intervene in this crisis.
- All Organisations to support our initiative. Write to Co-ordinating Committee on VAT at P.O. Box 260483 Excom 2023 or fax: (011) 833-6330.

Issued by the Co-ordinating Committee on VAT made up of the following organisations:

African National Congress, CAST, COSATU, Congress of Business Economics, Johannesburg Child Welfare Society, Lenasia Civic, Natal Provincial Staff Association, National Black Consumers Union, NACTU, National Civics Interim Co-ordinating Structure, National Medical and Dental Association (NAMDA), National Union of Leather Workers, Operation Hunger, Public Servants Association of South Africa, South African Health Workers Congress (SAHWCO), South African National Consumers Union, Society for Dispensing Family Practitioners, World Vision.



## IF THE PRICE OF YOUR TOOTHPASTE SUDDENLY MAKES YOUR TEETH CHATTER, CALL VATWATCH.

VATWATCH is here to make sure that VAT is implemented fairly. In order to do this, we need you to be our eyes.

Starting today, take three products and make a note of their prices. Then check them again next week. And the week after.

If you discover a price suddenly shoots up, please don't hesitate to call VATWATCH.

TEL: (011) 484 3393



FAX: (011) 484 3395

### • From p1

that a goal like full electrification would cost R1,4 billion a year. A total assault on housing backlogs would require R5 billion a year.

It doesn't matter what national goals or priorities are set - money will be needed to finance the efforts. Therefore, a fair, efficient tax system is a 'must' - no matter which party is in power.

Some of those taxes have to be on spending. Currently about a third of the South African Budget is accounted for by taxes on spending. Without this contribution, taxes on income would become punitive.

VAT, like GST, is a tax on spending. But international experience shows VAT is fairer and more efficient than GST.

### NO TAX ON TAX

The VAT system allows businesses to claim back the VAT they pay on

business premises and equipment and the material they buy to turn into goods for the consumer. So prices are not increased because of tax, only to be taxed again later, as happens with GST - the so called GST on GST scenario.

### LESS EVASION

Some unscrupulous businesses also found it relatively easy to evade GST or engage in other tax abuses.

VAT creates what the experts call 'a clear audit trail' - allowing the taxman to check exactly who paid what tax when. They can track what cost items come into a business and what added value is created and passed on by the business.

Substantial international VAT monitoring experience has been built up. The International Monetary Fund and the European Community passed on a lot of this information to South Africa. The result is a computerised system

that helps officials spot the evaders and their tricks.

Therefore, abuses should be massively reduced and ordinary taxpayers will not end up giving a disguised 'subsidy' to tax tricksters.

In addition, better VAT information will help to uncover other forms of evasion, in particular income tax evasion.

### A BROADER SPREAD

VAT is also levied on a broader range of goods and services. There were many exclusions and special cases with GST. So the system was expensive to administer and many items escaped the tax net.

In addition, VAT spreads the tax load more evenly over both rich and poor.

A poor family's spending is dominated by everyday purchases. These were just about all taxed under the GST system.

But a rich family's budget often extends into sophisticated service areas - like lessons from the golf pro, or fees for accountancy services, or fees for an architect to draw up plans for a 'designer home'.

Sophisticated services such as these escaped GST. This meant the rich man's lifestyle was less subject to tax than the poor man's. And that is not fair.

The point is proved in a simple, basic area such as light and heat. The poor family paid GST on their candles, coal and paraffin. The rich family paid no tax, however, on electricity.

VAT taxes the services, too.

VAT, then, is a fairer, more efficient tax. GST comes off poorly in just about any comparison. It has to go.



Tax money made the rescue operation of the Oceanos possible.

## IT PAYS TO GUARD AGAINST ANTI-VAT HYSTERIA

**BUYER BEWARE!** You could waste money rather than save money if you join in any ill-considered stampede to 'beat the big VAT rise'.

Big VAT rises are **NOT** inevitable. Some prices will come down when VAT replaces the less efficient GST system.

This is not wishful thinking by some government official. This is the view of an independent expert - Professor Louise Tager, a former dean of the Wits Law faculty, now with the Law Review Project and chairman of the VAT watchdog body, VATWATCH.

Professor Tager has warned consumers **AGAINST** being enticed into a pre-VAT spending spree in the mistaken belief that 'everything's going to go up by 10 percent'.

The public should guard against panic buying.

Professor Tager has given some examples of projected cost reductions when VAT comes in.

The cost of advertising could reduce by 11 percent, she said.

She quoted the opinion of a spokesman for the National Association of Automobile Manufacturers (Naama) who had estimated a motor industry saving of R80 million a year in the wake of VAT.

Professor Tager has also warned about misleading advertisements.

She quoted a radio ad from a car dealership. The motor-trader was calling

on people to 'buy now - before VAT'. The implication was VAT would raise car prices.

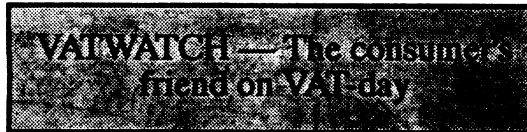
Yet VAT on new cars will come in at 3 percent **LESS** than GST, and therefore it makes sense to delay a new car buy and pocket the saving.

And much less VAT will be levied on used cars bought from dealers, in contrast to the old system whereby GST was applicable on the full purchase price.

On private sales there is no VAT. So, with a second-hand purchase a saving of up to 13 percent is possible.

VATWATCH intervened and that commercial has now been dropped by the company concerned.

The bottomline is ... don't fall victim to anti-VAT hysteria. Think before you buy. Time your purchase. It may pay you to buy before VAT-Day. It may not. Seek advice if you're not sure.



From left to right: Cynthia Chabell, Sally Motlana, Sheila Lord and Ima Wilken, from the VATWATCH Committee.

**CONSUMERS** will have an ally when VAT comes in. An independent body called VATWATCH was launched in mid-July. Its job is to maximise the benefits of VAT for the public and watch out for abuses or tax dodges by businesses.

VATWATCH is headed by Professor Louise Tager, of the Law Review Project. Another leading member is Ma Sally Motlana, president of the Black Housewives' League.

In all, there are 10 members representing community and consumer groups nationwide.

VATWATCH has emphasised it is not in place to lead a witch hunt against business, but to increase consumer awareness of price trends and educate people in the ways the VAT system works.

Consumers can report suspected VAT abuses on the VAT hotline. The number is (011) 484-3392/3/4 Fax (011) 484-3395.

People can also write to VATWATCH, P O Box 47390, Parklands, 2121.

VATWATCH has also encouraged many newspapers and magazines to carry VAT columns. So you might also write to newspapers offering VAT consumer services.

If you come across price rises that seem suspiciously high and VAT is blamed, you can call VATWATCH or VAT-consumer desks that are being set up on newspapers. These will remain in place for many months after VAT-Day as a service to the public.

## YOUR TAX CHECKLIST OF DO'S AND DON'TS

SOME confusion is probably inevitable when VAT comes in. The reason is it replaces GST - but will also cover items which GST never covered. Here is a quick, at-a-glance guide on items which **DO** or **DON'T** attract VAT. It's yours to cut out and keep. Items on which you pay VAT are on the left. Items on which you don't pay VAT are on the right.

### VAT IS PAYABLE ON

### VAT NOT PAYABLE ON

- |   |  |
|---|--|
| Air fares (international)                                       | Bank charges                           |
| Bond repayments   | Brokerage on shares                    |
| Brown bread   | Bus fares                              |
| Car licences  | Crèches                                |
| Dog licences  | Exports (other than to TBVC countries) |
| Free or low-cost accommodation supplied by employer             | Hobbies                                |
| House subsidies   | Interest paid on received              |
| Life insurance  | Maize meal                             |
| Medicine and Services at State & Provincial Hospitals & Clinics | Municipal rates                        |
| Nursery schools   | Parking meters                         |
| Pension fund contributions                                      | Petrol and diesel                      |
| Private sales (homes/cars etc.)                                 | Provident fund contributions           |
| Residential rents   | Retirement annuity contributions       |
| Revenue stamps  | Salaries and wages                     |
| School fees   | Sectional title levies                 |
| State subsidies to welfare organisations                        | Taxi fares                             |
| Trade union fees  | Technikon fees                         |
| Traffic fines   | Train fares                            |
| Unemployment Insurance Fund                                     | University fees                        |
| Workmen's compensation  |  |

**NOTE:** Businesses with turnover of less than R150 000 a year need not register for VAT. They pay VAT on their purchases, but do not levy VAT on their sales. The VAT they paid is merely built into their prices.



Professor Tager

# Bond rates to rise on October 1

SVEN LUNSCHIE

**LEADING commercial banks and building societies yesterday announced shock increases in bond and prime rates of 0.25 percentage points to coincide with the introduction of VAT on October 1.**

And in a double blow to consumers, the institutions indicated that they were considering lower interest rates on savings.

The increases in lending rates come at a time when embattled consumers and businesses were hoping for a cut of about 1 percent in interest rates by the year-end.

However, a cut in rates has become more unlikely, as VAT is set to lift consumer prices and higher interest rates are essential in controlling inflation.

The latest rate increases will push up the bond rate from 19.75 to 20 percent and lift the monthly repayments by R20 a month for homeowners with outstanding mortgages of R100 000.

For mortgages valued at R50 000 the monthly payments will rise by roughly R10 and for bonds of R150 000 by about R40.

## Tax on capital bases

The prime rate — the overdraft rate charged to bank's biggest and best customers — rises from 20 to 20.25 percent, but most businesses and consumers will pay far higher rates.

Bankers earlier this month persuaded the Government to drop plans to impose a turnover tax on banks and instead to introduce a tax on their capital bases as a substitute for VAT.

Industry sources estimate that the tax will cost the country's institutions roughly R220 million in additional charges, and the latest adjustment to rates will enable the financial institutions to recover the costs.

Announcing the increases, First National Bank senior general manager Viv Bartlett said: "As a result of the new tax to be levied on banks and other financial institutions in lieu of VAT, and the resultant squeeze on margins, the bank will have to take appropriate steps to recover these costs."

"In doing so, we are mindful of the further pressures on business and household incomes in the current economic circumstances."

"In a further attempt to spread the recovery of the cost as broadly as possible, we will use the present easier liquidity conditions to work towards a downward adjustment in our wholesale and retail deposit rates," Mr Bartlett said.

Other institutions to follow FNB's lead yesterday included Nedcor, which includes the FNB and Nedbank, and Amalgamated Banks of SA (Absa), the holding company for the UBS Allied and Volksbank.

Standard Bank and Natsal Building Society spokesmen said it was likely their organisations would follow suit after meetings on Monday.

SUNDAY TIMES, Business Times, September 22, 1991 5

## Vat threatens jobs in small businesses

Several corporations say they will deal only with registered vendors. This is a blow to the sub-contracting bridge between big and small businesses.

- Mr Hefferington proposes these solutions:
  - Raise the annual turnover threshold for VAT registration from R150 000 to R500 000 + VAT.
  - Compensate small businesses for compliance costs by a monthly cash rebate against verifiable claims on VAT-registered businesses.
  - The UK could cost the Government up to 50p in the pound to collect VAT from small businesses. No estimate of the cost has been disclosed for SA.

Mr Hefferington says VAT will threaten jobs in small businesses. He also proposes that VAT-registered businesses should be allowed to claim a sliding scale for owner-occupied houses, so that it falls away altogether for SA.

## Shopkeepers stock up

**Business Times Reporter**

SMALL shopkeepers have stocked up ahead of VAT's introduction, says Neil Reid, senior consultant at the Institute of Small Business. These shopkeepers are GST registered and have bought stock to take advantage of their exemption certificates.

Informal shopkeepers also make their purchases on the basis of convenience — where they are made to feel welcome and where they can get the best prices. However, if it is more convenient, informal operators buy stock at retail outlets and then sell it at a profit.

The sector is driven by need and convenience.

Mr Reid says that large quantities of stock are being bought by informal operators. However, if it is more convenient, informal operators buy stock at retail outlets and then sell it at a profit.

## Whites and blacks unite in massive anti-tax campaign

The unions meeting tomorrow will bring as many as two million workers out on a three-day general strike if the government does not bow to their demands.

The unions want a poverty rating for foodstuffs, a poverty relief programme, VAT exemption for medical services and a representative tax advisory committee.

Mr De Klerk has acknowledged receiving a letter from the Co-ordinating Committee of Metal and Building Unions (a white confederation) and 15 other independent unions.

A number of public sector unions will attend, including the Institute of Public Servants, the Public Servants' League and the Natal Provincial Union of Personnel Association.

A provisional date for a week with the SA Employment Consultative Committee.

tee on Labour Affairs which represents the 60 major employers in the country. The SA Chamber of Business will not comment on union threats of a general strike prior to this meeting.

Mr Mahlomola Shosana, first assistant general secretary of Nactu, said there was a lot of anger and frustration at "this regime taxing people who have not voted it into office. But the issue affects more than just the unions, it affects civic associations too."

Mr Shosana said the R100-million townships owe in rates was unlikely to be paid once consumers realised they would also be taxed on electricity and water consumption. "How do the authorities hope to get that money now?"

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MAGNUS HEYSTEK



JAY NAIDOO: Threatened strikes.

And the announcement yesterday by the banks that overdraft rates are to rise by 0.25 percent while deposit rates are to drop, will further serve to fuel the flames of public resentment.

The Government is mad if it goes ahead with VAT in the face of countrywide opposition. The country will be paralysed if it (the Government) does not adhere to the

strictly speaking not VAT, will, however, be

## Govt shrugs off VAT-haters

seen by the general public as a consequence of the introduction of VAT of the tax.

The decision by the banks to mortgage overdraft and mortgage overdraft rates is an effort by the banks to recoup an estimated R220 million that a turnover tax of 0.75 percent will collectively cost them.

The Co-ordinating Committee on VAT, a loosely-knit grouping of 92 organisations opposed to VAT, will be meeting again on Monday to discuss further steps after the Minister of Finance, Barend du Plessis rejected proposals this week that the implementation of VAT be postponed.

The ANC yesterday said, although it accepted the economic upswing.

The SA Chamber of Business (Sacob) earlier this week urged the Department of Finance not to delay the implementation of VAT, saying that such a decision would exacerbate the current economic recession and delay the economic upswing.

The ANC yesterday said, although it accepted the economic upswing.

The ANC yesterday said, although it accepted the economic upswing.

## Barend adds VAT to fire

### ■ MONEY TALK ■

as the store group will obviously add a few cents to many items to recoup this loss. That is the way businessmen operate all over the world and no amount of appeals and threats by politicians will make them change their ways.

Last week further concessions were announced by the Finance Minister, which did not impress anyone.

This last-minute chopping and changing is creating an atmosphere of uncertainty and annoyance. The government should have made the lot of the poor easier right at the start.

On the other hand, one is not impressed by the actions of those opposed to VAT. They have only

been in the news for a long time. The fact is the existing GST system has become totally inadequate. VAT is bringing a lot of unpleasantness in its wake, but promises to help get export performance out of the doldrums.

More important is the hope it will generate sufficient funds to tackle the country's huge socio-economic problems.

Those leaders threatening to exhort their followers to refuse to pay taxes in future should consider their actions carefully. They might be joined by the entire population, because all South Africans are sick and tired of paying sky-high taxes.

If a climate is created which ruins the tax system — as happened in a number of African countries — a new non-racial government will face a crisis.

Support

Miss Lisa Settel-Cosatu national campaign coordinator said she believed the Government had stopped ringing with calls from consumers — and in-creasingly businessmen — who support us, she said.

ANC secretary-general Cyril Ramaphosa said the negotiations between the Finance Ministry and consumer and union groups had been slow down.

He said although the for a consumption tax such as VAT, it calls into question the turning of its introduction.

Entire tax system will collapse, warns Naidoo

# VAT threat by Cosatu

19/9/81

By Paula Fray  
Consumer Reporter

South Africa's largest trade union group says the introduction of value added tax will lead to the collapse of the entire tax system.

The warning came from Cosatu secretary-general Jay Naidoo after tens of thousands of people had marched through Johannesburg and Bloemfontein to protest against the implementation of VAT.

Speaking on Radio 702's "Vatline", Mr Naidoo said: "It will be a national disaster; if it goes ahead." General resistance would spread to PAYE tax.

Earlier, Cosatu assistant general secretary Sam Shiloa warned that if VAT was implemented without effective negotiation, the organisation would engage in spontaneous industrial actions which would culminate in a general strike.

Vatwatch chairman Professor Louise Tager said the impasse between the Government and the Co-ordinating Committee on VAT was complicating the watchdog's task.

The committee said yesterday that mass action, including tax resistance and a general strike, would be discussed at the second VAT summit on Monday. It would seek to point out that there was potential for either conflict or consensus.

The VAT committee, which represents 93 organisations, will also approach the South African Chamber of Commerce and the Afrikaanse Handelsinstituut.

The statements follow a meeting with Finance Minister Barand 'u Plessis on Tuesday, when he said VAT would not be postponed nor



Massed against VAT... protesters take to the streets to show their displeasure with the new tax system.

Picture: Alf Kumalo

would more foods be zero-rated. He announced a 10 percent subsidy on samp, mealie, rice and powdered milk for at least a year.

Housewives' League president Lyn Morris said clarification was needed on how the Minister would subsidise the goods. Also needed was a check on how this would help the needy.

While the Consumer Council welcomed the subsidy,

the VAT committee said it was completely inadequate. Professor Tager said that if the subsidies had an effect equivalent to zero-rating, Vatwatch would welcome them and similar measures.

She said Vatwatch would like to see the subsidies extended to other basic nutritional foods, and to the supply of water, electricity and sewerage in disadvantaged communities.

Earlier in the day, it was announced that postal and telecommunications tariffs would rise by about 8.77 percent on September 30 — and consumer bodies expect more VAT-related increases.

The new Post Office tariffs reflect the VAT-inclusive price the consumer will pay — the PO will absorb the difference of about 1.2 percent. Postage on ordinary letters will increase from 25c

to 27c. Phone rentals will increase by R2 to R26, and phone call charges from 15c to 16.5c a unit. Phone installation will increase from R155 to R170.

Phone rental on party lines will go up to R27 a month, and call charges from 15c to 16.5c a unit. Pay phones are not affected.

Postmaster-General Johan de Villiers said VAT would

push up these charges, which were presently exempt from general sales tax.

Concessionary tariffs for telephones will increase as well: telephone installation rises from R25 to R27, and monthly rental will increase by R1.60 to R19.60.

Mailing a 1 kg parcel will cost R2.70 — 20c more. Air-mail for the same package will cost R3.60 — 30c more.

# Medical taxation slammed

By MATHATHA TSEBU

"When we look at the diseases that black people are being taxed for suffering from, you find that they are tuberculosis, cholera and kwashiorkor. All these are related to the lack of clean water and food."

## Hospital

The responsibility to provide purified water is with the Government but many areas in the rural areas have no water at all, let alone clean water. "These are the people who get sick and are going to be used for being ill due to the deprivation by Government," Mosaledi said. "It is all so unfair," he said, adding: "We are fighting against this but go to a doctor or to hospital."

## Unfair

"This means that 80 percent of the entire nation is not on medical aid and are therefore going to be taxed each time they go to a doctor or to hospital."

# Trade unions meet to talk about VAT

The unions supported the following demands of the VAT summit and in support of demands called for a postponement of the implementation of VAT to allow for negotiations on the following demands:

- Zero-rating of basic foodstuffs, medical services, and prescribed medicines, water and trade union subscriptions;
- the need for more effective measures to control price abuse;
- new poverty relief programmes had to be properly negotiated in South Africa.

## Working group on VAT setup

A working group to investigate the possible effects of the VAT on the working group was set up by the ANC, COSATU and the Johannesburg Child Welfare Society and Operation Hunger.

The committee represents a broad range of organisations including the ANC, COSATU, the Johannesburg Child Welfare Society and Operation Hunger.

The committee has repeatedly requested that the implementation of VAT on September 1 be delayed to allow the shortcomings of the system to be addressed by a negotiation process.

However, Mr du Plessis said that in the interim the earliest possible resumption of investment and economic growth, the date should not be changed.

The working group will consider the technical and administrative problems of implementing VAT, the effects of a VAT summit on August 22 at which committee members will discuss demands regarding VAT on basic food, medicine as well as the adverse effects of the new system on small business.

## 'Human chain' demo

By Sharon Singh

In the first major action against VAT, and in support of demands for industrial restructuring, about 100 000 workers today are set to take to the streets today in a "human chain" demonstration.

The action, organised by the SA Clothing and Textile Workers Union (Sactwu), is in line with a recent COSATU decision to hold demonstrations against VAT.

Sactwu spokesman Ebrahim Patel said between 1 and 2 pm.

# VAT to hit retail sales even further

MARCIA KLEIN

ALREADY experiencing a recession like the last, retail sales would be further affected by VAT. The usually buoyant fourth quarter would show limited growth compared to recent years. Economists expect a 15% drop in retail sales next year.

Speaking at a meeting in Johannesburg, Michael Bester said that the implementation of VAT would lead to a 15% drop in retail sales next year. He said that the implementation of VAT would lead to a 15% drop in retail sales next year.

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## Cosatu: job talks urgent

VERA VON LARSEN

LARGE-scale job losses in SA's main employment sectors underlined the urgency of negotiations between COSATU, employers' federation Saccola and government on a coherent approach to ending retrenchments and creating jobs, COSATU said yesterday.

The latest Central Statistical Service figures, released this week, show that more than 40 000 workers lost their jobs earlier this year in the four main employment sectors: manufacturing, construction, mining and quarrying, and electricity.

National Union of Metalworkers (NUM) secretary Bernie Fanaoroff said Sactwu was demanding a moratorium on retrenchments, and that government negotiate macro-economic policy.

# 'VAT can't be delayed'

FROM PAGE 1

On the side of the government, we have repeatedly expressed our willingness to give support by means of investment in all sorts of help programmes where necessary.

In the light of our own experience with VAT and the effectiveness of VAT exemptions, and the similar detrimental experiences in other countries where VAT exemptions were made, it is clear that the system should not be employed to achieve actual objectives.

Thus, for example, the VAT rate in Britain is, no less than 17.5 percent, which is exceptionally high, but which is directly the result of all sorts of exemptions which have been made in the course of time, mainly as the result of political pressure.

The government thus remains convinced that as far as the VAT system is concerned, we must proceed with the most possible system - which will also be the easiest to implement - and, where necessary, rather provide relief on a direct targeted help basis.

Dr Bernie Fanaoroff, an organiser for the COSATU-affiliated National Union of Metalworkers of South Africa, said Mr Du Plessis had taken the committee's concerns seriously.

The committee's objections stood, and it would convene public meetings to outline its position, he said.

From Page 1

relied in other sectors or to spend on social and development projects, the committee argued.

"We fear that implementation of VAT in its present form will lead to widespread hardship and a backlash against payment of taxes. It is also likely to lead to industrial unrest, with workers demanding wage increases to compensate for the effects of VAT," the memorandum said.

## VAT

problems in the implementation of the new tax and its effect on consumers.

A major concern was: the new system's potential to boost the inflation spiral.

The delay in the purchase of capital goods, which would qualify for an input tax credit, would result in a significant reduction in revenue in the first year, which would curtail government's ability to give



# Barend heads for VATerloo

The government's determination to introduce Value-Added Tax in 10 days' time could lead to protests on the scale of those which greeted Margaret Thatcher's hated poll tax in Britain, reports **FERNAL HAFJAJEE**

In the wake of the Inkathanga scandal, the government faces a new crisis of legitimacy over Value Added Tax which could force it to the wall.

The warning that VAT could be the government's Waterloo, as the poll tax severely damaged the Conservative Party in Britain, was sounded by Congress of South African Trade Unions general secretary Jay Naidoo.

It came amid mounting popular resistance to the new tax, including protest marches this week by thousands of workers in Johannesburg and Bloemfontein and pickets in Vereeniging, Klerksdorp, Rosslyn and Brits.

Trade unions representing close to two million workers and a national federation of civic bodies are guiding their lions for battle on the issue.

A final decision about the next wave of mass action will be taken at the second VAT summit on Monday. But Cosatu, which leads an anti-VAT coalition of 93 civic, union and welfare bodies, has warned that a general strike and rent and tax boycotts could flow from it.

Included in this would be a boycott of PAYE, and labour has strongly hinted that it will put the squeeze on employers to halt PAYE deductions. Demands for a five percent increase to offset the anticipated inflationary effect of VAT are already feeding into pay negotiations.

In addition, the deadlock between anti-VAT campaigners and the state is likely to bedevil negotiations aimed at ending electricity boycotts and restructuring local government.

The VAT crisis escalated sharply this week when, at talks in Pretoria, Finance Minister Barendse rejected compromise demands by the Cosatu-led Co-ordinating Committee on VAT for a six-month delay in the levying of the new tax on basic foods, medicines, medical services, electricity and water. This would be to allow for further negotiations.

The current VAT system, which takes effect on September 30, exempts only brown bread, maize meal, bus and rail transport, rented accommodation and certain municipal services. A wide range of formerly GST-exempt foods and services will be taxable, raising fears of a rise in the cost of living of up to five percent for the very poor.

At the talks, Du Plessis offered subsidies to the tune of R50-million on foods consumed by the very poor. SADF assistance in running a poverty relief programme and additional powers for Va-wach to monitor company costs.

Rejecting his counter-proposals, the committee said it would seek direct talks with President F.W. de Klerk and the South African Chamber of Business and Afrikaner Handelsinstituut, which it accused of giving "unconditional support" to the government.

Last Friday Cosatu, the National Council of Trade Unions and the Confederation of Metal and Building Unions, a key representative of white skilled labour, agreed to call for the postponement of VAT and negotiations on three key short-term demands.

These were the zero-rating of basic foods, medical services and prescribed medicines, water and electricity and trade union subscriptions, effective measures to control price abuse and a negotiated poverty relief programme.

They also urged talks on the entire tax system in the longer term.

Cosatu's campaigns co-ordinator, Lisa Seftel, believes the threat of a national strike is not an empty one, but admits that the success of such action will depend on massive mobilisation.

She said the campaign was likely to cover a

also planned for Potgietersrus in the Northern Transvaal.

The Cape Town-based Western Cape Action Group against VAT has gathered a large group of organisations under its banner and will, in the next two weeks, conduct an intensive campaign against the tax, says publicity officer Rosie Campbell.

The African National Congress, Cosatu, Pan Africanist Congress, Azanian People's Organisation, Workers' Organisation for Socialist Action and a variety of community and service organisations sit on the Co-ordinating Committee on VAT.

The National Interim Civics Committee also said it would join the anti-VAT campaign. Its members were planning marches and would call for new rent boycotts as a measure if no significant gains are made on the VAT committee's.

At a press conference on Wednesday, the National Medical and Dental Association said its members might boycott the tax by not charging patients VAT.

A petition circulated by concerned sections of the medical profession had collected 330 000 signatures protesting against the implementation of VAT on medical services, transportation, food.

© More on the VAT committee on page 10.



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# Alant speaks of difficulty of helping poor via tax

DURBAN. — It is very difficult to bring relief to the poor through the tax system, the Deputy Minister of Finance and National Education, Dr Theo Alant, said yesterday.

Speaking in Durban, Dr Alant said a tax such as GST or VAT could have a serious effect on the poor and with this in mind a number of measures had been taken to relieve the effects of the introduction of VAT at the end of September.

Included in these measures were the zero-rating of maize and brown bread, two basic foodstuffs used almost exclusively by the poor, the exemption of transport, rented houses and all educational services.

He said other measures included targeted assistance while Finance Minister Mr Barend du Plessis had last week announced that all medical supplies and medicines supplied by the State, provincial and local authorities would also be exempt from VAT.

Dr Alant pointed out that these services were already heavily subsidised by the State and met the needs of about 80 percent of the population.

With regard to foodstuffs, Dr Alant said it had been decided to exempt only two basic items, after it was found that under the old GST system most of the exemption benefits were enjoyed by people who could afford to pay tax.

He said the exemptions under the GST system cost about R3 billion while a lot of income was being made about the introduction of VAT by various groups of people and various people and groups opposed to it.

Dr Alant said it was unfortunate they did not make use of the opportunities afforded to them to consult with the government or the Department of Finance on the issue.

"There has never been so much consultation in South Africa about a tax system as there has been with VAT. It started with the appointment of the Margo Commission in 1984 which culminated in the Commission's Report

in 1987 and the government's announcement in February 1988 that VAT was to be introduced," he said.

"The widest publicity was given to Vason's task and everybody in South Africa was invited to participate in the proceedings. A great number of people and organisations accepted this offer and more than 122 amendments were made to the Bill as a result of Vason's recommendations," he stressed.

— Supra.

Furthermore Dr Alant is disingenuous, to say the least, to suggest that the failure to have a follow-up meeting with the Minister is in any way the result of reluctance on Cosatu's part to have such a meeting. After the July 16 meeting it was agreed that the Minister would respond to us on our representations before the Cosatu Congress (July 23) and that a follow up

## Cosatu mass action against VAT in W Tvl

By MZIMASI NGULILE

COSATU's Western Transvaal region will embark on a programme of mass action from Monday to September 30 in an effort to compel the Government to postpone the implementation date of VAT.

A regional congress attended by 400 delegates discussed a range of issues including VAT, the National Peace Accord as well as trade union unity.

The congress called on finance minister Mr du Plessis to postpone VAT so that effective negotiations with Cosatu could be made.

Workers will demonstrate in factories, mines and shops. Pickets at the office of the receiver of revenue and manpower department will be held in all Cosatu locals in the western Transvaal.

On September 21 there will be protest marches in Vereeniging, Sasolburg, Klerksdorp, Parys, Carletonville and Lichtenburg.

A meeting of regional shop stewards council on September 22 will assess the protest and decide on further action.

# Commission received 1 100 submissions on VAT — Barend

THE Value Added Tax Commission had, since August last year, received 1 100 written submissions and evidence from 120 organisations which lead to 112 changes to the draft Bill on VAT, says Finance Minister Barend du Plessis.

Speaking on the first weekly television series to inform the public about VAT, Mr du Plessis said Parliament itself had been given special powers by Parliament to make a further 78 changes to the draft Bill before final approval.

Mr du Plessis said he was satisfied there had been sufficient consultations with interested groups and individuals on the implementation of the tax could no longer be delayed.

Referring to the history of VAT, he said a year after the Margo Commission started its investigations into a new tax system for the country in 1984, it had indicated that VAT would be a suitable tax to replace General Sales Tax.

Mr du Plessis said following further investigations, government had accepted the recommendations in 1987 and published a white paper on the proposals.

A final decision on implementing the tax was taken in 1988.

He added that after the draft legislation was published in June last year the Department of Inland Revenue had held seminars and discussions with various groups across the country. — Supra.

## Advice to Barend

I CANNOT understand how many of Barend's capriciousness can mess up a matter like VAT. I regard myself as just a normal person and average. I would have asked in the following manner and challenge Barend just to do this, if he has the guts to.

Simply change Sales Tax to VAT and come in at 12 percent. Taxable and non-taxable remain the same for VAT.

Re-assess the position nine months later and he will then have plenty of options or alterations to choose from.

1. He can then increase or decrease on 12 percent, or;

2. He can impose VAT on non-VAT items like electricity, telephone, etc. etc.

My bet is that everyone will say leave the non-VAT items — rather increase 12% to X. Easy and straightforward without causing hassles.

— S.D.D.

## Cosatu denies Alant's claim

IT is unfortunate that Dr Theo Alant, the Deputy Minister of Finance, has chosen to try and discredit those who are campaigning for the suspension of VAT, by attacking the organisations concerned, instead of addressing himself to the substantive problems we are raising.

Dr Alant was quoted as saying that "no representations were received from the parties and organisations now accusing the government of not consulting." (The Citizen 24/8/91)

Dr Alant is also quoted as having said that after Cosatu's meeting with the Minister on July 16, 1991, "despite repeated invitations from the Minister of Finance," Jay Naudoo was "unable to fit in a follow-up meeting." (The Citizen 24/8/91)

At the summit on VAT on Thursday, August 22, it was reported by a number of the organisations present that they had made representations on the VAT issue, which they felt had been disregarded. For example, a number of organisations had suggested a follow-up meeting and proposed that basic foods should not be taxed.

As far as Cosatu is concerned, it is totally untrue to say that no representations were submitted on the VAT issue. Something Dr Alant should certainly be aware of.

In our meeting with the Minister on July 16, Cosatu submitted a memorandum on VAT on basic foods, medicines and medical services. We submitted further representations on July 19 on the issue of trade union subscriptions and affiliation fees.

Dr Alant's apparent ignorance of these submissions, perhaps indicates the lack of seriousness with which the government has displayed in relation to people's objections to VAT.

Even more disturbing is the fact that although the Minister was aware that a summit of organisations on VAT was scheduled for August 22, and that he had agreed in principle to hold a meeting with us to hear our concerns, he unilaterally went ahead and announced the changes to the VAT.

It is widely believed that this announcement was deliberately aimed at pre-empting the results of the summit, and avoiding consultations with the main parties who were raising serious reservations about the way in which the government was implementing VAT.

NEEL CHILMAN  
Cosatu Information Officer

THE Congress of SA Trade Unions (Cosatu) will seek an urgent meeting tomorrow with President De Klerk if Finance Minister Barend du Plessis does not respond to serious grievances about VAT, according to a Cosatu statement.

Cosatu's VAT co-ordinating committee, elected at last Wednesday's VAT summit, held its first meeting yesterday to consider steps to be taken to postpone the implementation of VAT until short-

# Cosatu to stage VAT protest

COSATU is to stage a protest march in Johannesburg on September 18 to express displeasure at government's intention to implement VAT. The trade union federation's Witwatersrand president, Mr Andrew Zulu, announced yesterday at Etwaswa near Daveyton. Mr Zulu told 400 ANC supporters at a rally: "We are not prepared to pay Value Added Tax on basic foodstuff, electricity and phone bills. The South African Government has shifted the attacks on ANC members in the townships, but now they are attacking workers in their work places."

## Members

ANC NEC members Mr Chris Hani and Mr Ronnie Kasrils, both also senior SA Communist Party members, also addressed the rally.

Mr Hani said the South African Black Taxi Association's "exploitation on our people" would come to an end under an ANC government.

Transport would be "taken by our people as well, as their means of transport," said Mr Hani.

On the rent issue, Mr Hani said: "Our people must pay the rent according to what they earn, and the housing problem must not be used as a means of exploiting our people. Today you are staying in this place which has no schools, clinics, hospitals and electricity because of capitalism," he said.

## Form

Mr Kasrils called on Etwaswa residents to form disciplined defence committees to ward off attacks by "troobies".

He urged the crowd not to vote "for people like Gataha Buthelezi" when national elections were called.

— Supra

# Cosatu: VAT response or we see FW

Cosatu had been reading the new tax system and urged the public to write letters on VAT to the government.

Mr du Plessis said in a live TV debate on VAT, and it had writers to Mr du Plessis detailing the problems with VAT, but, to date, he had not responded.

Tax experts would already submitted by or against VAT while Cosatu would organise public meetings in major centres.

The statement listed 18 organisations supporting anti-VAT action, including the ANC, the Johannesburg Child Welfare Society and the Hunger — Supra

The committee would also request a meeting with Health Minister Rina Venter and had planned a second VAT conference on September 23 to review progress in negotiations with the government and to decide on further steps to be taken to postpone the implementation of VAT until short-



Coordinating Committee on

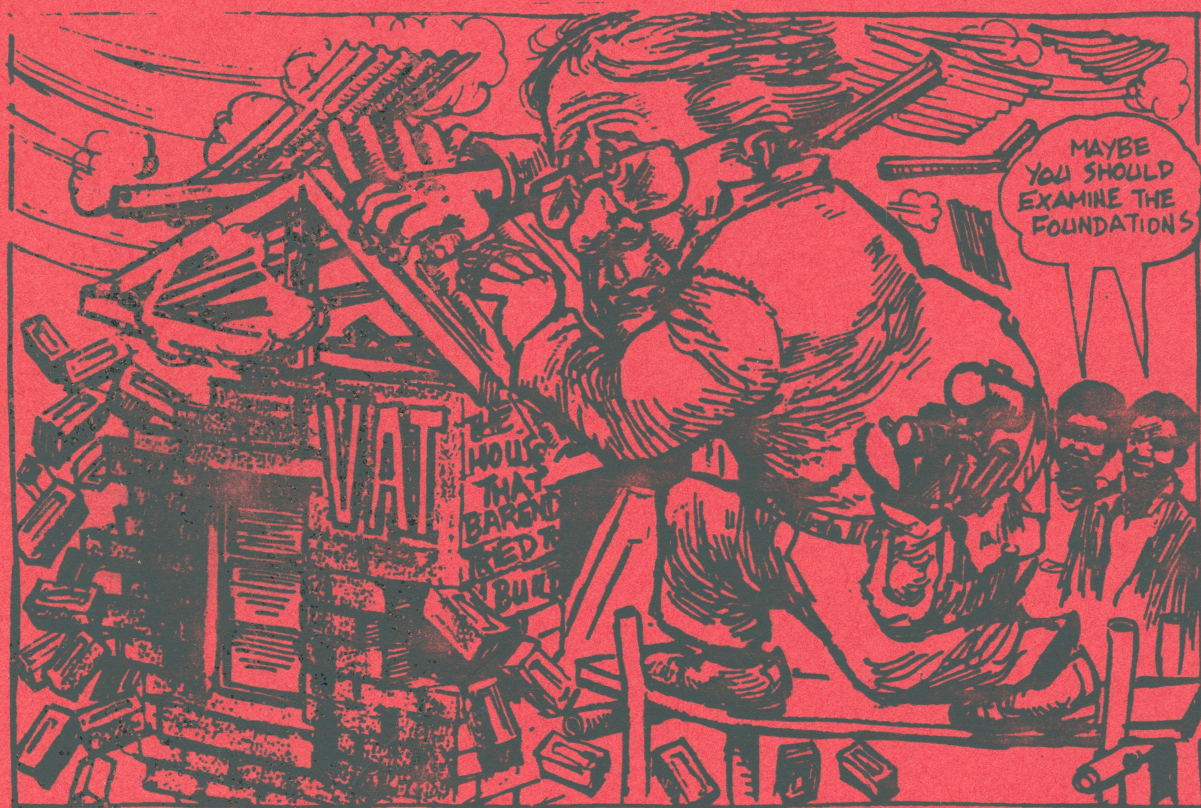
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# Second Summit Meeting on **VAT**



## 23 September 1991





# Coordinating Committee on VAT

P.O. Box 26483 Excom 2023

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fax (011) 833-6330

19th September 1991

The State President  
Union Buildings

Dear President de Klerk

As you are no doubt aware an impasse presently exists between the Department of Finance and the Co-ordinating Committee of VAT relating to the implementation of VAT.

There have been many attempts to meet with the Minister of Finance and his advisors to resolve the adverse effects VAT will have on the majority of people. Below is a brief summary of the deliberations.

1. Many organisations who are part of the Co-ordinating Committee on VAT initially made representations to VATCOM. They feel that their representations were not seriously considered. Most suggested a rate of less than 10% and that basic foods should not be taxed.
2. When the rate was announced and the VAT Act passed, many more organisations made representations and some even held meetings with the Minister of Finance. The overwhelming impression of those who attended these meetings is that they were given an unsympathetic hearing and their concerns were disregarded. This was the experience of COSATU, NACTU, Housewives League and Society for Dispensing Family Practitioners.
3. Concerned about the impact of VAT on workers and members of lower income groups, COSATU convened a VAT Summit on 22nd August 1991 of concerned organisations. Eighteen national trade union, political, consumer, welfare and health organisations agreed at this summit that the introduction of VAT should be postponed until the shortcomings of VAT can be adequately addressed.

The main shortcomings identified in the meeting were VAT on basic foods, medicines and private medical services, electricity and water; the implementation of poverty relief, problems faced by small business and the lack of adequate mechanisms to prevent price abuse. It was felt that an urgent process of negotiations with the Government should be entered into, to solve these problems.

The organisations represented at the Summit decided to establish a Co-ordinating Committee on VAT, to initiate negotiations with the Minister of Finance. It was hoped that such an initiative would have greater success than the separate approaches to the Minister which had occurred so far.

The organisations who endorsed this position at the Summit included the African National Congress, NACTU, COSATU, National Interim Civic Co-ordinating Committee, Public Servants Association, Operation Hunger and the Sunnyside Group. Subsequently, a total of 93 organisations including the PAC, Nafcoc, Fabcos, National Council for the Aged and the NECC have supported the initiative. Addendum A is a list of all organisations presently supporting the demands of Co-ordinating Committee on VAT.

In addition, some members of the corporate sector have come out in support of the call for VAT to be postponed. These include the Premier Group and Pick 'n Pay.

4. On 3 September, a first meeting was held between the Co-ordinating Committee on VAT and the Minister of Finance. At this meeting it was agreed that a Working Group composed of experts appointed by the Government and by the Co-ordinating Committee on VAT should be set up to investigate the concerns raised by the Co-ordinating Committee. The exact terms of reference are spelt out in Addendum B.

5. The Co-ordinating Committee was disappointed by the deliberations of the Working Group. We were dismayed at the lack of facts and figures from the Department of Finance. The government and corporate sector representatives on the Working Group were unable to substantiate many of their arguments that have been made publicly against postponement of the implementation date of VAT. Addendum C contains a report by Prof Denis Davis who represented the Co-ordinating Committee on VAT in the Working Group.

6. A second meeting between the Minister of Finance and the Co-ordinating Committee on VAT to consider the report of the Working Group was held on 17th September. At this meeting the Co-ordinating Committee went out of its way to try and reach an agreement with the Minister of Finance.

We made a number of compromise proposals, which however were also rejected. We were also unable to accept the Minister's compromise proposals. We believe that piecemeal changes are not going to be adequate to address the impact the introduction of VAT will have on the majority of the population.

It is our firm belief that a serious process of negotiations needs to be entered into with the Department of Finance to resolve the many serious problems that the implementation of VAT will introduce. The Co-ordinating Committee on VAT is absolutely committed to such a process.

Our demand for the postponement of VAT should not be construed as a destructive one. We want a postponement for only as long as it takes to satisfactorily resolve the shortcomings of VAT.

# Chain stores vow to pass on VAT savings

MAJOR retail chains and manufacturers yesterday made a public pledge to pass on to customers the cost benefits derived from VAT.

They also promised their pricing policies would fairly reflect these benefits.

In a separate statement, Woolworths announced it would subsidise until October 13 the prices of basic foodstuffs previously exempt from GST.

The pledge by 17 companies, including Pick 'n Pay, Checkers, Spar, Metro, Score, Game, Fedfood, Premier Food Industries and Unilever, arose from a meeting called by Vatwatch last week and out of concern that there would be huge price hikes following VAT's introduction.

Major companies were called on to adopt the pledge which urged suppliers to pass on to them any cost benefits, to pass these on to customers, to ensure pricing policies fairly reflected any VAT benefits, and to encourage others in the business community to adopt the pledge.

Vatwatch's Prof Louise Tager said the pledge was a message aimed at both consumers and business in an attempt to make them aware of VAT savings.

"I am very concerned that the full implications of the system have not connected in the minds of the entire business section," she said.

Tager pointed out that because of the savings businesses would enjoy, prices should not increase at all.

Some signatories said yesterday the expected savings derived from VAT would be minimal.

MARCIA KLEIN  
and SUSAN RUSSELL

Premier Food Industries MD Willem de Kok said while his group subscribed fully to the pledge, it did not expect any significant savings to flow through following the introduction of VAT.

He said Premier had done a straight calculation on the effect of the introduction of VAT on its food basket. With only brown bread and maize meal being VAT exempt there would be a 4.8% increase on the price of the basket.

Fedfood MD Jan du Toit said his group would make every effort to keep the food prices as low as possible. However, he said the huge figures which had been mentioned in terms of savings on input tax were hypothetical, especially regarding the mass produced products where savings frequently were only a fraction of a cent.

The first major group to announce it would actively pass on VAT savings to customers was Woolworths.

Woolworths financial director Ray Schur said more than 200 basic food items which were free of GST would be subsidised by Woolworths, effectively keeping the prices at pre-VAT levels.

Meanwhile, Cosatu spokesman Neil Coleman said while the signatories' intentions were laudable, this meant the public had to rely on the good faith and promises of retailers.

What was needed to prevent price abuse, Coleman said, was statutory enforceable safeguards.

© Comment: Page 10

# Doctors slam Govt over VAT

ON the eve of a massive anti-VAT summit today, more than 300 angry doctors yesterday resolved to resist Value Added Tax on medical services and prescription medicines unless the Government zero-rated them.

One of the possible strategies the doctors put forward was to refuse to collect VAT on their services or pay VAT for those services to the Government - a proposal they will put to the

Cosatu-led Co-ordinating Committee on VAT summit in Johannesburg today.

The summit, of representatives from about 93 organisations, is meeting to formulate a plan of action against VAT which comes into effect at midnight on Sunday.

The dispensing practitioners also called on State President FW de Klerk to debate openly on prime time television the morality of introducing VAT on medical services and prescription medicines.

"Since the Minister of Finance (Mr Barend du Plessis) refuses to discuss the morality of the issue, perhaps the President will," one doctor said.

Dr Joe Maelane said doctors rejected "the serious blunder made by so-called VAT experts" who included health in the VAT net.

Western Cape chairman of the Dispensing Family Practitioners' Association Dr R Rapiti said New Zealand was the only other country to apply VAT on health.

"Tax on health care is an act of sheer financial desperation," Rapiti said. However, the desperate ones were blacks and poor whites.

He predicted that VAT on medical services would lead to mass resignations from medical aid societies, the filling of overcrowded State hospitals and the demise of more medical aid societies.

"We are not opposed to VAT, we are just saying the way it is being implemented is not good," Rapiti said.

## Dispensing doctors to fight VAT

DISPENSING practitioners have added their voice to protests against VAT on medical services, prescription medicines and essential foods. At a meeting held at a Jan Smuts Airport hotel and attended by hundreds of doctors, the Dispensing Family Practitioners' Association resolved to:

□ Call on all members not to collect VAT or to pay VAT to the Receiver of Revenue;

□ Call on the Medical Association of SA and the National Medical and

Dental Association and other bodies to make a similar call;

□ Call on the public not to pay VAT to doctors;

□ Call on medical aid schemes not to pay the 8% in lieu of VAT to doctors;

□ If they do, to pay it into a trust fund established by the Dispensing Family Practitioners' Association.

A second motion called on President FW de Klerk to debate on television the morality of introducing VAT on medical services and prescription medicines. — Sapa.

## Marchers

hold up  
19/4/91  
traffic

By Peter Davies

Congress of South African Trade Unions supporters turned Johannesburg city streets into a swaying, chanting sea of humanity yesterday during a protest march to voice opposition to the Government's implementation of VAT.

The march, which was peaceful and well organised, was marked by a heavy police presence and disrupted lunchtime traffic.

It began in Plein Street at noon and ended with the handing over of two memoranda to the station commander at John Vorster Square, Colonel A J Matthee.

One letter, addressed to the Minister of Law and Order called for a speedy, decisive end to township violence which Civic Association of Southern Transvaal general secretary Moses Mayekiso said was now spilling over into the workplace.

The other letter, addressed to Finance Minister Barend du Plessis, registered the "poverty stricken and underprivileged workers' opposition" to the implementation of VAT.

Sam Shilowa, assistant general secretary of Cosatu, said the Government's insistence on implementing VAT would have a negative effect on the economy.

The secretary of Cosatu's Witwatersrand region, Amos Masendo, said that if the Government failed to "reconsider its stance", Cosatu would consider using the only power at its disposal.

"We don't have the power to vote the Government out. Our only power is to withhold labour."

Colourful banners turned the city centre streets into a multi-coloured stage.

"Vote VAT", "VAT on food and water kills" and "VAT — a national disaster" were some of the messages supporters had for the Government.

# Militant doctors add fuel to VAT outcry

SOUTH Africa's dispensing practitioners yesterday added their voices to the outcry against the imposition of Value-added Tax on medical services, prescription medicines and essential foodstuffs.

At a militant meeting, held at a Jan Smuts Airport hotel and attended by hundreds of doctors, the Dispensing Family Practitioners' Association resolved to:

• Call on all members not to collect VAT or to

pay VAT to the Receiver of Revenue.

• Call on the Medical Association of South Africa (Masa) and the National Medical and Dental Association (Namda) and other medical bodies to also make this call.

• Call on the public not to pay VAT to doctors.

• Call on medical aid schemes not to pay the eight percent in lieu of VAT to doctors — If they do, to pay the eight percent into a trust fund established by the association.

A second motion passed called on President FW de Klerk to debate openly, on prime time television, the morality of

introducing VAT on medical services and prescription medicines.

"Since the Minister of Finance refuses to discuss the morality of the issue, perhaps the State President will," one doctor said.

"We have had no guidance from the Medical Aid Association (Rams) or Masa on how to deal with VAT," said one senior doctor.

He held Rams and Masa responsible for the "immorality of having to tax the patients who come to our rooms".

"The Minister is taking Vat from a first world country and trying to apply it here. He has always said he is not prepared to debate the moral issue of Vat on medical services. Why?"

He said lawyers would never accept the "imposition of tariffs forced on us by Rams as a scale of benefits".

An Empengeni doctor said Masa had lost its clout and credibility.

"I believe they should be investigated by a com-

mission of inquiry," he said, before relating incidents which he said were "a legal matter".

He believed in a single medical aid society for South Africans.

Masa's Dr Reg McGillis said his association undertook to compile its representation to the Minister, who had said he would review the situation in six months' time.

He said Masa had never supported VAT on any medical services — Sapa.



## Delay VAT, says Cosatu

COSATU general secretary Jay Naidoo has insisted on the *Sowetan*/Radio Metro Talkback Show that the Government should delay the implementation of Value Added Tax.

Naidoo said on Friday that the tax would cause massive social upheaval as it would anger many poor people.

He said Cosatu supported VAT in principle. However, the Government was being undemocratic in implementing the tax without broad consultation with

a representative spectrum of South Africans, Naidoo said.

He said opposition to the tax was composed of extremely divergent political parties and organisations including Cosatu and National Council of Trade Unions.

Naidoo said the tax only served the narrow interests of big business. Moreover, the Government was merely implementing proposals by the International Monetary Fund.

Naidoo threatened that

the union would embark on spontaneous industrial action unless the tax was delayed.

Replying to Stanza's question from Ennerdale as to why the tax should not be tried out first and checked for effects, he said: "It is dangerous, the Government has a track record of abusing taxpayers' money."

Patrick from Berea said the tax was unfair as it would adversely affect the underpaid.

IT SEEMS safe to say that this week will see much more snarling and growling over the issue of the new Value Added Tax (VAT) due to be introduced at the end of the month.

Cosatu, it appears, is set to make VAT, and the wider issue of all taxation, a political battleground.

No taxation without representation, is their cry.

And indeed, there is much justice in that. For years, through income and various other forms of taxes, blacks have been paying significantly towards the income of the country without having any say at all in how it is run.

The tax revolt, if such a thing is coming, would of course be illegal and, for that reason, it must be handled with great delicacy and skill.

But it would also be a dramatic illustration of black impatience and of our desire that the old order should make way for the new without any delay.



**GOVERNMENT REVENUE:** South Africans are paying too much, according to worldwide trends, reports REG RUMNEY

**T**HERE is little scope to increase taxes in South Africa, according to South African Fiscal Think Tank chairman Marius van Blerck.

The reason, Van Blerck remarks in a paper on international tax trends delivered at a seminar this week, is that South Africa is effectively one of the most highly taxed nations in the world in all categories of tax, with the notable exception of social security taxes.

Van Blerck looks at both the overall tax burden and the distribution of tax in South Africa and abroad, using International Monetary Fund, SA Reserve Bank and Receiver of Revenue statistics.

The overall tax burden is measured by taking the amount of tax central government receives as a percentage of the measure of national activity, gross domestic product (GDP).

In South Africa, central government revenue as a percent of GDP was 24.6 percent in 1987 — up from 21.4 percent in 1975.

The corresponding average for industrialised countries in 1987 was 27.4 percent; the figure for developing countries in Africa was 21.6 percent.

South Africa is more of a developing than an industrialised country, though it is ahead of many other African states.

Even more extreme is the disparity between South Africa and the rest of the world in the areas of direct tax on income, profit and capital gains.

In South Africa in 1987 central government got 51.2 percent of its tax from this source.

The average for the world was 37.2 percent.

## SA's tax burden: Enough already



Van Blerck comments that the high direct tax burden doesn't include a capital gains tax.

So the imposition in South Africa of a capital gains tax will have to be accompanied by a substantial drop in income tax, or the combined burden will be too great.

So what scope is there for raising taxes? Van Blerck argues that can only happen if there is

higher economic growth.

Turning to the distribution of tax, Van Blerck expands on the shift in the tax burden from companies to individuals.

This shift, he says, needs to be examined in context.

"Firstly, part of the shift has resulted from external factors, namely the softening of a wide range of mineral prices since 1985 which has seen the profitability of the mining sector decline dramatically.

"Secondly, despite the shift, the corporate tax burden in South Africa is, relative to the individual burden, still high by OECD standards... in 1987 in the OECD countries personal tax generated on average four times as much as corporate

tax; in South Africa in 1987 personal tax only generated about 50 percent more than corporate tax."

South Africa is most out of line with most other countries when it comes to social security taxes — basically a form of compulsory national insurance.

In South Africa social security tax means essentially the Unemployment Insurance Fund, and stood at two percent of central government revenue compared with the world total of 28.1 percent.

South Africa's social security tax figure is close to the average for developing countries in Africa, at 1.8 percent. But since it is better developed than most countries on the continent, it should arguably have a higher proportion of such tax.

Van Blerck also surveyed tax trends between 1980 and 1990 in 40 countries chosen at random. The average rate of corporate tax in those countries dropped from 45.80 percent in 1980 to 40.36 percent in 1990. Of those countries, 13 have dropped their rates by more than 10 percentage points and only three have raised their rates by five points or more.

The average rate of individual tax in the world dropped far more dramatically from 1980 to 1990, from 47.77 percent to 47.77 percent. Planned future cuts could push the average below 40 percent by 1992, says Van Blerck.

Only 24 countries raised their rates by more than 10 percent in this period, led by Tanzania with a 55 point reduction. Zimbabwe, raised individual rates by 10 points, but may soon be reversed. The trend indicates the extraordinary nature of individual tax reform is that the 40 countries surveyed imposed maximum tax rates of over 60 percent in 1980, but only four did so in 1990 and of these, one (Sweden) was reducing its rate to 50 percent (down from 60 percent in 1980)."

## Two-tier VAT system is the answer

THE government should not have dropped the Value-Added Tax rate to 10 percent.

Instead it should raise the rate to 15 percent — and tax a wide range of basic foodstuffs at a special lower rate of about 5 percent.

This is the simple solution, according to South African Fiscal Think Tank chairman Marius Van Blerck, to the VAT conundrum, since most opposition to VAT tends to focus on its effect on basic foodstuffs.

It is also the fairly widespread practice adopted in other countries.

"There is every likelihood that this system will generate VAT revenues at least 40 percent higher than our current system."

Van Blerck reckons that removing problems with VAT is essential for another important part of tax reform, reducing the corporate tax rate to 40 percent.

He notes the government has expressed it doubt that it can continue the process of reducing the corporate tax rate from its present 48 percent, after cutting it from 50 percent earlier this year. Hence his solution.

In accordant with worldwide trends, South Africa has seen a systematic removal of tax deductions in the last decade, resulting in an increase in the tax base.

"However, at the same time we have experienced an increase in corporate tax rates... This aberration could not have occurred at a worse time for South Africa, given the simultaneous sanctions campaign, the descent into inflation and the softening of a wide range of mineral prices, and it has undoubtedly contributed to the low rate of gross domestic fixed investment in the country since 1985."

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# Cosatu march in two cities against VAT

By Naomi Klisch  
and Sapa

**TENS OF THOUSANDS** of supporters of the Congress of South African Trade Unions (Cosatu) marched through Johannesburg and Bloemfontein yesterday, threatening to strike if the government goes ahead with value-added tax at the end of this month.

In Johannesburg, the bulk of the marchers converged on John Vorster Square police headquarters, where Cosatu's assistant general secretary, Mr Sam Shiloa, presented two memoranda. One was addressed to the Finance Minister, Mr Barend du Plessis, and

the other to the Law and Order Minister, Mr Herman Kriel.

There was a strong police and traffic police presence along the marchers' route from Wanderers Street. The march began at noon and the crowd dispersed shortly after 2.30 pm.

Marchers singing "freedom songs" bore banners bearing slogans such as "Don't tax building materials", "Zero rating on basic foodstuffs" and "Du Plessis, listen to us or face national disaster".

The regional secretary of Cosatu's Witwatersrand branch, Mr Amos Masondo said later the memoranda were on two main issues: violence in the Black community and the implementation of VAT.

He called on the government to "stamp out the violence".

In Bloemfontein, about 6 000 demonstrators marched to police headquarters, where Cosatu's treasurer, Mr Arthur Mopolai, handed over a memorandum for Mr Du Plessis.

Addressing demonstrators in Johannesburg, Mr Shiloa warned the government that Cosatu would engage in industrial action, culminating in a general strike.

It would meet its rival, the National Council of Trade Unions (Nactu), to plan the action, which might take place in November.

A large police contingent kept a close watch on the proceedings, but there were no incidents.

Cosatu and Nactu, through the Co-ordinating Committee on VAT, have recently stepped up calls for the implementation of VAT to be delayed to give them time to negotiate a better deal.

They say inflation will increase by three to four percent and the government has provided no evidence of cost benefits filtering to the consumer.



**Demonstrators protest against value-added tax in Johannesburg yesterday. Several concessions have been made by the government, including proposing to subsidise various basic foods for a year.**

## Confusion over VAT slammed by opposition

Political Correspondent

**CAPE TOWN.** — Opposition spokesmen were sharply critical yesterday of the confusing stream of last-minute changes to the VAT system, but agreed that VAT must be introduced on September 30 to end the uncertainty, which affects consumers, producers, manufacturers and retailers.

The Conservative Party spokesman on finance, Mr Casper Uys, said the public was "totally confused", while the economic effects were even more serious.

The Democratic Party's spokesman on consumer affairs, Mr Jasper Walsh, said of the many changes: "It has been a costly and unnecessarily inefficient exercise."

Mr Uys asked how the

Minister of Finance, Mr Barend du Plessis, expected businessmen to prepare for VAT's introduction in little more than a week, when every few days there were new additions and deletions to the system.

It was clear that the business and industrial sector were already delaying purchases of capital goods to take advantage of VAT rebates and zero ratings when these were introduced. There could therefore be no further delaying in introducing VAT.

He found it strange that when the CP and others in Parliament objected from the start to VAT on basic foodstuffs, hospital services and prescribed medicines, these were brushed aside. But when Cosatu and the ANC ob-

jected, very late in the day, the Minister received delegations from them and listened to their arguments.

Mr Uys also questioned the proposed subsidy of 10 percent on crushed maize, and "possibly" also on beans and lentils. "How do you charge 10 percent on one hand and subsidise by 10 percent on the other, and at what level do these transactions take place?" he asked.

"We still say hospital services must not be taxed — you do not tax unfortunate illness," said Mr Uys.

Mr Walsh said that, in fairness, direct subsidies for basic foodstuffs were to be welcomed as these would provide food relief for the poor.

### Not included

A Sapa report on Finance Minister Barend du Plessis' meeting with the Co-ordinating Committee on VAT incorrectly stated that "crushed wheat would be subsidised by the State for at least a year."

The basic foodstuffs to be subsidised are samp (stampinities), crushed maize or mealie rice (mie liegruis) and milk powder.

Subsidies on dried beans and lentils could still be considered, depending on their availability. Crushed wheat is not included. Sapa

## Post and phone costs join VAT price hike

Citizen Reporter

**POST** and Telecommunications tariffs will increase by an average of 8.77 percent from September 30 to accommodate value-added tax.

The Postmaster-General, Mr Johan de Villiers, announced in Pretoria yesterday the increase was necessary to defray the effect of the introduction of VAT on these services.

These services are currently exempted from

Telkom SA is to increase telephone rentals by R2 to R26 a month for a automatic exchange connections and R27 a month for party lines. The telephone call charge will increase from 15c to 16.5c while the installation fee for telephones will increase from R155 to R170. The tariff for pay-phone calls will not be adjusted.

Mr De Villiers said concessionary tariffs that apply to social and certain

other pensioners had to be increased. The telephone installation fee for these clients would increase from R25 to R27 and the monthly rental from R18 to R19.60.

The Post Office has announced that postage on an ordinary letter would increase from 25c to 27c, while the tariff for a parcel of 1kg would be increased from R2.50 to R2.70. If the same parcel is dispatched by air mail, the tariff would increase from R3.30 to R3.60.

# VAT could rise to 18pc before long: ex-official

By Keith Abendroth

A FORMER top ranking official of the Department of Finance and one of the architects of GST yesterday said it would "not be long before we see piecemeal increases in VAT until it reaches up to 18 percent".

Dr Frits Berkhout, a retired former director of internal economy in the department, claimed the state appeared to have made a "blunder" in its estimates of VAT receipts and was heading for a shortfall of between R5 billion and R7 billion.

Using official Central Statistics Services and Reserve Bank figures, he said it could be shown that the state was "over-shooting" in its estimate of an income of R21.5 billion from VAT.

"Somewhere along the line an error of judgment has been made in calculating VAT revenues, and my prediction is that it will not be long before we see massive increases in the tax in line with the VAT rates of the richer western European countries," he said.

"By now, the government's salami policy — a slice at a time — is a well-known soft-soaping approach."

It was far from the truth to advertise and explain that VAT was "leakproof" and the best tax for the country.

"At best, it prevents some of the leakages caused by Black traders and the fast decreasing numbers of papa-and-mamma shops," he said.

Without proper policing of the tax, invoice manipulations and collusion between seller and buyer could not be avoided — and the consulting bureau set up by him as a retirement activity had already found more than 50 serious loopholes in the VAT system.

Leakages in the GST system, said Dr Berkhout, should be blamed on politicians who had let themselves be influenced for personal and political gain, or by "pure stupidity" to create for manipulators a system in which it had been possible to syphon off at least R6 billion to R7 billion in GST receipts.

And, he said, the coun-

try's politicians did not seem to have an inkling that the VAT system which, in the final analysis, had been forced on the country by the International Monetary Fund — would create a situation detrimental to conciliatory politics.

Some politicians, he said, seemed to be leaning over backwards to curry favour with the IMF, seemingly hoping to be granted an IMF credit line to support propaganda for party-political motives.

Others, said Dr Berkhout, were glad about the introduction of VAT because it saved them from "cleaning up the GST mess by taking back

the exemptions granted in the past 10 years and streamlining the Sales Tax Act in such a way that it would become a more acceptable, compassionate, reliable, and economic revenue system."

A much better solution to the whole problem, said Dr Berkhout, would be to streamline the GST system, taking back the many exemptions which had been given and leaving the private sector a contributor to indirect taxation.

"This, in turn, would allow for a GST rate of less than 10 percent, without extending the present taxable private consumption of goods and services."

## Business urges Barend to go ahead with VAT date

By Paula Fray  
Consumer Reporter

On the eve of countrywide protests against the implementation of Value Added Tax the South African Chamber of Business has urged the Minister of Finance not to postpone the introduction of the new tax.

VAT comes into effect on September 30.

The Congress of South African Trade Unions plans to take the controversial issue to the streets tomorrow to urge government to delay the implementation of the system until effective negotiations have taken place on the tax.

Pickets were held at the Vereeniging and

Klerksdorp Receiver of Revenue offices yesterday while countrywide protest meetings have also been planned.

In a statement the Coordinating Committee on VAT said the pickets would continue until September 30, the date when the controversial tax would be implemented.

However, Sacob said yesterday any postponement in the implementation of VAT would exacerbate the current poor business conditions and delay the start of any new economic upturn.

"This could, in turn, have a severe impact on employment levels."

The organisation said it had urged Finance Minister Barend du Plessis

not to postpone the implementation of VAT.

"There are clear indications that there will be a significant revival in the economic activity in the economy when VAT is introduced."

Furthermore, Sacob said, the private and public sectors had already invested large sums in the new tax system and postponement would be "an enormous national waste".

Sacob also appealed to big business not to refrain from purchasing from smaller firms that were not registered as VAT vendors who would not furnish VAT invoices.

● Help keep check on rises — Page 7

## Doctors threaten mass action over VAT

Citizen Reporter

THE Society of Dispensing Family Practitioners (SDFP) — the biggest representative body of doctors who dispense their own medicines — yesterday warned of joining in mass action if the government does not suspend VAT.

The society's co-ordinator, Mr Fazel Mukadam, said in Pretoria that a meeting of 22 organisations, hosted by the society in Durban on Wednes-

day, had unanimously decided to demand the immediate postponement of the new tax.

This move follows a growing flood of protest and threats of mass action if the government does not negotiate the more contentious aspects of VAT.

The SDFP meeting was held on the same day as a similar meeting in Cape Town of trades unions and community organisations.

At the Cape Town meeting, hosted by the African National Congress, the National Council of Trade Unions and Cosatu, a warning was sounded of "mass protests" if the government does not heed the call to suspend VAT.

The SDFP meeting also decided unanimously to demand that the government consult with representative organisations on the introduction of VAT.

"Special consideration should be given to the zero rating of all health and welfare services basic necessities and foodstuffs."

Mr Mukadam said it was recorded that if the government did not respond his society was "fearful of the grave consequences that may ensue".

Among the other bodies represented at the SDFP meeting were the Medical Association of South Africa, Namda, Midlands' Doctors' Guild, IMA, ANC, NEC, Academy of Family Practice, Medical Graduate School, Durban Doctors' Guild, Lancet, WU, Doctors' Guild, North, Durban React Cam, Durban South, Durban Guild, National Education and Workers Society, Durban, Porwa, SAHW, CO, Academy, Phoenix Hospital and the SA Communist Party.

## Barend gives VAT critics a warning

FINANCE Minister Barend du Plessis agreed yesterday to establish a working group appointed by government and the VAT co-ordinating committee to study objections to the new tax.

The agreement was reached when Du Plessis met members of the committee established by Cosatu, the ANC and other organisations which objected to the VAT concessions and exemptions.

The working group was expected to report back on September 18, five weeks before VAT was introduced, and the date was a joint statement issued yesterday.

It would consider the technical and administrative aspects of implementing VAT, the effect of a delay in implementation, the possible transitional effects, alternatives to the present proposals and

the revenue requirements of the new tax.

The statement said the meeting "noted Du Plessis' view that in the interim it was essential to establish a working group to study the objections to the new tax. The group would answer certain technical questions, policy issues would take longer to resolve, he said.

In its memorandum the Minister, the committee said it had turned subject



# Barend's cle 25/8/91 stick packag

By CURT VON KEYSERLINGK

THE GOVERNMENT painted itself into a corner that forced last-minute changes to Vat this week, say businessmen.

"It's crisis management," says a business leader, who asks not to be named.

"Although the International Monetary Fund recommended 13% Vat, the Government was warned that anything over 10% would cause political problems."

Ernst & Young tax partner David Clegg says: "Given the decision to go with 12%, the Government should have coupled publication of this figure with an announcement of huge projects to help the poor."

"The relief measures announced beforehand were not enough."

Business Times has learnt that Finance Minister Barend du Plessis decided to reduce Vat from 12% to 10% as late as last Sunday. He worked into the night to draft the revised Vat structure.

It received Cabinet approval on Wednesday shortly before being announced.

The result is a package that economists say will hinder economic growth.

## Fuel

Aubrey Dickman, honorary professor of economics at Wits Business School, says: "The amendments were probably necessary to meet popular opinions and political demands, but they do not help tax reform and long-term growth."

"They merely defer the inevitable. People may feel they have won this round against the Government, but concessions made now will have to be paid for by painful adjustments in the future."

He considers the plan to recover revenue lost through the lower Vat rate by raising the fuel tax to be a retrogressive step because it negates Vat's cost-containing effects.

Because fuel tax is not rebateable, its increased cost will cascade through all businesses whose costs are affected by the price of petrol and diesel. This is so to a lesser extent as a result of increased excise duties.

"I accept that there should be a tax on fuel. But a higher fuel tax is very much second best to higher Vat."

"Reducing the Vat rate will also increase the Government's deficit which has inflationary implications and could delay the reduction of nominal interest rates."

"Mr Du Plessis says the lower Vat rate could delay the reduction of corporate tax and the top marginal income rate to 40% which the Government hoped to achieve in the next three years."

"Our effective company and personal tax rates are

high by world standards. If they are not reduced, SA will remain relatively unattractive for both foreign and domestic investment."

Rand Merchant Bank economist Rudolph Gouws says: "Ideally, the Government should not have compromised on Vat. However, it had no option but to take account of political realities."

Professor Dickman says of the claim that Vat takes money from consumers and puts it in the pocket of business: "This does not sound very good, but we must remember that the business sector is the key to the country's economic survival."

"If we do not have investment we will have no new jobs."

Professor Dickman says Vat is a vital element of the process of transition, courageously embarked on some years ago, and the additional economic restructuring needed to make industry more competitive.

A sound Vat system will allow for the reduction of company taxes. This will permit a phased reduction of import tariffs as SA manufacturers will be better able to compete with foreign producers who pay low company taxes.

This, in turn, will enable them to sell at more competitive prices in both domestic and foreign markets.

## Boycotts

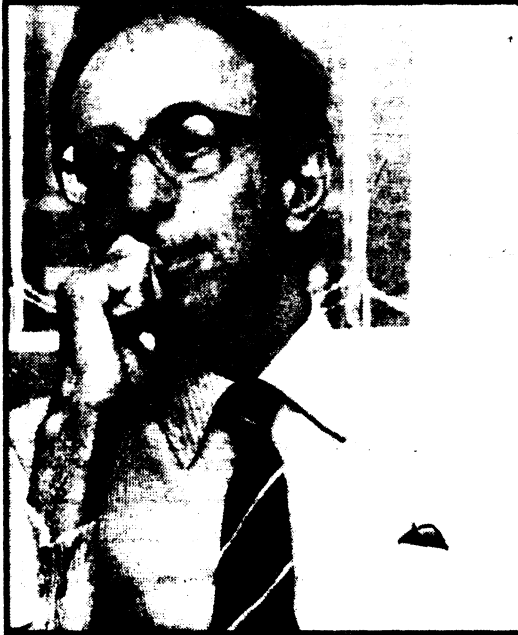
It will also reduce the need for costly export subsidies, financed by the taxpayer, which are in any event unacceptable in terms of the General Agreement on Tariffs and Trade (GATT).

Another economist says one advantage of the Vat concessions is that they will increase revenue from those blacks who escape their share of tax burden through rent and electricity boycotts.

From now on they will pay higher excise taxes on such things as television sets, cigarettes and beer, more than 85% of which is drunk by blacks.

Black taxi operators, who do not receive State subsidies, will pay more for petrol.

Mr Du Plessis said at his news conference that increased excise duties could not be called a burden on the very poor because "those who cannot afford to buy food certainly cannot afford these items".



AUBREY DICKMAN: The worst merely deferred by the concessions

## Sacob pleads for consumer

Business Times Reporter

THE SA Chamber of Business (Sacob) has appealed to business to pass the benefits of VAT to customers.

"Business is under the public microscope on its role in Vat. Competition must be seen to work," says the country's largest employer organisation in a four-point programme for business.

The call comes amid renewed claims that suppliers and retailers have increased prices ahead of the new tax.

Louise Tager, head of the Government-appointed watchdog body Vatwatch, says that in recent months a wide range of post-Vat price increases have been announced on products and services currently exempt from GST.

They range from short-term insurance and airfares to theatre season tickets.

Professor Tager appeals to business to calculate post-Vat prices again and to take into account the cost benefits that will result from Vat.

"If business uses the imminent introduction of Vat alone as a reason for increasing prices it will be a severe blow to attempts to curb inflation."

Sacob says capital intermediate goods have been exempted from Vat in the interests of economic growth, job creation and international competitiveness.

The cost savings will take time to permeate through the system, depending of the rate at which investment decisions are made. Compliance costs are also high.

General price increases also make it unlikely that the full cost savings can be passed to consumers.

"But industry and commerce should be seen to be identified with tangible benefits from the implementation of Vat."

The rate cut to 10% can also be included in constructive marketing strategies, says Sacob.

## Renege

The organisation also warns business that failure to register with the Receiver of Revenue can lead to higher costs and the inability to claim credits.

Companies must ensure they are geared to handle Vat before September 30.

Sacob says businessmen should "take every opportunity to urge Government not to renege on its commitment" to lower personal and company tax.

"Unless Vat is eventually supported by personal and corporate tax relief, economic performance will continue to be adversely affected."

"Direct taxation is now the Achilles' heel of tax reform."

## COMMENT

# Tax dodge

IT IS no way to introduce a new tax. But perhaps we should spare some sympathy for Finance Minister Barend du Plessis. The clamour over VAT and the row over government's dirty tricks spending have put him under tremendous pressure, so there are grounds for excusing an unsure political touch.

This week's VAT decisions certainly bear the hallmarks of crisis management and of some lack of sensitivity to the political dynamics of today's South Africa. It was over a year ago that Du Plessis and his Cabinet colleagues decided we were to have VAT, and that was to be the end of the story.

That might have been fine under the old regime, it doesn't work like that any longer. These days, consensus is all important. It's no good blaming the politicking of extra-parliamentary groups when VAT was being formulated last year -- politicking which might have prevented opposition groups from publicly participating with government in tax planning. The realistic response to approaches blocked by public posturing would have been private approaches to opponents. In any case, Du Plessis was distracted by his accession to his party's Transvaal leadership and last year's events.

Government was given timeous and politically realistic advice by organised business and the other interest groups it consulted -- advice that the initial rate be no higher than 10%, that social exemptions or zero-rates be applied and so on. Instead it almost went along with the IMF, which suggested 13% and no exemptions.

This is all water under the bridge and, on the whole, critics of the original VAT proposals will support the present relaxations. Cutting the proposed initial rate to 10% could take some of the wind out of Cosatu's sails and leave employers less charitably inclined towards the union federation's call for compensatory pay increases.

On the other hand, business is unlikely to be impressed with some of the proposals to make good any shortfall in government's VAT haul. The National Party's election pledge of lower personal and corporate tax rates is about to be broken, Du Plessis warns. That's not surprising. The party has already reneged on its pledge to cut the budget deficit to 3% of GDP and to continue with privatisation.

Slippages in income tax cuts will influence business decisions on fixed capital investment -- the very spending VAT was intended to encourage and the very spending our depressed economy needs.

Nor does the decision to hike fuel prices and excise duties on "luxury" goods, cigarettes and liquor display any great flight of the imagination. Again it is symptomatic of the quick fix of crisis management.

Everyone acknowledges that the need for urgency outweighed many other considerations. But once the dust has settled, some calmer decisions need to be taken. Du Plessis' next chance comes with his Budget in March. Between now and then he would be advised to do some political fence mending by consulting more major players about the country's financial give and take.

**C**OSATU does not believe that Finance Minister Barend du Plessis' announcement on VAT on Wednesday adequately addresses all the problems associated with the tax.

We therefore stand by our position that the Department of Finance needs to postpone the implementation date of VAT. We are prepared to enter into negotiations as a matter of urgency with a view to completing them as rapidly as possible. A process of negotiations in which the parties are seriously committed to reaching agreement is the only effective way of dealing with conflict.

Du Plessis has argued that the costs of postponing the implementation date of VAT will be too high. However, we believe that the costs of social and industrial conflict if the government insists on pursuing its present course, may be far higher.

The Minister and his department have failed properly to negotiate or even consult in several respects. Organisations have not been privy to the calculations upon which the VAT rate was set. The revenue targets have not been made clear.

**E**ven now we do not know on what basis the 10% figure was arrived at. It seems that the recommendations of the many organisations to Vatcom were not heeded. The only input which was taken seriously was that of the IMF, which is not as familiar with South African conditions as the other organisations.

In recent weeks, as the opposition to VAT has mounted, the Minister has still been reluctant to consult properly. Following our meeting with him on July 16, at which he undertook to consult with Cosatu, we were unable to obtain a reply to numerous faxed and phone calls for several weeks.

Even now the Cabinet's response is an attempt to undermine and pre-empt consultation rather than to strengthen it. The Minister's an-

# Cosatu wants VAT talks to prevent a national disaster'

JAY NAIDOO

nouncement was scheduled for August 23, but was hastily reorganised in an attempt, we believe, to pre-empt the decisions of the VAT summit held yesterday.

It is only as a result of increasing public pressure that the Departments of Finance and National Health have come forward this week with a series of measures to address the shortcomings of VAT. However, these responses are rushed, poorly thought out and inadequate. They are a thinly disguised attempt to pre-empt a proper process of consultation and negotiations. They are likely to lead to more conflict, not less.

We have several objections to the revised VAT system. We continue to believe that the rate is too high. The Housewives' League recently calculated that the rate would need to be set at 5% on all groceries to bring in the same amount of revenue as the present 13% GST. Increasing the price of petrol and diesel will only worsen the problem.

In the studies we have commissioned it appears that most countries have given a great deal more consideration to the impact of VAT on the

poor, the unemployed and other disadvantaged groups. There have been differential rates, with lower or zero-rating of essential commodities and services and a higher rate for luxuries. The SA government is fond of quoting the overseas experience of VAT, but appears to be ignoring its lessons.

Items previously exempt or excluded from GST will be taxed.

**T**hese include basic foodstuffs, medicines, medical services, sick pay contributions, water and electricity. The addition of tax on these items will fundamentally affect the living standards of the unemployed, aged and lower-paid workers.

We support the view of the health sector that VAT on medicines and medical services is immoral. The partial exemptions announced on Wednesday are not good enough.

It has been calculated that a 12% VAT rate could increase the inflation rate by about 2.5 percentage points. While figures still need to be estab-

lished about the inflationary effect of a 10% VAT rate, the petrol and diesel price increases announced on Wednesday will also be inflationary.

There is no guarantee that the inflationary effect of VAT will only be short term, as the government is trying to suggest. Furthermore, even a short-term rise in inflation will be disastrous in the present climate.

We are also concerned that VAT will be abused by the commercial sector to raise prices. We do not believe that Vatwatch alone is an adequate safeguard. In other countries, far-reaching measures have had to be introduced to prevent price rises during the implementation stage. Other countries have more developed mechanisms and organisations to safeguard the consumer.

The costs of administering VAT, especially for the small business sector, will be huge. These will inevitably be passed on to the public. In other countries provisions have been made to assist small business.

The amount of poverty relief granted by the government remains inadequate and there has not been proper thought or consultation on the

mechanisms to distribute it. Without carefully considered programmes and the participation of the affected communities and organisations, poverty relief will not achieve its objective.

It also does not make much sense to introduce poverty relief while at the same time removing subsidised basic staple foods such as maize and bread. Further, the targeted groups for poverty relief are the "indigent". This effectively excludes the lower paid worker, who will therefore not benefit from these programmes.

It is not too late for the government to reconsider its position. Even after the government has adopted such a high-handed approach, we are prepared to enter into genuine negotiations to resolve the conflict.

Unless we can reach consensus we will be facing a national disaster. There will be a decline in the standard of living for all, and for those not protected against cost of living increases, starvation will stare them in the face.

**T**he Inkathagale scandal involving government abuse of taxpayers' money, together with the fact that the majority of the people in SA are taxed without representation, has already created widespread anger. If tax changes are introduced without the widest possible consultation and consent, heightened conflict could jeopardise the transition process in its current delicate phase.

Furthermore, government should not underestimate the sensitivity of any population to unpopular taxes -- advice which Margaret Thatcher would give them for free. We believe that opposition to VAT from the man in the street cuts across all racial and other barriers, even after the latest announcements. This is opposition which the government ignores at its peril.

( ) Naidoo is Cosatu's general secretary. This article is based on Cosatu's submissions to yesterday's VAT summit.

## **2. Review of events**

- 2.1. Our letter, dated 19 September 1991, to you requesting a meeting spelt out the events to date. A copy of this letter is attached.
- 2.2. Yesterday, 23 September 1991, a second VAT Summit was held. It was attended by 47 organisations including organisations which had not previously allied themselves with us. This makes a total of 104 organisations now supporting our initiative.
- 2.3. The Summit heard reports of the upsurge of support in all sectors of the public for the campaign.
- 2.4. The Summit unanimously rejected as inadequate the amendments made by the Minister of Finance at a meeting between the Co-ordinating Committee on VAT and himself on 17 September 1991. Instead the meeting re-affirmed their support for the proposals adopted at the first VAT Summit on 22nd August. Section 3 (below) lists our present proposals to resolve the VAT dispute.

## **3. Proposals to resolve the VAT dispute**

- 3.1 The Summit supported the view of the Co-ordinating Committee, based on the opinion of our Expert Group, that a postponement of all or part of VAT would be the best solution to allow a substantive process of negotiation to resolve the shortcomings of VAT.
- 3.2 The following is a summary of our demands to address these shortcomings:
  - 3.2.1. Zero-rating of the following foods: Fresh meat, poultry, fresh vegetables, fresh fruit, legumes (dried, canned or fresh), fresh milk and powdered milk, grain and grain products, cooking oil and tinned fish. This list has been provided to us by nutritional experts.
  - 3.2.2. Zero-rating of scheduled medicines and exemptions on medical services.
  - 3.2.3. Zero-rating of water and electricity.
  - 3.2.4. Negotiation of poverty relief programmes.
  - 3.2.5. Measures to assist small business to overcome the problems created by VAT.
  - 3.2.6. Stronger controls against price abuse.

# Last-ditch talks to break VAT deadlock

ALAN FINE

FINANCE Minister Barend du Plessis will meet the Cosatu-led Co-ordinating Committee on VAT today for last ditch talks aimed at reaching consensus on the implementation of the tax, scheduled for September 30.

The joint working group, established two weeks ago, completed its work on Sunday and has produced a document described by Du Plessis as the "most realistic" proposal for the committee.

He noted that the committee would like to see the introduction postponed.

Meanwhile, Cosatu affiliates have begun distributing to the MDs of hundreds of companies a letter signed by general secretary Jay Naidoo calling on business to support VAT's postponement.

A lack of satisfactory progress could mean a general strike and demands for a 3% across-the-board increase to negate the effects of VAT on workers' living standards, the letter says.

It calls on managements to express their concern to Du Plessis directly or through

## VAT

lost revenue to government with about R4bn being made up by the consumer programme could not compensate for the effect of VAT on the poor.

The committee charged that government had provided no evidence that the cost benefits of VAT would filter through to the consumer. "In a recessionary situation with high inflation it seems likely that these benefits will instead be used to increase corporate profitability," it said.

A Cosatu official said the union and the committee were not looking for inordinate delays in the implementation of VAT. "We just want enough time to sort out the problem."

MARCIA KLEIN reports that Premier's Wrighton said the timing of VAT was "particularly insensitive as the country is on the threshold of negotiations for a new and democratic SA. This is a moment when further negotiation is absolutely necessary, especially for introducing a tax system which requires general support."

He urged government to consider a postponement and to investigate further possibilities of zero-rating.

Sarob has, however, issued an urgent message to Du Plessis urging government not to postpone VAT. It said the postponement "would exacerbate the current business conditions and delay the start of any new upturn in the economy." This would severely affect employment levels.

"There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

The information provided by the working group indicated VAT was intended to ease a restructuring of the economy by increasing competition in the manufacturing industry, but the co-ordinating committee said this would take place at the expense of the poor. It said the restructuring of the economy would cost about R4bn in

# Wider input sought on re

GOVERNMENT'S tax advisory committee may be restructured to enable greater input on revenue matters by labour organisations and opposition political groups.

Cosatu officials and VAT Co-ordinating Committee technical specialist Dennis Davis disclosed yesterday that the issue had been discussed by the joint working group set up to investigate VAT problems.

He said the committee would be restructuring of the advisory committee, a Cosatu spokesman said.

Davis said: "There is a need to treat tax in the same way as labour law. Government is aware of this need to broaden the

ALAN FINE

process of consultation. There appears to be some flexibility, although it is not clear whether it is yet sufficient."

He said some in government might, at this stage, be considering merely more consultation with groups like Cosatu and the ANC on tax matters. He believed the committee needed to be revamped to include people acceptable to such groups.

"The co-ordinating committee's approach is that government cannot manage tax and fiscal policy on its own. It needs to achieve consensus."

# VAT 'could be govt's downfall' — Cosatu

LESLIE LAMBERT

request an urgent meeting with President F W de Klerk, Sarob and the Afrikaans Handelinstaat, Cosatu general secretary Jay Naidoo said.

If the outcome of these meetings was unsatisfactory, it would be open to further action at a VAT seminar on Saturday, he said.

Naidoo said the committee's 93 affiliates, including Cosatu, the ANC and Nats, would consider launching a programme of sustained mass action if government pushed ahead with the tax in its present

form on September 30.

"We told the Finance Minister on Tuesday that just as the British public warned Thatcher about poll tax, government will not succeed with a tax which is against the will of the people," he said.

Proposals for the mass action included a national general strike and the boycotting of VAT and other taxes, such as income tax. Yesterday, thousands of workers joined protest marches in Johannesburg and Bloemfontein.

When asked how Cosatu intended to boycott the payment of income tax, Naidoo

□ To Page 2

## VAT

mlala

said he believed the trade union movement had "sufficient power to pressure employers to halt PAYE deductions". Medical associations such as the National Medical and Dental Association had spoken of not sharing resources with the state.

The committee's main objections to VAT are its effect on the poor and the "unilateral" manner in which it is being implemented.

Financial authorities responsible for the new tax are frustrated at the last-minute resistance campaign.

The authorities also want leading trade union and political organisations were invited to discuss VAT with government. They were also invited to make proposals and to be represented on Vatcom, the committee appointed earlier this year to investigate amendments to the new tax. They refused the latter invitation.

Since VAT was first raised, major amendments have been made to VAT leg-

islation to accommodate proposals to Vatcom. In addition, Du Plessis used his discretionary powers to make concessions, such as the reduction of the rate to 10%, and a range of measures outside the tax system to compensate for the higher cost of food.

He increased state pensions by R10 a month from August and would place a 10% subsidy on certain basic foodstuffs which would, in effect, zero-rate them for a year. These two concessions would bring the total allocation for direct aid to R420m. Of the R220m originally allocated, R200m had been paid to welfare organisations providing targeted aid, a Finance spokesman said.

Economists argue that more concessions would destroy the integrity and viability of VAT, and a delay in implementation could jeopardise the economic recovery.

□ See Page 5

□ From Page 1

COMMENT

## Get on with it

There is strong evidence to indicate that Cosatu representatives were comprehensively briefed on VAT at an early stage, but then did not respond to government's invitation to submit the organisation's views to Vatcom.

Government's handling of VAT's introduction has at times been inept. The recent hurried rate cut and the latest subsidies on staples have left many people believing Pretoria was uncertain about VAT's decision and had therefore moved to pressure from its opponents.

We agree with critics who say they achieve socially desirable ends as well as raise money for the state. Excise duties on petrol, for example, could encourage drivers and transport operators to be more economical and help cut pollution. Excise duties on cigarettes could be a better protection from lung cancer than any switch to mild brands.

But South Africa was supposed to be moving away from regulation and away from the economic distortions of subsidies. Now subsidies are being reintroduced, no doubt more will follow and no doubt they will be misused.

Government must stop dithering and occupations are entitled to tax certainty. If VAT has to be fine-tuned or adjusted, it must be done after its effects have been properly evaluated. Now is not the time for political trade-offs, it is the time for getting on with the changeover.

SA VAT day approaches, a progressive panic appears to be gripping government. A few weeks ago, VAT's initially proposed 12% rate was cut to 10%. And now there is an overt attempt to placate the tax's critics by introducing subsidies on a range of staple foods.

Perhaps there is an unexpressed fear that VAT could prove to be the demise of some of our Ministers. Britain's highly unpopular poll tax was of Margaret Thatcher's Fact that VAT is arguably the most appropriate tax base for South Africa at the country's present stage of development. On some interpretations it could appear that the tax's benefits have not been conveyed effectively to organisations whose agendas differ from the National Party's. Understandably, government's opponents will squeeze as much political capital as possible out of any change.

Cosatu threatens a general strike in support of compensatory pay increases and warns darkly that its members will refuse to pay any taxes — VAT, PAYE or whatever. The union federation's leaders do not explain how a tax boycott will be possible. Nor do they address the longer-term implications for a post-Nat multiracial government of a populace resorting to tax strikes. Do they care? Or do they believe they will benefit from a rising tide of anarchy? And are they telling the truth when they claim they were not consulted by government?

South Africans of all persuasions and occupations are entitled to tax certainty. If VAT has to be fine-tuned or adjusted, it must be done after its effects have been properly evaluated. Now is not the time for political trade-offs, it is the time for getting on with the changeover.





## TWO OPPOSING VIEWS ON WHETHER THE ANTI-VAT LOBBY HAS A FAIR CASE

**V**AT victory — But most tax-payers still can't vote." This headline, from the latest Labour Research Service publication, pinpoints nicely the underlying motive for the union-African National Congress opposition to Value-Added Tax.

It refers to the reduction of the VAT rate to 10 percent, and other concessions.

The "no taxation without representation" theme is a valid one, and a neat stick to chase the government further in the direction of an interim government. But it should be stripped out of the host of other real and imagined problems with and opposition to the implementation of VAT.

It is politically unfair to hump the perceived illegitimacy of the government with, say, the supposed unpreparedness of the business sector in handling

# Unions seize on VAT as a blunt political weapon ...

VAT, or VAT's presumed discouragement of the building industry.

The circus that the implementation of VAT has become is due in no small part to the union movement confusing a political issue with technical ones — as well as crisis management by the government.

Take, for instance, the leader of South Africa's largest union grouping in a television debate with Finance Minister Barend du Plessis simultaneously admitting VAT is in principle a good tax, and calling for its delay and a host of exceptions which will make it less efficient.

We're a week from VAT Day and the controversy still rages. We asked two writers to argue the case for and against, starting with VAT enthusiast **REG RUMNEY**

The Congress of South African Trade Unions is in favour of extending the social services net, yet it promotes militant action against a tax which will raise desperately needed revenue to fund those services. All

this on the grounds of a lack of consultation, even though the Finance Ministry has agreed to negotiations with the Cosatu-led Co-ordinating Committee on VAT.

Just as amusing is Cosatu finding itself in bed with interest groups such as the Estate Agents Board and the dispensing doctors with whom it normally has next to nothing in common.

On the government side we have Du Plessis fiddling with VAT in a way which only gave the impression of weakness to friend and foe alike, and did not serve to stave off union resistance.

The danger behind the circus-like antics has been that a fairer tax would be irreparably damaged in pursuit of a political demand which could be attached to almost any except the most technical legal changes. This Du Plessis seems to have resisted.

The strangeness of Cosatu's bedfellows goes beyond irony.

For example, it now by implication subscribes to the zero-rating of all medical services — public and private.

Doctors in campaigning for zero-rating want a better deal under VAT than they had under GST: zero-rating means, for instance, that a radiologist can claim back all the tax he has paid on expensive medical equipment. Exemption would be the same as the GST system. Now, he charges no GST on his services to patients, but gets no tax back. And why should doctors get tax back, when others don't? Surely they should be pressed to pass on to patients those savings they will have then got even more?

Again, why should food producers be favoured by zero-rating when clothes producers are not? And so on.

But concede for a moment Cosatu has the right to lead the fray in the battle of specific interest groups to serve their own interests.

What validity do Cosatu's general objections to the implementation of VAT on September 30 have?

The union movement has argued that the poor will suffer most from VAT.

The argument is that the poor spend more on foods than on anything else, and that the taxing of VAT will cause not only hardship but starvation.

The government has countered that tax relief for the poor is a clumsy instrument: the rich benefit as much if not more than the poor. Better then to give direct food aid in the form of handouts, say, than tax breaks.

To this Cosatu's Jay Naidoo has argued variously that the R226-million or so advanced so far for government is not enough, and that aid structures cannot dispense the money.

Those critically concerned should rather insist that aid be speeded up than VAT delayed. The Coordinating Committee on VAT need not have rejected subsidisation as an alternative.

Crucially, the Cosatu-led grouping has argued that savings available to business under VAT will boost corporate profits rather than be passed on to the consumer.

Higher corporate profits mean more money is available for better wages.

Another line of thought (not necessarily Cosatu's) is that VAT, as a broader indirect tax, forms part of a trend towards shifting tax from companies to individuals.

And herein lies an economic misunderstanding. The distinction between the tax business pays and the tax individuals pay is somewhat artificial.

What's good for business, in a competitive economy, is in global terms good for the individuals who work for businesses.

If you work for the government it doesn't matter who pays the tax, of course.

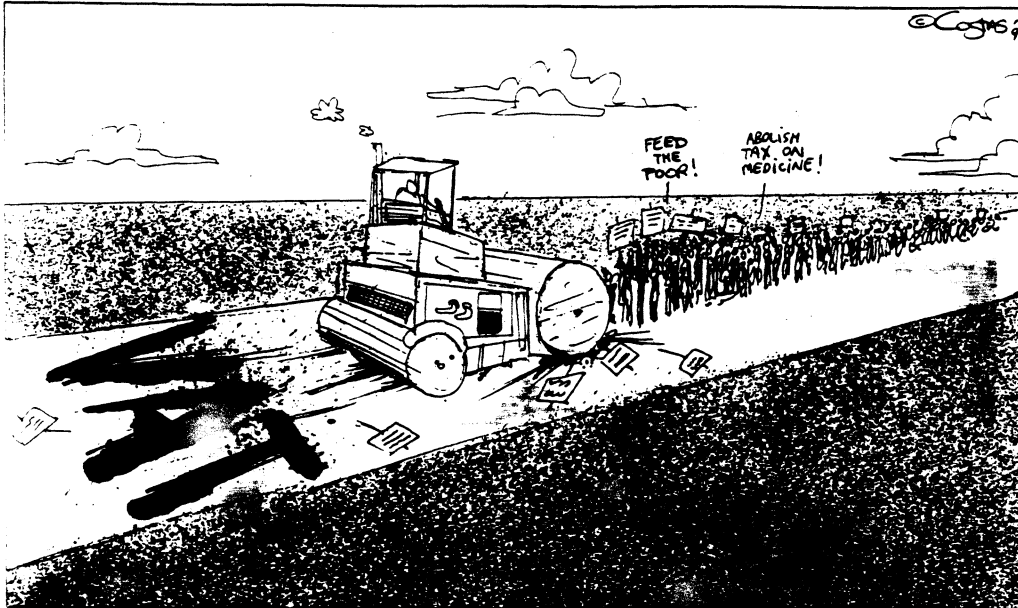
Many unionists are employed by the private sector. It is in their interest that business flourishes.

Where we should be concerned about the relationship between VAT and profitability is in its inflationary effects. Business profitability should be not be at the expense of the country, in pushing up inflation.

And here Cosatu and those who have linked up with it to push their own interests have contributed to a self-defeating and self-fulfilling cynicism about VAT. The more people who believe the benefits of VAT won't be passed on, the more likely it is to happen.

That is sad and ill serves the community at large. VAT could have galvanised consumers into actively protesting about price rises instead of passively accepting them.

That opportunity has been wasted, and instead a host of ad hoc exemptions have been made to VAT, which is supposed to work better because it doesn't allow exceptions.



## It's the tax of the technocrats

**N**O one — not even the Congress of South African Trade Unions — denies that Value-Added Tax is a technically superior instrument to General Sales Tax, particularly at higher levels of tax-

ation. But South Africa's proposed VAT system appears to be the work of technocrats with little understanding of its broader economic and political ramifications.

In the short-term, it is widely accepted that VAT will be inflationary — particularly as it has now been coupled with a fuel price hike. The "working group" of government representatives and VAT critics is understood to have agreed that it will bring a three to four percent rise in the cost of living for low-income groups.

It is the poor who will be worst hit — those earning up to R16 000 a year shall eat a third of their income on food. Most essential foodstuffs were GST-exempt and will now be taxed, as will medicines and medical services.

The government has effectively conceded this by pledging R226-million for poverty relief. This is almost certainly inadequate — VATom identified 16-million South Africans currently below the minimum living level, who would each receive R2,25 a month in relief — but the quantum is not the issue.

How will the "needy" be identified, and the money allocated? Through registered welfare organisations, says

Value-Added Tax may be a better taxation system but it is the poor that will be hardest hit, responds **DREW FORREST**

the government — but welfare bodies themselves say they will not cope. The government has also hinted it may use the discredited black local authorities, a political last-resort.

One study does indeed show that VAT's long-term impact on 63 percent of our countries has been non-inflationary. But these were mainly in a normal growth cycle, stresses Cosatu adviser Professor Dennis Davis, of the Centre for Applied Legal Studies at the University of the Witwatersrand.

In countries with major inflationary expectations, such as South Africa, the effect had largely been to fuel inflation.

What of the savings to manufacturing industry through the removal of indirect taxes on machinery — will these not be passed on to the consumer? In a recessionary environment, they will almost certainly be used to buttress profits, the unions believe.

Significantly, two major food producers last week equivocated on the issue, one saying it would pass on lower costs "provided retailers and wholesalers do not increase their profit margin", the other stressing that input credits on machinery would affect only a fraction of its sales.

It is worth pointing out that many

countries have coupled the introduction of VAT with price freezes or price controls. Our government has so much faith in the business community that it shrinks from statutory controls.

One may reasonably doubt another claim advanced for the swift introduction of VAT: that a delay will further impede "substantial" local and foreign investment. No hard evidence has been adduced for this, and many other factors — including business confidence and South Africa's political stability — clearly have a role.

Why is South Africa only one of three countries worldwide to levy VAT on medical services, the others being New Zealand and Morocco? The fact is that we have taken New Zealand as our model — a social democracy with a developed welfare safety net, developed welfare organisations and an advanced infrastructure.

It is suggested that the unions have no rational motive for opposing VAT, and are merely using it as a blunt weapon to mask the legitimacy of the National Party government.

It is hard to believe that Operation Hammer and the National Council for the Age, which also sit on the Cosatu-led Co-ordinating Committee on VAT, have this agenda. And insofar as the unions are genuinely concerned about the impact on the poor, the claim is false — but there is a kernel of truth to it.

Why should labour not demand a bilateral approach to taxation? The government's record is hardly inspiring

— Finance Minister Barend du Plessis' refusal to cut the VAT rate had all the hallmarks of political panic. Public information has been scanty: the government has still not issued its interpretation of the tax, nor a single explanatory video. South Korea produced 88.

The fact is that through VAT, the government is embarking on a major restructuring of the economy, without negotiating it with labour or what will soon be South Africa's dominant political force, the African National Congress.

Through input tax credits, it will take capital goods out of the tax system, handing manufacturers a R6-billion bonanza, while some R4-billion will be clawed back from the consumer through the broader-based VAT. In effect, manufacturers will be encouraged to mechanise — with the resultant impact on jobs — at the expense of the consumer.

Leaving aside the effect on government revenue — most other countries have phased in input tax credits — the measure is politically faulty. What if an ANC-led government merely scraps the new tax?

The unions have not rejected VAT as such. But because they fear it will further depress the needy, they want it postponed, if necessary subject to a time limit, or the zero-rating of essential foods and services.

In the longer term, they want the re-negotiation of the tax system as part of a comprehensive programme of economic reconstruction.



# Viewpoints

The page that tells you what people are thinking

## COMMENT

### VAT a powderkeg about to explode

**T**HE government's highly controversial Value Added Tax (VAT) is implemented next week against a backdrop of mass resistance with the country's largest trade union federation, Cosatu, and black political organisations threatening a general strike which could cripple the economy.

Cosatu demands a postponement of VAT until government addresses the following:

- A zero rating on food, medicine, medical services, electricity and water;
- Amendments to the VAT Act to avoid prejudice to small business;
- Negotiated poverty relief programmes and;
- Much stronger control on abuse of the system.

But Finance Minister Barend du Plessis is adamant that the implementation of VAT will not be postponed, saying it would disrupt business.

One concession is its undertaking to subsidise foodstuffs like samp, mielie rice and powdered milk.

It is clear that Du Plessis has missed a crucial point.

He may have had good intentions in introducing VAT. Experts support VAT as the best tax system in the world. Others believe a new government would benefit from the system.

This may be true.

But the way in which VAT was introduced has cast serious questions on the government. Given our volatile political situation and the deepening recession, Du Plessis should have consulted a broad section of the community.

Having overlooked this vital issue, Du Plessis must be mature enough to admit his guilt.

However, we do not think Cosatu's collision course with Du Plessis is a solution.

Our country has suffered enough economic hardship. A future government will inherit a wasteland - which will be reason enough to spark a revolt.

A solution is still possible if Du Plessis goes back to the drawing board and reviews Cosatu's demands.

Cosatu's march through Johannesburg this week should be a warning to the government of further possible economic disruption.



LIVING OFF THE VAT OF THE LAND

FINDLAY

# 'Put VAT off for a year' pleads Ackerman as storm rages on

FRANS ESTERHUYSE and SORCHA VASEY

Weekend Argus Reporters

THE storm over the government's controversial Value Added Tax rages on with new threats of widespread industrial action.

In a dramatic plea, supermarket chief Mr Raymond Ackerman has called on the government "in the interests of peaceful negotiations" to put off VAT for at least a year.

Amid a new wave of protests, more than 20 anti-VAT organisations have urged the government to enter into negotiations for a more acceptable system.

Pick 'n Pay boss Mr Ackerman said on Friday night: "In the interests of peaceful negotiations the implementation of VAT should be delayed for at least a year."

Mr Ackerman, chairman and chief executive of the company, emphasised he was speaking in his personal capacity.

"If I was wearing my Pick 'n Pay hat I would say go ahead with it," he said.

If VAT was delayed his company stood to lose the R10 million it had spent on implementing the system.

But he said: "Mr De Klerk should overrule everyone and

make a decision that is good for the country."

Mr Ackerman said the implementation of VAT on September 30 would result in a tax revolt.

"VAT is dividing South Africans at a time when the country's peace process can ill-afford the conflict.

"The leftwing feels very bitter about not being consulted. The public perceives it wrongly and the last things we need are demonstrations and marches in the streets."

The Receiver of Revenue was considering allowing retailers to sell goods already marked up at the 12 percent VAT rate on the understanding that this would be reduced to 10 percent at the time, Mr Ackerman said.

"This is absolutely crazy and I am totally opposed to it. It would be very confusing. Can you imagine the bewilderment of customers and the potential for chaos in the stores?"

Meanwhile the Democratic Party has called on the government to convene an urgent meeting of all political organisations, business, trade unions, consumer organisations and



Mr Raymond Ackerman

major relief organisations to negotiate amendments to the VAT proposals.

The Democratic Party has listed the government's "funda-

mental mistakes" in introducing VAT. These were that:

- It failed to consult widely with the major political organisations not represented in parliament, including the trade unions;

- It overruled key recommendations from Vatcom, the committee established to hear and consider representations;

- It had in-depth discussions with an International Monetary Fund (IMF) delegation, much of whose advice was accepted without substantiating the reasons for acceptance;

- It failed to allow parliament to consider final recommendations and motivate amendments. The consultation process was therefore incomplete and consensus was not obtained;

- It failed to react in time to key lobby groups such as local authorities and the medical profession.

The party said the number of basic foods zero-rated should be increased; targeted relief programmes should be in place by September 30 when VAT is introduced; adequate money should be available to cushion the impact of the tax; and VAT should not be imposed on medical services and prescribed medicines.

*Weekend Argus 29/8/91*

## Countdown <sup>23/4/91</sup>

**V**ALUE added tax comes in a week from today. That leaves seven days for government to succeed where it has failed in as many months and more: to clear up confusion about the new tax, and to publicise its benefits and attractions.

If government had decided to reduce GST from 13% to 10%, but to extend its application to previously exempted goods, it would have found a way to get both messages across to the buying public. The job must now be done by the government-sponsored Vatwatch committee, whose members have found an alarming degree of ignorance and plain exploitation as the implementation date for VAT nears.

The decision to implement VAT

was taken in February 1988; the VAT committee report, published this February, put what should have been the finishing touches to the tax. A lack of government clarity about the rate, and dithering and backtracking about the rate, exemptions and subsidies, have aided the confusion and compounded the resentment.

If Vatwatch is to be a public watchdog, it needs to be seen to bite. That means humiliating exploiters by publishing their names. The publicity would help eliminate the ignorance which makes the exploitation possible. And if it brings down some prices, that is what VAT was supposed to do. Because of those wasted months, the few who remember don't believe it.

## Memorandum on Value Added Tax

Meeting between State President, F.W. de Klerk and Co-ordinating Committee on VAT - 24 September 1991

### 1. Introduction

We come to this meeting today with three major concerns.

Firstly, we are extremely concerned that the implementation of VAT in its present form will have a serious impact on the standard of living of the majority of South Africans.

Secondly, we believe that South Africa is in a very delicate stage of transition where the foundations for a negotiated settlement are being laid. The possibilities for consensus were well demonstrated by the conclusion of the National Peace Accord.

However, the issue of VAT has the potential to split the nation and seriously jeopardise the fragile process of negotiations and the possibilities of achieving consensus in a whole range of arenas including the political and socio-economic.

Thirdly, our deliberations with the government have shown that the introduction of VAT is part of a more far reaching process of economic restructuring. It is not acceptable to the major players in the economic and political field that such a far reaching restructuring should be unilaterally implemented.

The Working Group between the Co-ordinating Committee on VAT and the Department of Finance were not able to substantiate the claims made to justify the urgent need to implement VAT or the benefits that VAT would bring to the economy.

The structural economic crisis in which we find ourselves can not be solved easily or quickly and we do not believe that the implementation of VAT will achieve economic growth unless it is part of a much more substantial negotiated programme.

## VAT REACTION

# Govt's last-minute move costs retailers 'millions'

THE reduction of the VAT rate to 10% had cost SA's commerce and industry millions of rands, spokesmen said yesterday.

While they welcomed the change, they said its late arrival would cost the industry a large amount of money to change the systems that many had timeously put in place.

Checkers MD Sergio Martinengo estimated that the implementation of VAT had cost the group about R1,5m, including changing of systems, stationery and equipment and additional working hours.

While he welcomed government's decision to lower the VAT rate, he said the fact that the announcement came at such a late stage meant "high cost implications for the supermarket industry".

He said Checkers had begun preparations for the implementation of VAT. "The changes that will now have to be made in terms of dual pricing labels, point of sale, stationery and computer systems will bring about an estimated additional cost of R250 000 which will be absorbed by Checkers."

But, Pick 'n Pay marketing director Martin Rosen said the changeover to VAT would be moderate. This was

MARCIA KLEIN and  
WILLIAM GILLMAN

because all stores would be operating scanning facilities by the time of VAT's introduction.

He added that VAT had speeded up the group's decision to move all stores over to a scanning operation. Any change to price would merely entail a change in the shelf label, he said.

An industry spokesman said retailers which had high volume and high turnover rates "would probably not be too far down the road in terms of pricing their merchandise".

## Explaining

Woolworths financial director Ray Schur said the change to VAT had cost the company "a fortune initially, and Barend has just added to the cost".

Woolworths' preparation included having a VAT committee, which had been running for nine months, dual ticketing all merchandise, having in-store signs explaining VAT and sending customers leaflets on the new system. "In the next five weeks we will have to change everything", he said. Woolworths staff would be

working overtime to complete the change in time.

Dion CE Jannie Els said his company would be working night shifts and Sundays to change labels on the store's 45 000 line items. He expected new ticketing to cost in excess of R100 000 excluding overtime. "We were over 80% done before Wednesday's announcement," he said.

Foschini group's VAT project head Norman Day said it was difficult to estimate the start up costs of the introduction of VAT, or what it would cost to change to 10%. However, he said there would be a marginal benefit to the company because GST on certain expenses would be replaced by input VAT.

A spokesman for a major clothing chain said the reduction in the rate of VAT would significantly increase costs. He estimated that the introduction of VAT had cost his company up to R1m.

A SA Breweries beer division spokesman estimated the changeover would cost it under R100 000 which was the cost of printing new forms and pricing tables. He added that the big costs would be the associated costs in people's time and changes to its systems.

## Market waits for windfall

GOVERNMENT may raise the R510m additional revenue needed as a result of the lowering of VAT to 10% from any of its normal financing sources, including the Public Investment Commissioner (PIC), Finance Department deputy director-general Estian Calitz said yesterday.

If the PIC is used, this would be done on a commercial basis at normal interest rates. The balance of R510m would either come from the PIC or the capital market, said Calitz.

The reduction in the VAT rate to 10% would reduce budgeted revenue by R1,4bn, but R200m would be raised through higher excise duties and R530m from the petrol price increase.

The money would definitely not be raised through bank loans, he said.

Capital market rates increased slightly on news of government's greater borrowing requirement.

Analysts said this was in anticipation of the government coming to the market to raise about R700m.

# Home industry gets limited relief

PETER GALLI

BUILDING industry sources have welcomed Finance Minister Barend du Plessis's VAT concessions for the construction and sale of homes, but say they offer limited relief.

The moves allowed the consumer some "breathing space", but were limited in effect to March 1992, they said yesterday.

And while prospective home-buyers would be granted an extra six months in which to buy their properties, the effects of the full rate would be felt after that.

Certain contractors had entered into fixed price contracts for the construction of homes before the introduction of the VAT Bill, with completion after September 30.

Du Plessis said on Wednesday that the additional cost of VAT due to subcontracting work would then have had to be borne by the contractors, with severely detrimental effects in many cases.

The supply of construction services for new

buildings would be taxed at a rate of 6% because of the importance of providing housing and assisting contractors and homeowners, he said — provided the contract was concluded and construction completed before March 31 1992.

Inland Revenue VAT director Norman Patterson said yesterday the concessions were aimed at helping to reduce the double taxation situation many speculative builders would have found themselves in on September 30.

"These builders would have had stock on hand that they were unable to sell. They would then have had to charge VAT on all stock on hand, including the component on which GST had already been paid and which they could not claw back," Patterson said.

Du Plessis also said the sale of new homes completed within a year before the implemen-

tation of VAT, and trading stock in the hands of the vendor, would become VAT exempt if a sale agreement was concluded before March 31 1992.

The sale of land for home building purposes would also be taxed at 6% if an agreement for such a sale was concluded before March 1992. After that, sales would be subject to the standard VAT rate.

Houses in the process of being built on September 30 would be subject to a 3% tax if a sale agreement was concluded before December 31 1991, he said. But if the home was completed between January 1 1992 and March 31 1992 and the sale was concluded on or before March 31, it would be taxed at 6%.

However, transfer duty would still be payable on those transactions, the Minister said.

"Contractors have, in anticipation of VAT, increased contract prices. In view of the concessions announced, it is incumbent that they pass on the benefits to their clients".

## Fuel hike shocks transporters

GERALD NERLBY

PRETORIA — The steep rise in fuel prices from today will damp the bus and taxi commuter industries into a crisis unless government agrees to raise subsidies substantially, say industry spokesmen.

Southern African Bus Operators Association manager Eric Cornelius said yesterday there was no way the bus industry could absorb the 8% increase in the price of diesel.

Many companies had recently raised their fares and if a further hike was to be imposed there would be an angry reaction and possible protest action from

working on thin margins and only a handful would survive without increased subsidies.

Finance Minister Barend du Plessis had referred vaguely to appropriate subsidy adjustments. However, he should urgently spell out in detail what he meant.

Meanwhile, SA Black Taxi Association (Sabta) adviser James Chapman said the taxi industry used about 8 billion litres of petrol a year.

The 13c/l increase would add tens of millions of

would be passed on to commuters.

"We are devastated by the increase."

"There is already grave discontent because of the level of bus and taxi fares and this new fuel price hike will aggravate an already worrying situation," Chapman added.

DP transport spokesman Wessel Nel said yesterday the added burden to the motorist, without any compensation, was "totally unacceptable".

CP commerce and industry spokesman Daan Nolte said yesterday Du Plessis's statement was a cantata

Is the VAT reshuffle good news or bad?

# Barend in the dock

## THE ARGUMENT

Claire Gebhardt

AT the end of the week, has Barend made things better or worse?

The Minister of Finance was at pains at his pre-emptive press conference this week to stress that the lowering of the VAT rate to 10 percent was intended to give relief to the poorer part of the population.

Not so, replied the critics.

Announcing that the price of less essential goods subject to excise, such as liquor, tobacco and TV sets, would go up, the Minister commented wryly: "Surely people who can't afford to eat cannot be spending money on these items?"

But then he added the *coup de grace*, quickly disposing of any goodwill he might have attained from the VAT concession: "The price of petrol will rise by 13c a litre on Friday."

Indecent haste, said most.

Taxing the poor instead of the rich, said others.

His argument that low-income commuters were already



ARCH-JUGGLER ... Minister of Finance Barend du Plessis.

cushioned to an extent as commuter services would be exempt from VAT, was discarded out of hand.

The battle raged on this week with the ANC, Cosatu and other critics of VAT rejecting the Government's concession as "inadequate and not negotiated", and vowing to continue the fight.

Consumer organisations de-

cried the fact that when petrol went up basic foodstuffs followed, as did the cost of public transport.

Hardest hit were people who had to travel a long way to work, they said.

Pick 'n Pay chief Raymond Ackerman confirmed that there was no question of just taking 2 percent off the VAT price as marked up in his store, though he would try to do so.

"Manufacturers are already saying prices will have to be renegotiated to take account of the petrol-price rise."

The Sunday Star spoke to numerous people and applied its own judgment to answering the question on everyone's lips after the Minister's dramatic back-down on VAT.

"Are we better or worse off?"

All agreed that Mr du Plessis had tried to play the role of the arch-juggler, conceding on the one hand while imposing penalties for his concessions on the other.

Here is our scorecard.

## THE EVIDENCE

PROS	CONS
<p>Two percent reduction in VAT benefits all. Likely increase in inflation rate (CPI) of 1.5 percent compared to 2.5 percent predicted before the cut.</p>	<p>Stores faced with remarking millions of goods at great cost.</p>
<p>The Minister has tried to respond to political pressures.</p>	<p>He waited until maximum disruption had been reached before acting.</p>
<p>R180 increase in all social allowances.</p>	<p>Amounts to about R10 a month for about 2.4 million people — daintily little, but better than nothing.</p>
<p>R50 million to building industry as a transitional measure for six months welcomed as solving problems for home-owners committed to buy but unable to finance additional costs. Also relief to builders holding completed stock.</p>	<p>In medium term will still see a 2 percent increase in house-building costs.</p>
<p>Raising of means test for patients who qualify for treatment at state hospitals by 10 percent. More people will qualify for subsidised medical services.</p>	<p>VAT on medical services no concessions here and experts believe he could have zero-rated this with very little loss of revenue.</p>
<p>Poverty relief act.</p>	<p>No increase in amount allocated but will be reviewed next year.</p>
<p>VAT exemption on trade union and employee contributions.</p>	
<p>All State and State-aided hospital services VAT exempt; others for about 50 percent of people — a plus-point.</p>	<p>Transition of private but not public health care could place a burden on State hospitals, already under-staffed.</p>
<p>The 13c-a-litre increase in the price of petrol and the 8c-a-litre diesel hike: definitely no pluses here.</p>	<p>Farmers forecast hardships and predict that costs will rise, food prices increase. Bureaux of outrage, dire predictions of ripple effect on economy. SAAFA announces rise in black taxi-fares.</p>

## THE VERDICT

AT the end of the day, adding up our pros and cons, we decided the picture was still murky.

So we asked three leading economists the vexed question: will the petrol-price-hike hit the rich or the poor?

We got different answers. Two said: "Obviously the rich — they own the cars. The tax will fall heaviest on black taxi-operators who earn about R100 a month compared with the average hawker who earns only R60 to R80."

The other said: "Obviously the poor — they travel the furthest to work and will be hit by fare increases and more expensive food."

At the end of the day, Sunday Star believes that no matter how well-intentioned the Minister's actions were, the ad hoc changes which Government has been forced to take should have

waited before D-day is not particularly efficient when the decision to implement VAT was taken more than two years ago.

Concern still exists in many quarters over measures to introduce a poverty relief net and whether the figure allocated is enough — this should be addressed post haste.

Raising revenue to build schools, educate, house and care for the poor will always be a contentious issue — be it from personal income tax, VAT or an increased fuel levy.

Most question remains whether the money raised will not merely be spent cushioning Government's bureaucratic structures which flourish apace.

It is also true that VAT at 10 percent is very low — in most countries around the world the equivalent rate is 15 percent, and not all of them zero rate

Many believe a differential rate would have done the trick — high on luxury goods and zero-rated on food.

This would have taken into account the very narrow band of high earners as opposed to the millions of poor.

Things like VAT on medical services — acceptable from a tax point of view but not from a moral and economic stance — could have been excluded at little loss of revenue to the fiscus.

Perhaps more should have been done to tax business and the credits on capital and intermediate goods phased in over three years as was originally intended.

But the experts say business has made commitments on the strength of the announced measures and can back-track now only at enormous cost.

# Coordinating Committee on

# VAT

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19th September 1991

The State President  
Union Buildings

Dear President de Klerk

As you are no doubt aware an impasse presently exists between the Department of Finance and the Co-ordinating Committee of VAT relating to the implementation of VAT.

There have been many attempts to meet with the Minister of Finance and his advisors to resolve the adverse effects VAT will have on the majority of people. Below is a brief summary of the deliberations.

1. Many organisations who are part of the Co-ordinating Committee on VAT initially made representations to VATCOM. They feel that their representations were not seriously considered. Most suggested a rate of less than 10% and that basic foods should not be taxed.
2. When the rate was announced and the VAT Act passed, many more organisations made representations and some even held meetings with the Minister of Finance. The overwhelming impression of those who attended these meetings is that they were given an unsympathetic hearing and their concerns were disregarded. This was the experience of COSATU, NACTU, Housewives League and Society for Dispensing Family Practitioners.
3. Concerned about the impact of VAT on workers and members of lower income groups, COSATU convened a VAT Summit on 22nd August 1991 of concerned organisations. Eighteen national trade union, political, consumer, welfare and health organisations agreed at this summit that the introduction of VAT should be postponed until the shortcomings of VAT can be adequately addressed.

The main shortcomings identified in the meeting were VAT on basic foods, medicines and private medical services, electricity and water; the implementation of poverty relief, problems faced by small business and the lack of adequate mechanisms to prevent price abuse. It was felt that an urgent process of negotiations with the Government should be entered into, to solve these problems.

The organisations represented at the Summit decided to establish a Co-ordinating Committee on VAT, to initiate negotiations with the Minister of Finance. It was hoped that such an initiative would have greater success than the separate approaches to the Minister which had occurred so far.

The organisations who endorsed this position at the Summit included the African National Congress, NACTU, COSATU, National Interim Civic Co-ordinating Committee, Public Servants Association, Operation Hunger and the Sunnyside Group. Subsequently, a total of 93 organisations including the PAC, Nafcoc, Fabcos, National Council for the Aged and the NECC have supported the initiative. Addendum A is a list of all organisations presently supporting the demands of Co-ordinating Committee on VAT.

in addition, some members of the corporate sector have come out in support of the call for VAT to be postponed. These include the Premier Group and Pick 'n Pay.

4. On 3 September, a first meeting was held between the Co-ordinating Committee on VAT and the Minister of Finance. At this meeting it was agreed that a Working Group composed of experts appointed by the Government and by the Co-ordinating Committee on VAT should be set up to investigate the concerns raised by the Co-ordinating Committee. The exact terms of reference are spelt out in Addendum B.

5. The Co-ordinating Committee was disappointed by the deliberations of the Working Group. We were dismayed at the lack of facts and figures from the Department of Finance. The government and corporate sector representatives on the Working Group were unable to substantiate many of their arguments that have been made publicly against postponement of the implementation date of VAT. Addendum C contains a report by Prof Denis Davis who represented the Co-ordinating Committee on VAT in the Working Group.

6. A second meeting between the Minister of Finance and the Co-ordinating Committee on VAT to consider the report of the Working Group was held on 17th September. At this meeting the Co-ordinating Committee went out of its way to try and reach an agreement with the Minister of Finance.

We made a number of compromise proposals, which however were also rejected. We were also unable to accept the Minister's compromise proposals. We believe that piecemeal changes are not going to be adequate to address the impact the introduction of VAT will have on the majority of the population.

It is our firm belief that a serious process of negotiations needs to be entered into with the Department of Finance to resolve the many serious problems that the implementation of VAT will introduce. The Co-ordinating Committee on VAT is absolutely committed to such a process.

Our demand for the postponement of VAT should not be construed as a destructive one. We want a postponement for only as long as it takes to satisfactorily resolve the shortcomings of VAT.



# Cosatu slams tax on food and health

THE implementation of Value Added Tax was tantamount to a criminal act, says Congress of SA Trade Unions general secretary Jay Naidoo.

Speaking on SAIU's Agenda programme at the weekend, he said Cosatu was not opposed to the tax in principle but was concerned with the inflationary effect of it being implemented, particularly with regard to health services and basic foodstuffs.

He said there had been a range of organisations which voiced opposition to the system of implementing the tax.

The R220 million relief aid offered by the Government was "hopelessly inadequate".

## Inflation

He said there were, according to market research, some 16 million undernourished people in the country and that the implementation of VAT would further fuel inflation.

Naidoo said there should have been rep-

resentative consultation on the implementation of a new tax system.

On the question of strike and industrial action he urged the Government to take note of calls to postpone the tax. Naidoo said it was a national crisis and that, if Government did not listen, there would be a public outcry.

## Structure

Responding to Naidoo, Finance Minister Barend du Plessis said people should not fall into the trap of taking a "snapshot" of VAT but rather look at the overall picture over a period of time.

He added that he would be making an announcement on August 23 on the final structure of the implementation of the controversial tax but stressed the implementation VAT would not be postponed, saying it had to be implemented.

Regarding the inflationary aspects of VAT, he said there might be an initial "hump" but that many order books were empty and factories were

waiting for VAT to be implemented.

Jobs were on the line as a result of this, he said.

With reference to Cosatu not having been consulted, Du Plessis said Cosatu was a latecomer.

He said he had had com-

munication with traditional trade unions since March in addition to representations being made to him since 1988 when VAT was first suggested and that he had listened with a sympathetic ear.

Sapa

## Nothing sinister in Cosatu stance

KEN OWEN suggests (Sunday Times, August 25) that Cosatu's campaign against VAT is somehow designed to undermine the social harmony which may result from the National Peace Initiative (an initiative which Cosatu itself has been central in brokering). He further imputes

various motives to other forces which oppose VAT. Cosatu and the ANC are attempting to "frustrate the government in every policy it undertakes".

He doesn't mention the many other medical, consumer, tax and welfare organisations which are campaigning for VAT to be postponed. No doubt he has some aside comment to make about them too.

The possibility Mr Owen does not consider is that there are genuine reasons for opposing the way in which the government is implementing VAT. One demand that the issue be postponed is not sinister but absolutely necessary if the conflict he talks about is to be avoided.

We suggest Mr Owen consider the following:

● In this transition period, a government that has conceded it does not represent the majority has an obligation to negotiate such major changes as a shift in the tax system.

● We are opposing the government's latest "concessions", not because we are "ungrateful", but because there is no logic in the changes.

● Fundamental problems remain. VAT's taxation of foodstuffs, medical services and medicines will have disastrous consequences, particularly for the poor. — JAY NAIDOO, Cosatu general secretary, Johannesburg.

## Cosatu to see De Klerk on VAT

COSATU will seek an urgent meeting today with State President F W de Klerk if Finance Minister Barend du Plessis does not respond to serious grievances about VAT, according to a statement released yesterday.

Cosatu's VAT co-ordinating committee, elected at last Wednesday's VAT summit, held its first meeting on Wednesday to consider steps to be taken to postpone the implementation of VAT until shortcomings in the new tax system had been resolved.

## Problems

The committee said it had written to Du Plessis detailing the problems with VAT but to date, he had not responded.

The committee would also request a meeting with Health Minister Rina Venter and had planned a second VAT conference on September 23 to review progress in negotiations with the Government and to decide on further steps.

## Challenge

Meanwhile, the committee would challenge Du Plessis to a live TV debate on VAT and it urged the public to write open letters on VAT to the Government.

Tax experts would compile proposals already submitted by organisations in the protest against VAT, while Cosatu would organise public meetings in major centres. — Sapa.

## Vote iniquitous VAT out

SOUTH AFRICANS, for the past 40 years, have voted in fear — either from the left or right — and have got the government they deserve. The only way we will get a responsible government that will respect the wishes and rights of the

fiscal issue — not one of fear. Poll tax saw the demise of Margaret Thatcher and proved the power of the electorate; may I suggest that voters make strong representations to their MPs to halt the introduction of the iniquitous VAT? — ROY ANDERSON, Johannesburg.

## Barend hints at making 'pre-emptive' statement on VAT today

FINANCE Minister Barend du Plessis indicated yesterday he might reschedule his VAT announcement from Friday to today, which means he will address the politically explosive issue one day ahead of an anti-VAT summit organised by the ANC and trade unions.

If he does, it will follow immediately on this morning's Cabinet meeting at which he will disclose his VAT proposals to his colleagues.

A statement issued by the Finance Department yesterday said there was a possibility that a public announcement would be rescheduled to today.

A Finance spokesman said Du Plessis was unable to postpone another important meeting scheduled for Friday. There was nothing sinister about the move.

But the ANC and Cosatu — whose powerful last-minute lobbying has forced Du Plessis to make the public statement — have made it clear they will view it as an attempt to pre-empt their latest round of demands for negotiated relief measures.

ANC spokesman Saki Macozoma said if Du Plessis announced his plans without consulting the various pressure groups, the ANC would have to defy VAT. Cosatu and other lobby groups have

## LESLEY LAMBERT

made similar threats of mass action and defiance in recent weeks in the run-up to the introduction of VAT on September 30.

A Cosatu spokesman said Du Plessis had attempted to reschedule a VAT meeting with the union for yesterday or today but the union had been unable to accommodate the Minister.

Economists say Du Plessis is caught between the tax purists, who argue that VAT's viability depends on the minimum of exemptions and special treatment, and the pressure groups, who are threatening

to mobilise millions of poor people unless significant relief measures are granted.

There has been broad consensus among organised business, welfare and opposition political circles that proposed relief measures will not provide sufficient relief to the estimated 17-million inadequately fed South Africans.

Sacob has called on government to make R1,2bn available for assistance, while the DP has proposed R2,4bn. Other relief proposals have included a reduction in the VAT rate, zero-rating or reduced rates for essential items such as basic foodstuffs, medical services and supplies, housing and

trade union subscriptions.

Du Plessis is unlikely to make major concessions in any of these areas. Inland Revenue Department spokesmen have warned that each percentage point reduction in VAT would represent about R3bn in lost revenue.

They have also calculated that the zero-rating of all foodstuffs, medical services and supplies, housing and union fees would push up the rate for other items significantly to about 18%.

Postponing the tax would prolong the economic downturn because it would destroy business confidence, economists said.

## Medical services

But there will be no let-up on VAT for medical services and it is understood no further basic foods other than brown bread and mealie meal will be exempted, because the Government feels most of the assistance provided in this way will wind up in the pockets of middle-men.

Approached for comment, Deputy Finance Minister Theo Alant said the Government had previously tried itself to the concept of targeted aid.

He added: "Poverty was not created by tax and it will not be removed by tax. We would rather give aid to the poor than cripple the tax system on day one through exemptions."

Despite the new measures, Mr du Plessis still faces a backlash. Powerful organisations such as Cosatu and the Federation of Salaried Staff Associations (Fedsal) have pledged they will defy the Government. The threatened mass "made union action, it is being predicted, could derail the new tax system.

At the same time the ANC has rejected VAT because they claim it will push up inflation by 2.5 percent while increasing the hardship and suffering of the poor.

Hundreds of doctors — members of the Medical Association of South Africa (MASA) — are also collecting thousands of signatures for a petition which the body hopes to present to Mr du Plessis tomorrow. It will tell him it is undesirable to tax medical bills and call on him to "reverse his unhealthy decision."

## Objections

There have also been objections from a variety of other bodies, including the South African Chamber of Business, the South African Agricultural Union, Operation Hunger, and the Housewives League.

Housewives League vice president Sheila Baillie has pointed out that about 4.5 million married taxpayers earning between R5 000 and R15 000 a year cannot feed their families adequately now, never mind when a tax of 12 percent is levied on all foods, except two staples, brown bread and mealie meal, for human consumption. The league estimates altogether 17 million people are inadequately fed.

Forecasts are that VAT will fuel inflation, that business will not pass on rebates to benefit the consumer and that the recessionary spiral will be aggravated at a time when the country needs an economic boost to ensure stability.

Critics hold that VAT is seen by the man in the street as a means of fleecing the poor while benefiting business and the rich.

The Democratic Party's Jasper Walsh yesterday called for a cut in the VAT rate to 10 percent, as well as a reduction in income tax.

"The ordinary taxpayer is carrying far too great a burden. In the last Budget alone, income tax went up 27 percent." He also says it is morally wrong to tax medical services.

THE Government plans to defuse the VAT row by announcing a wide-ranging series of "targeted aid measures" to alleviate the sufferings of the poor.

But contrary to rumours that Finance Minister Barend du Plessis is about to buckle to pressure and postpone VAT or announce exemptions, it will be confirmed this week that the controversial measure is to be implemented as planned on September 30.

National Minister of Health Rina Venter is to announce means to feed the hungry — ranging from soup kitchens to community feeding schemes — when she appears on the Agenda TV programme tonight.

And on Friday Mr du Plessis will disclose an aid package which will increase pensions especially for black people, and provide some rate relief. The first R100 of rate bills will be VAT-free.

People who bought houses which will only be completed after September 30 will also be let off the VAT hook.

Journal 18/8/89

John MacLennan

# Alant speaks on difficulty of helping poor via tax

DURBAN. — It is very difficult to bring relief to the poor through the tax system the Deputy Minister of Finance and National Education, Dr Theo Alant, said yesterday.

Speaking in Durban, Dr Alant said a tax such as GST or VAT could have a serious effect on the poor and with this in mind a number of measures had been taken to relieve the effects of the introduction of VAT at the end of September.

Included in these measures were the zero-rating of maize and brown bread, two basic foodstuffs used almost exclusively by the poor, the exemption of transport, rented houses and all educational services.

He said other measures included targeted assistance while Finance Minister Mr Barend du Plessis had last week announced that all medical services and medicines supplied by the State, provincial and local authorities would also be exempt from VAT.

Dr Alant pointed out these services were already heavily subsidised by the State and met the needs of about 80 percent of the population.

With regard to foodstuffs, Dr Alant said it had been decided to exempt only two basic items, after it was found that under the old GST system most of the exemption benefits were enjoyed by people who could afford to pay tax.

He said the exemptions under the GST system cost about R3 billion.

With regard to assisting the poor Dr Alant said much greater use would be made of direct assistance to the needy in the form of food being made available through welfare organisations.

"An amount of R220 million will be spent between now and the end of March next year," he pointed out.

Citing examples of the inadequacies of the old GST system, Dr Alant said that more than 80 percent of the benefit of exempting certain food-

stuffs was enjoyed by those who could afford to pay tax.

"Put differently, this means that R5 was spent to get R1 worth of aid to the poor."

The same, he said, could be said about exempting housing because the wealthy spent money on luxury homes and seaside holiday homes while many of the poor could not even afford the most basic shelter.

Dr Alant said that while a lot of noise was being made about the introduction of VAT by various people and groups opposed to it, it was unfortunate they did not make use of the opportunities afforded to them to consult with government or the Department of Finance on the issue.

"There has never been so much consultation in South Africa about a tax system as there has been with VAT. It started with the appointment of the Margo Commission in 1984 which culminated in the Commission's Report

in 1987 and the government's announcement in February 1988 that VAT was to be introduced," he said.

"The widest publicity was given to Vatcom's task and everybody in South Africa was invited to participate in the proceedings. A great number of people and organisations accepted this offer and more than 122 amendments were made to the Bill as a result of Vatcom's recommendations," he stressed.

— Sapa.

## Cosatu denies Alant's claim

IT is unfortunate that Dr Theo Alant, the Deputy Minister of Finance, has chosen to try and discredit those who are campaigning for the suspension of VAT, by attacking the organisations concerned, instead of addressing himself to the substantive problems we are raising.

Dr Alant was quoted as saying that "no representations were received from the parties and organisations now accusing the government of not consulting" (The Citizen 24/8/91).

Dr Alant is also quoted as having said that after Cosatu's meeting with the Minister on July 16, 1991, "despite repeated invitations from the Minister of Finance," Jay Naidoo was "unable to fit in a follow-up meeting" (The Citizen 24/8/91).

At the summit on VAT on Thursday, August 22, it was reported by a number of the organisations present that they had made representations to the government on the VAT issue, which they felt had been disregarded. For example, a number of organisations had suggested a low VAT rate and proposed that basic foods should not be taxed.

As far as Cosatu is con-

## Commission received 1 100 submissions on VAT — Barend

THE Value Added Tax Commission had, since August last year, received 1 100 written submissions and evidence from 120 organisations which lead to 112 changes to the draft Bill on VAT, says Finance Minister Barend du Plessis.

Speaking on the first

weekly television series to inform the public about VAT, Mr Du Plessis said Parliament itself had made a further 78 changes to the draft Bill before finally approving VAT.

Mr Du Plessis said he was satisfied there had been sufficient consultations with interested groups and individuals on the implementation of

VAT at the end of September.

He pointed out that he had been given special powers by Parliament to continue consultations after the final legislation had been approved.

Despite the ongoing discussions regarding the implications of VAT, he stressed the implementation of the tax could no

longer be delayed.

Referring to the history of VAT, he said a year after the Margo Commission started its investigations into a new tax system for the country in 1984, it had indicated that VAT would be a suitable tax to replace General Sales Tax.

Mr Du Plessis said following further investigations, government had accepted the recommendations in 1987 and published a white paper on the proposals.

A final decision on implementing the tax was taken in 1988.

He added that after the draft legislation was published in June last year the Department of Inland Revenue had held seminars and discussions with various groups across the country. — Sapa.

## Advice to Barend

I CANNOT understand how a man of Barend's capability can mess up a matter like VAT. I regard myself as just a normal and average person. I would have acted in the following manner and challenge Barend just to do this, if he has the guts to do.

Simply change Sales Tax to VAT and come in at 12 percent. Taxable and non-taxable remains the same for VAT.

Re-assess the position nine months later and he will then have plenty of options or alterations to choose from:

1. He can then increase or decrease on 12 percent, or;

2. He can impose VAT on non-VATable items like electricity, telephone, etc. etc.

My bet is that everyone will say leave the non-VATable items — rather increase 12% to X. Easy and straightforward without upsetting anyone and causing hassles.

SSDD

24/8/91

THE Congress of SA Trade Unions (Cosatu) will seek an urgent meeting tomorrow with President De Klerk if Finance Minister Barend du Plessis does not respond to serious grievances about VAT, according to a Cosatu statement.

Cosatu's VAT co-ordinating committee, elected at last Wednesday's VAT summit, held its first meeting yesterday to consider steps to be taken to postpone the implementation of VAT until short-

comings had been resolved in the new tax system.

The committee said it had written to Mr Du Plessis detailing the problems with VAT, but, to date, he had not responded.

The committee would also request a meeting with Health Minister Rina Venter and had planned a second VAT conference on September 23 to review progress in negotiations with the government and to decide on further steps.

Meanwhile, the committee would challenge

Mr Du Plessis to a live TV debate on VAT, and it urged the public to write letters on VAT to the government.

Tax experts would combine proposals already submitted by organisations in the protest against VAT, while Cosatu would organise public meetings in major centres.

The statement listed 18 organisations supporting anti-VAT action, including the ANC, the Johannesburg Child Welfare Society and Operation Hunger. — Sapa

## Cosatu to stage VAT protest

COSATU is to stage a protest march in Johannesburg on September 18 to express displeasure at government's intention to implement VAT, the trade union federation's Witwatersrand president, Mr Andrew Zulu, announced yesterday at Etwatwa near Daveyton.

Mr Zulu told 4000 ANC supporters at a rally: "We are not prepared to pay Value-added Tax on basic foodstuff, electricity and phone bills. The South African Government has shifted the attacks on ANC members in the townships, but now they are attacking workers in their work places."

### Members

ANC NEC members Mr Chris Hani and Mr Ronnie Kasrils, both also senior SA Communist Party members, also addressed the rally.

Mr Hani said the South African Black Taxi Association's "exploitation on our people" would come to an end under an ANC government.

Transport would be "taken by our people as well, as their means of transport," said Mr Hani.

On the rent issue, Mr Hani said: "Our people must pay the rent according to what they earn, and the housing problem must not be used as a means of exploiting our people. Today you are staying in this place which has no schools, clinics, hospitals and electricity because of capitalism," he said.

### Form

Mr Kasrils called on Etwatwa residents to form disciplined defence committees to ward off attacks by "roidoos".

He urged the crowd not to vote "for people like Gatscha Buthelezi" when national elections were called. — Sapa.

## Cosatu mass action against VAT in W Tvl

By MZIMASI NGUDLE

COSATU's Western Transvaal region will embark on a programme of mass action from Monday to September 30 in an effort to compel the Government to postpone the implementation date of VAT.

A regional congress attended by 400 delegates discussed a range of issues including VAT, the National Peace Accord as well as trade union unity.

The congress called on finance minister Mr du Plessis to postpone VAT so that effective negotiations with Cosatu could be made.

Workers will demonstrate in factories, mines and shops. Pickets at the office of the receiver of revenue or manpower department will be held in all Cosatu locals in the western Transvaal.

On September 21 there will be protest marches in Vereeniging, Sasolburg, Klerksdorp, Patry, Carletonville and Lichtenburg.

A meeting of regional shop stewards council on September 22 will assess the protest and decide on further action.

## Cosatu: VAT response or we see FW

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The statement listed 18 organisations supporting anti-VAT action, including the ANC, the Johannesburg Child Welfare Society and Operation Hunger. — Sapa

In the wake of the Inkathagane scandal, the government faces a new crisis of legitimacy over Value Added Tax which could force it to the wall.

The warning that VAT could be the government's Waterloo, as the poll tax severely damaged the Conservative Party in Britain, was sounded by Congress of South African Trade Unions general secretary Jay Naidoo.

It came amid mounting popular resistance to the new tax, including protest marches this week by thousands of workers in Johannesburg and Bloemfontein and pickets in Vereeniging, Klerksdorp, Rosslyn and Brits.

Trade unions representing close to two million workers and a national federation of civic bodies are girding their loins for battle on the issue.

A final decision about the next wave of mass action will be taken at the second VAT summit on Monday. But Cosatu, which leads an anti-VAT coalition of 93 civic, union and welfare bodies, has warned that a general strike and rent and tax boycotts could flow from it.

Included in this would be a boycott of PAYE, and labour has strongly hinted that it will put the squeeze on employers to halt PAYE deductions. Demands for a five percent increase to offset the anticipated inflationary effect of VAT are already feeding into pay negotiations.

In addition, the deadlock between anti-VAT campaigners and the state is likely to bedevil negotiations aimed at ending electricity boycotts and restructuring local government.

The VAT crisis escalated sharply this week when, at talks in Pretoria, Finance Minister Barend du Plessis rejected compromise demands by the Cosatu-led Co-ordinating Committee on VAT for a six-month delay in the levying of the new tax on basic foods, medicines, medical services, electricity and water. This would be to allow for further negotiations.

The current VAT system, which takes effect on September 30, exempts only brown bread, maize meal, bus and rail transport, rented accommodation and certain municipal services. A wide range of formerly GST-exempt foods and services will be taxable, raising fears of a rise in the cost of living of up to five percent for the very poor.

At the talks, Du Plessis offered subsidies to the tune of R50-million on foods consumed by the very poor, SADF assistance in running a poverty relief programme and additional powers for Vawatch to monitor company costs.

Rejecting his counter-proposals, the committee said it would seek direct talks with President F.W. de Klerk and the South African Chamber of Business and Afrikaner Handelsinstituut, which it accused of giving "unconditional support" to the government.

Last Friday Cosatu, the National Council of Trade Unions and the Confederation of Metal and Building Unions, a key representative of white skilled labour, agreed to call for the postponement of VAT and negotiations on three key short-term demands.

These were the zero-rating of basic foods, medical services and prescribed medicines, water and electricity and trade union subscriptions, effective measures to control price abuse and a negotiated poverty relief programme.

They also urged talks on the entire tax system in the longer term.

Cosatu's campaigns co-ordinator, Lisa Seftel, believes the threat of a national strike is not an empty one, but admits that the success of such action will depend on massive mobilisation.

She said the campaign was likely to cover a

# 20/9/91 Barend heads for VATerloo

The government's determination to introduce Value-Added Tax in 10 days' time could lead to protests on the scale of those which greeted Margaret Thatcher's hated poll tax in Britain, reports **FERIAL HAJFAJEE**

range of issues, including calls for interim government and broader opposition to taxes under the banner of "no taxation without representation".

Seftel also pointed out that after Cosatu's July national congress and the call for no taxation without representation, workers had made demands that employers stop deducting PAYE.

Tax specialist Chris Frame commented that employers were legally obliged to deduct PAYE. Demands for an end to the practice could

trigger industrial conflict.

The federation will hammer out a programme of action around VAT at a special central executive committee meeting next weekend.

Meanwhile, the blue chip Premier Group broke ranks with the mass of employers by throwing its weight behind the campaign for VAT's postponement.

Premier chairman Peter Wrighton made an "urgent appeal to government to reconsider the imposition of VAT when the country is on the threshold of negotiations for a new and democratic South Africa.

"This is a moment when further consultation is absolutely necessary, especially for the introduction of a new tax system which requires general support," Irving and Johnson has also made calls for further negotiations on VAT.

In Durban, a coalition of organisations will hold a picket this weekend, while a march is

also planned for Potgietersrus in the Northern Transvaal.

The Cape Town-based Western Cape Action Group against VAT has gathered a large group of organisations under its banner and will, in the next two weeks conduct an intensive campaign against the tax, says publicity officer Rosie Cammell.

The African National Congress, Cosatu, Pan Africanist Congress, Azanian People's Organisation, Workers' Organisation for Socialist Action and a variety of community and service organisations sit on the Co-ordinating Committee on VAT.

The National Interim Civics Committee also said it would join the anti-VAT campaign. Its members were planning marches and would call for new rent boycotts as a measure if no significant gains are made on the VAT committee's.

At a press conference on Wednesday, the National Medical and Dental Association said its members might boycott the tax by not charging patients VAT.

A petition circulated by concerned sections of the medical profession had collected 330 000 signatures protesting against the implementation of VAT on medical services, spokesman said.

© More on the VAT campaign on page 10.

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Entire tax system will collapse, warns Naidoo

# VAT threat by Cosatu

lalalal  
By Paula Fray  
Consumer Reporter

South Africa's largest trade union group says the introduction of value added tax will lead to the collapse of the entire tax system.

The warning came from Cosatu secretary-general Jay Naidoo after tens of thousands of people had marched through Johannesburg and Bloemfontein to protest against the implementation of VAT.

Speaking on Radio 702's "Vatline", Mr Naidoo said: "It will be a national disaster if it goes ahead." General resistance would spread to PAYE tax.

Earlier, Cosatu assistant general secretary Sam Shiloa warned that if VAT was implemented without effective negotiation, the organisation would engage in spontaneous industrial actions which would culminate in a general strike.

Vatwatch chairman Professor Louise Tager said the impasse between the Government and the Co-ordinating Committee on VAT was complicating the watchbody's task.

The committee said yesterday that mass action, including tax resistance and a general strike, would be discussed at the second VAT summit on Monday. It would seek to meet President de Klerk to point out that there was potential for either conflict or consensus.

The VAT committee, which represents 93 organisations, will also approach the South African Chamber of Commerce and the Afrikaanse Handelsinstituut.

The statements follow a meeting with Finance Minister Barend du Plessis on Tuesday, when he said VAT would not be postponed nor



Massed against VAT... protesters take to the streets to show their displeasure with the new tax system.

Picture: Alf Kumalo

would more foods be zero-rated. He announced a 10 percent subsidy on samp, mealie, rice and powdered milk for at least a year.

Housewives' League president Lyn Morris said clarification was needed on how the Minister would subsidise the goods. Also needed was a check on how this would help the needy.

While the Consumer Council welcomed the subsidy,

the VAT committee said it was completely inadequate.

Professor Tager said that if the subsidies had an effect equivalent to zero-rating, Vatwatch would welcome them and similar measures.

She said Vatwatch would like to see the subsidies extended to other basic nutritional foods, and to the supply of water, electricity and sewerage in disadvantaged communities.

Earlier in the day, it was announced that postal and telecommunications tariffs would rise by about 8.77 percent on September 30 — and consumer bodies expect more VAT-related increases.

The new Post Office tariffs reflect the VAT-inclusive price the consumer will pay — the PO will absorb the difference of about 1.2 percent.

Postage on ordinary letters will increase from 25c

to 27c. Phone rentals will increase by R2 to R26, and phone call charges from 15c to 16.5c a unit. Phone installation will increase from R155 to R170.

Phone rental on party lines will go up to R27 a month, and call charges from 15c to 16.5c a unit. Pay phones are not affected.

Postmaster-General Johan de Villiers said VAT would

push up these charges, which were presently exempt from general sales tax.

Concessionary tariffs for social and certain other pensioners will increase as well: telephone installation rises from R25 to R27, and monthly rental will increase by R1.60 to R19.60.

Mailing a 1 kg parcel will cost R2.70 — 20c more. Air-mail for the same package will cost R3.60 — 30c more.

# Medical taxation slammed

THE introduction of VAT on health services means that black people are being taxed for suffering from diseases that are caused by the political deprivations, a doctor has said.

Dr Aaron Motsaedi, vice-chairman of the Northern Transvaal region of the ANC, was addressing a fundraising dinner of the organisation on Saturday night and told the gathering that 80 percent of black people were not on medical aid, while 80 percent of whites were.

## Unfair

"This means that 80 percent of the entire nation is not on medical aid and are therefore going to be taxed each time they go to a doctor or to hospital."

# Trade unions meet to talk about VAT

THREE trade union federations representing 43 unions and 16 unaffiliated unions met in Johannesburg on Saturday to discuss the implications of VAT.

The convenors, Cosatu and Nactu, said in a joint statement the meeting was a follow-up to the VAT summit held on August 22.

They said all the unions were highly critical of the lack of concern by the Minister of Finance for the "disastrous" effect VAT would have on lower income groups and the unemployed in South Africa.

By MATHATHA TSEDU

"When we look at the diseases that black people suffer from, you find that they are tuberculosis, cholera and kwashiorkor. All these are related to the lack of clean water and food."

## Hospital

"The responsibility to provide purified water is with the Government but many areas in the rural areas have no water at all, let alone clean water."

"These are the people who get sick and are going to be taxed for being ill due to the deprivation by Government," Motsaedi said.

"It is all so unfair," he said, adding: "We are fighting against this but who will help us?"

The unions supported the following demands of the VAT summit and called for a postponement of the implementation of VAT to allow for negotiations on the following demands:

- Zero-rating of basic foodstuffs, medical services and prescribed medicines, water and electricity, and trade union subscriptions.
- the need for more effective measures to control price abuse;
- new poverty relief programmes had to be properly negotiated.

# Working group on VAT set up

By Paula Gray

A working group to investigate problems relating to the implementation of value-added tax was set up by the Government.

The committee represents a broad range of organisations including the ANC, Cosatu, the Johannesburg Child Welfare Society and Operation Hunger.

The committee has repeatedly requested that the implementation of VAT on September 29 be delayed to allow the shortcomings of the system to be adequately addressed by a negotiation process.

However, Mr du Plessis said that in the interest of the earliest possible resumption of investment and economic growth, the date should not be changed.

The working group will consider the technical and administrative problems of implementing VAT, the effects of a

delay in implementation, the possible effects on the consumer price index, the impact on the usually buoyant fourth quarter, and the effects on recent years, Economic Director Michael Bester said.

Speaking at a meeting of the committee, Bester said that the committee's task was to identify the problems and to make recommendations to the Minister of Finance.

"We are looking to the working group to answer technical questions at this point. We and the Minister have not entered into policy debate."

According to Mr Fanaroff, the committee's objections to the system still stood. The group was preparing for countrywide report-backs at various public meetings.

The committee's representation to the Government follows a VAT summit on August 22 at which committee members reiterated concerns regarding VAT on basic foods, medicines and medical services as well as the adverse effects of the new system on small business.

© Stores offer tax-free splurge — Page 10

# 'Human chain' demo

By Sharon Singh

In the first major action against VAT, and in support of demands for industrial restructuring, about 100 000 workers countrywide are set to take to the streets today in a "human chain" demonstration.

The action, organised by the SA Clothing and Textile Workers Union (Sactwu), is in line with a recent Cosatu decision to hold demonstrations against VAT.

Sactwu spokesman Ebrahim Patel said

workers would also be highlighting their demand for union involvement in planning for growth and job security.

The union has held a series of workshops on economic restructuring as well as a major conference in April in which employers in the industry also took part.

Today's action aims to demonstrate actively on issues Cosatu has taken firm positions on.

Permission has been granted by various municipalities for the demonstrations to take place between 1 and 2 pm.

# VAT to hit retail sales even further

MARCIA KLEIN

ALREADY depressed retail sales would be further affected by VAT, and the usually buoyant fourth quarter would show limited growth compared to recent years, Economic Director Michael Bester said.

Speaking at a meeting of the committee, Bester said that the committee's task was to identify the problems and to make recommendations to the Minister of Finance.

Bester predicted that disposable income, which showed a 1.5% real increase last year, would be down by 2% this year.

After a bottoming out in the first quarter of 1992, Bester expected a 1% decline over most of 1992 and the return to a positive figure at year-end.

He said retail markets would certainly experience a decline in real terms both over the current year and the first half of next year. He expected retail sales to decline by 2.5% in real terms this year and by 1.5% in 1992.

After bottoming out in the first quarter of 1992, Bester said, retail sales growth would initially be sluggish, and marked growth could only be expected in 1993. However, he said "this would not be a

serious recession like the last". Retail sales would be especially depressed and would only show a marginal improvement after the first quarter of next year. Bester said food inflation was likely to remain high, and VAT could exert upward pressure. Generally, durables would show weakness into the first or second quarter of 1992.

Key factors influencing retail sales would be the wage rate, which would only 13% to 14% in 1991. Also, there would be a drop in employment, especially with the mining sector automatically weaker.

Other factors were the slowdown in income redistribution and a "gentle decline in real discretionary income".

The level of debt as a percentage of nominal disposable income was currently at its highest levels, and Bester said the burden of servicing that debt was also high. The consequence of this was that a significant rise in insolvencies could be expected. This would remain high until near the end of 1992.

Bester said retail inflation had increased more rapidly than CPI (which included services) in the previous recession. He expected the opposite to happen next year with the rate of inflation of services exceeding that of goods, following the implementation of VAT on services.

# Cosatu: job talks urgent

VERA VON LIEWES

LARGE-scale job losses in SA's main employment sectors underlined the urgency of negotiations between Cosatu, employers' federation Saccola and government on a coherent approach to ending retrenchments and creating jobs, Cosatu said yesterday.

The latest Central Statistical Service figures, released this week, show that more than 40 000 workers lost their jobs earlier this year in the four main employment sectors: manufacturing, construction, mining and quarrying, and electricity.

National Union of Metalworkers' secretary Bernie Fanaroff said Sactwu was demanding a moratorium on retrenchments, and that government negotiate macro-economic policy.

# 'VAT can't be delayed'

FROM PAGE 1

ment. A joint working group, consisting of experts from the government and the committee, was set up to investigate the technical and administrative problems of implementing VAT, the effects of delaying implementation, and the possible effects on consumer prices.

The working group will report back on September 16. Mr Du Plessis said in a statement that the postponement of the implementation date of VAT would be extremely detrimental to the economy, especially in view of the delicate early stage in which the economic upswing was taking place.

"I made it clear to the committee that over a long period undertakings were given by the government, and especially the Ministry of Finance, to the broad business community, including important investors from overseas, over the implementation date."

"This was necessary to help them put on a firm basis their investment programmes for capital and intermediate goods."

"According to our experience, very big amounts are earmarked for the replacement and expansion of capital equipment in our industry, not only to provide for the requirements of local manufacturers of

certain goods, but also to begin export on a considerable scale from South Africa, particularly to African countries in the Southern Hemisphere. This means the maintenance of existing, and the creation of new, work opportunities."

"I put it to the committee that this investment is an indispensable injection especially at the beginning of the upswing, in order to promote business confidence and economic growth."

"The committee pointed out specific difficulties concerning the implementation of VAT from an administrative point of view, as well as the possible effect it might have, especially on low income households."

"It was very clear that the committee and the organisations that it represents were advised by people who worked from a totally different data base than we in the government have been doing for a long period in preparing for the implementation of VAT."

"It is thus necessary that the greatest possible measure of verification of the different departure points and data bases must be done before there can be talk of achieving consensus over such matters as: where VAT could possibly have a negative effect and, if this is so, in which way action to lighten the implications may be necessary."

"On the side of the government, we have repeatedly expressed our willingness to give support, by means of investment in all sorts of help programmes where necessary."

"In the light of our own experience with VAT and the ineffectiveness of VAT exemptions, and the similar detrimental experiences in other countries where VAT exemptions are made, it is clear that the tax system should not be employed to achieve social objectives."

"Thus, for example, the VAT rate in Britain is, no less than 17.5 percent, which is exceptionally high, but which is directly the result of all sorts of exemptions which have been made in the course of time, mainly as the result of political pressure."

"The government thus remains convinced that as far as the VAT system is concerned, we must proceed with the purest possible system — which will also be the easiest to implement — and, where necessary, rather provide relief on a direct targeted help basis."

Dr Bernie Fanaroff, an organiser for the Cosatu-affiliated National Union of Metalworkers of South Africa, said Mr Du Plessis had taken the committee's concerns seriously.

The committee's objections stood, and it would convene public meetings to outline its position, he said.

# VAT

problems in the implementation of the new tax and its effect on consumers.

A major concern was: the new system's potential to boost the inflation spiral.

The delay in the purchase of capital goods, which would qualify for an input tax credit, would result in a significant reduction in revenue in the first year, which would curtail government's ability to give

relief in other sectors or to spend on social and development projects, the committee argued.

"We fear that implementation of VAT in its present form will lead to widespread hardship and a backlash against payment of taxes. It is also likely to lead to industrial unrest, with workers demanding wage increases to compensate for the effects of VAT," the memorandum said.

From Page 1

## MAKING SURE IT'S FAIR

A large cruise ship is shown from an aerial perspective, sailing on a dark, choppy sea. The ship is white with a dark hull and has multiple decks visible. It is moving towards the right side of the frame, leaving a white wake behind it. The image is in black and white, emphasizing the contrast between the ship and the dark water.

**VATWATCH**—The consumer's friend on VAT day



**NOTE:** Businesses with turnover of less than R150 000 a year need not register for VAT. They pay VAT on their purchases, but do not levy VAT on their sales. The VAT they paid is merely built into their prices.



## Bond rates to rise on October 1

SVEN LUNSCHÉ

**LEADING commercial banks and building societies yesterday announced shock increases in bond and prime rates of 0,25 percentage points to coincide with the introduction of VAT on October 1.**

And in a double blow to consumers, the institutions indicated that they were considering lower interest rates on savings.

The increases in lending rates come at a time when embattled consumers and businesses were hoping for a cut of about 1 percent in interest rates by the year-end.

However, a cut in rates has become more unlikely, as VAT is set to lift consumer prices and higher interest rates are essential in controlling inflation.

The latest rate increases will push up the bond rate from 19,75 to 20 percent and lift the monthly repayments by R20 a month for homeowners with outstanding mortgages of R100 000.

For mortgages valued at R50 000, the monthly payments will rise by roughly R10 and for bonds of R150 000 by about R40.

### Tax on capital bases

The prime rate — the overdraft rate charged to banks' biggest and best customers — rises from 20 to 20,25 percent, but most businesses and consumers will pay far higher rates.

Bankers earlier this month persuaded the Government to drop plans to impose a turnover tax on banks and instead to introduce a tax on their capital bases as a substitute for VAT.

Industry sources estimate that the tax will cost the country's institutions roughly R220 million in additional charges, and the latest adjustment to rates will enable the financial institutions to recover the costs.

Announcing the increases, First National Bank senior general manager Viv Bartlett said: "As a result of the new tax to be levied on banks and other financial institutions in lieu of VAT, and the resultant squeeze on margins, the bank will have to take appropriate steps to recover these costs."

"In doing so, we are mindful of the further pressures on business and household incomes in the current economic circumstances."

"In a further attempt to spread the recovery of the cost as broadly as possible, we will use the present easier liquidity conditions to work towards a downward adjustment in our wholesale and retail deposit rates," Mr Bartlett said.

Other institutions to follow FNB's lead yesterday included Nedcor, which includes the Perm and Ned bank, and Amalgamated Banks of SA (Absa), the holding company for the UBS, Allied and Volkskas.

Standard Bank and Natal Building Society spokesmen said it was likely their organisations would follow suit after meetings on Monday.

### Business Times Reporter

VAT in its present form will cost thousands of jobs in small businesses.

This is the view of the National Industrial Chamber (NIC), which represents emerging small manufacturers and service businesses. It has joined the Cosatu-initiated Co-ordinating Committee on Vat to bring the effects of Vat on small business to the Cabinet's attention.

NIC executive member Ian Hetherington says: "A cost-benefit study in the UK showed that proportionally, it cost small businesses up to 30 times more than larger enterprise to comply with Vat. No similar study has been done here."

### Complex

Mr Hetherington lists the main disadvantages of Vat.

- The Act is complex and difficult to understand.
- Penalties for non-compliance are draconian and could close some businesses.
- The threshold level for Vat registration is too low. Small enterprise have to register if their sales exceed R3 000 a week. Many hawkers, spaza owners, builders, taverners and backyard manufacturers will be hurt.
- Corporate customers cannot reclaim Vat on supplies from non-registered entrepreneurs although these businesses pay Vat on inputs.

By CHARLENE SMITH

**UNIONS, united for the first time across race barriers, meet tomorrow to discuss a possible general strike against VAT.**

The coalition, which includes white unions, will meet in Johannesburg to discuss strategies in anticipation of an expected meeting with businessmen and President FW de Klerk on VAT.

Unionists have warned they will bring as many as two million workers out on a three-day general strike if the government does not bow to their demands.

The unions want zero-rating for foodstuffs, a poverty relief programme, VAT exemption for medical services and prescribed medicines and a representative tax advisory committee.

Mr De Klerk has acknowledged receiving a

## Vat threatens jobs in small businesses

Several corporations say they will deal only with registered vendors. This is a blow to the sub-contracting bridge being built between big and small businesses.

● The UK cost-benefit study showed it could cost the Government up to 90p in the pound to collect Vat from small businesses. No estimates have been disclosed for SA.

Mr Hetherington proposes these solutions:

- Raise the annual turnover threshold for Vat registration from R150 000 to R500 000 a year.
- Compensate small business for compliance costs by a monthly cash rebate against verifiable claims on a sliding scale for owner-managed businesses only so that it falls away altogether

for those with taxable supplies of more than R5-million.

● Soften penalties for non-compliance.

He also proposes that goods and services bought by Vat-registered businesses from non-registered small ones (which do not levy Vat) should be deemed Vat-rebatable by the Receiver of Revenue.

## Shopkeepers stock up

Business Times Reporter

**SMALL shopkeepers have stocked up ahead of Vat's introduction, says Neil Ross, senior consultant at Perry & Associates.**

These shopkeepers are GST registered and have bought stock to take advantage of their exemption certificates.

August and September will thus have been boom months for wholesalers and October will be quiet.

Mr Ross says blacks buy large quantities of groceries for the informal trading sector. Traders have bridged the distribution gap and managed to get goods to the people where they live or work.

The sector is driven by need and convenience. Many consumers buy from informal outlets in spite of high mark-ups because they cannot easily shop regularly elsewhere.

Informal shopkeepers also make their wholesale purchases on the basis of convenience — where they are made to feel welcome and their needs are met. Wholesalers have positioned themselves for this.

However, if it is more convenient, informal operators buy stock at retail outlets and this could change the retail-wholesale split of business.

## Whites and blacks unite in massive anti-tax campaign

letter from the Co-ordinating Committee on VAT, which includes the unions, but has not made a commitment to meet with them yet.

The unions meeting tomorrow include Cosatu, Nactu, the Confederation of Metal and Building Unions (a white confederation) and 15 other independent unions.

A number of public sector unions will attend, including the Institute of Public Servants, the Public Servants' League and the Natal Provincial Administration Personnel Association.

A provisional date for a

tee on Labour Affairs which represents the 60 major employers in the country. The SA Chamber of Business will not comment on union threats of a general strike prior to this meeting.

Mr Mahlomola Skhosana, first assistant general secretary of Nactu, said there was a lot of anger and frustration at "this regime taxing people who have not voted it into office. But the issue affects more than just the unions, it affects civic associations, too".

Mr Skhosana said the R100-million townships are in rates was unlikely to be paid once consumers realised they would also be taxed on electricity and water consumption. "How do the authorities hope to get that money now?"

A further meeting is planned for later in the week with the SA Employers Consultative Committee.

## Govt shrugs off VAT-haters

MAGNUS HEYSTEK

VAT goes ahead!

This was the message from reliable government sources yesterday as the public opposition to the introduction of VAT reached fever pitch.

Earlier this week on Radio 702 Jay Naidoo, general secretary of the Congress of South African Trade Unions (Cosatu), threatened country-wide strikes should the Government go ahead with the introduction of VAT.

"The Government is mad if it goes ahead with VAT in the face of country-wide opposition. The country will be paralysed if it (the Government) does not adhere to the



JAY NAIDOO: Threatened strikes.

pleas to postpone VAT."

And the announcement yesterday by the banks that overdraft rates are to rise by 0,25 percent while deposit rates are to drop, will further serve to fuel the flames of public resentment.

The turnover tax, while strictly speaking not VAT, will, however, be

seen by the general public as a consequence of the introduction of VAT.

The decision by the banks to increase overdraft and mortgage rates is an effort by the banks to recoup an estimated R220 million that a turnover tax of 0,75 percent will collectively cost them.

The Co-ordinating Committee on VAT, a loosely-knit grouping of 92 organisations opposed to VAT, will be meeting again on Monday to discuss further steps after the Minister of Finance Barend du Plessis rejected proposals this week that the implementation of VAT be postponed.

The ANC yesterday said, although it accepted

the need for a consumption tax such as VAT, it called into question the timing of the introduction of the tax.

"VAT, as proposed, puts the burden of kick-starting the economy on the poor, the very people who have not benefited from the South African economy in the past," said secretary-general of the ANC Cyril Ramaphosa.

The SA Chamber of Business (Sacob) earlier this week urged the Department of Finance not to delay the implementation of VAT, saying that such a decision would exacerbate the current economic recession and delay the economic upswing.

## Barend adds VAT to fire

### MONEY TALK

**NOWHERE** in the world has the introduction of a widely-based tax such as VAT gone smoothly. South Africa is no exception.

What is extremely irritating is that the government seems to be jumping around like a cat on a hot tin roof. Cosatu and others had hardly announced their opposition to the introduction of the new tax when the rate was cut by two percent to 10 percent. Certain new exemptions were introduced as well.

To the business world the reduction of two percent at this late stage was a costly irritation, because new and unfamiliar systems had to be changed. One large chain store group calculated the total cost of re-labelling every item in their hundreds of large stores at around R4-million.

Who will pay this extra amount? It will be John Citizen,

as the store group will obviously add a few cents to many items to recoup this loss. That is the way businessmen operate all over the world and no amount of appeals and threats by politicians will make them change their ways.

Last week further concessions were announced by the Finance Minister, which did not impress anyone.

This last-minute chopping and changing is creating an atmosphere of uncertainty and annoyance. The government should have made the lot of the poor easier right at the start.

On the other hand, one is not impressed by the actions of those opposed to VAT. They have only

now jumped on an issue that has been in the news for a long time.

The fact is the existing GST system has become totally inadequate. VAT is bringing a lot of unpleasantness in its wake, but promises to help get export performance out of the doldrums.

More important is the hope it will generate sufficient funds to tackle the country's huge socio-economic problems.

Those leaders threatening to exhort their followers to refuse to pay taxes in future should consider their actions carefully. They might be joined by the entire population, because all South Africans are sick and tired of paying sky-high taxes.

If a climate is created which ruins the tax system — as happened in a number of African countries — a new non-racial government will face a crisis.

### Support

Miss Lisa Seftel, Cosatu national campaigns co-ordinator said she believed the Government had underestimated public anger over VAT.

"Our phones haven't stopped ringing with calls from consumers — and increasing businessmen who support us," she said. ANC secretary-general Cyril Ramaphosa said the ANC was concerned that negotiations between the Finance Ministry and consumer unions and groups had broken down.

He said although the ANC accepted "the need for a consumption tax such as VAT," it calls into question the timing of its introduction.



# Coordinating Committee on

P.O. Box 260483 Excom 2023

(011) 832-2032/9

fax (011) 833-6033

# VAT



• Cartoon courtesy of City Press

## What is the person in the street saying about VAT

**Norman Scharneck, Eldorado Park:** Most businessmen will just add VAT and pocket the profits, and to hell with the man in the street.

**Maurizie Incani:** There are four categories of rates in Italy: basic foods 2%; other items 9% or 18%; luxury goods 35%. I suggest the government study VAT overseas.

**R.Gardner, Benoni:** I think it is obscene, and immoral and un-Christian for the state to profit on people's illness by taxing medicine and medical services.

In a readers poll - "The Star" 22/8/91 (after VAT had been reduced from 12-10%) only 3 people supported the way in which VAT was introduced and 70 opposed it.

## Stop VAT before it is too late!

"If VAT is introduced on 1st October, we will face a national crisis," Jay Naidoo, General Secretary COSATU

"Already 40% of the population are living below the breadline. There will be widespread starvation if VAT goes ahead on basic foods", Ina Perlman, Director Operation Hunger

## We can't allow this to happen!

The Co-ordinating Committee on VAT is calling for the introduction of VAT to be postponed until there can be effective negotiations with the Department of Finance on the problems of VAT.

### *The most serious problems are:*

- VAT on basic foods, on medicines and private medical services
- Inadequate relief for poor people.
- Price abuse
- High administration costs for small business

The Co-ordinating Committee on VAT rejects the recent concessions of the Minister of Finance when he lowered the rate to 10%. This is too little too late.

## Do something to stop VAT being implemented on 1st October!

### *The Co-ordinating Committee on VAT is calling on:*

- All those opposed to VAT should register their protest by attending public meetings which will be called in the next ten days.
- The State President to intervene and ensure that the introduction of VAT is postponed until an urgent process of negotiations is set up to resolve the problems of VAT.
- The Public to write letters and phone the State President and ask him to intervene in this crisis.
- All Organisations to support our initiative. Write to Co-ordinating Committee on VAT at P.O. Box 260483 Excom 2023 or fax: (011) 833-6330.

Issued by the Co-ordinating Committee on VAT made up of the following organisations:

African National Congress, CAST, COSATU, Congress of Business Economics, Johannesburg Child Welfare Society, Lenasia Civic, Natal Provincial Staff Association, National Black Consumers Union, NACTU, National Civics Interim Co-ordinating Structure, National Medical and Dental Association (NAMDA), National Union of Leather Workers, Operation Hunger, Public Servants Association of South Africa, South African Health Workers Congress (SAHWCO), South African National Consumers Union, Society for Dispensing Family Practitioners, World Vision.

JUST A week ago, Finance Minister Barend du Plessis appeared determined to dig in his heels and impose VAT at the original rate of 12 percent.

But as the voice of opposition reached its loudest pitch, he and the rest of the Cabinet clearly decided to strike a compromise between placating the public and fulfilling the demands of the Exchequer.

Consumer bodies generally agree that yesterday's announcements of a lower VAT rate was largely a result of the "almost hysterical" public and political pressure which escalated remarkably in the last

# Enormous pressure forced VAT backdown

few weeks.

"The consumer came out well on this one, and I think we witnessed the extent to which public opposition to this sort of thing can have an effect," Consumer Council director Jan Cronje said.

Government sources indicated yesterday that the change of heart over the VAT rate was not the result of internal pressure within the Cabinet, but appeared to be a decision made by Mr du Plessis because of ex-

Barend du Plessis was obliged to reduce VAT this week after consumer protests against the new system rose to a crescendo. HELEN GRANGE AND PETER FABRICIUS report.

ternal public and political pressures.

"Both the Democratic Party and the Labour Party wanted a lower rate, as did others," one source said.

"Eventually there was so much pressure that one felt one had to give in."

It is known that the Minister

was saturated in the last few weeks with representations from consumer and employer groups — with an angry Mediese Vereniging team, sporting 14 000 signatures, meeting with him only the day before the new announcement.

VAT had also become a dirty word among political groups in-

cluding the ANC, which demanded to have its implementation postponed until the organisation had made proper representations to Mr du Plessis about its effects.

Cosatu had also joined the anti-VAT bandwagon, afraid that its low-income members would be worse off under the

new tax.

The increasingly politicised issue of VAT placed Mr du Plessis' department in a difficult situation, which, as he conceded this week, demanded that the Government make its decisions as quickly as possible.

Briefly addressing the ANC's demand for postponement, Mr

du Plessis said on Wednesday that VAT had been decided on as a replacement for GST since mid-1988 and that to postpone it now would seriously disrupt industries.

Although many of the petitioners in the consumer industry and business scored a victory this week, some objectors, despite their mounting cry against VAT, had no such boast.

The medical industry sorely lost out on its demand for a zero rating on medical services

based on the argument that it was immoral to charge VAT on illness.

Mr du Plessis took a hard line on this sector, subjecting it to VAT notwithstanding the debate, which he dismissed as an argument that led nowhere.

However, it was expected that whatever changes Mr du Plessis did make there would have to be the unhappy few.

As general reaction to the announcement reflected, most of those affected by the incoming tax system have accepted, some more graciously than others, that Mr du Plessis made a fair compromise. □

## Vat regarded as recipe for disaster

By DERRICK LUTHAYI and Sapa

INDEPENDENT tax adviser Matsheru Matsheru says the reduction of Value Added Tax (Vat) from 12 percent to 10 percent is to be welcomed, but with reservations.

He said the new rate was still high compared to the present GST system and that the individual income tax rate was 43 percent.

Because after-tax earnings were low consumers could not afford to pay 10 percent Vat.

Matsheru said there was no balance between tax on earnings (income tax) and tax on spending (Vat).

Du Plessis should have strived to achieve a balance between these two taxes, because the one influenced the other.

"In the confusion, Du Plessis increased the price of petrol and diesel and to me this was a bad strategy."

It is known that when petrol prices go up, it also pushes up the prices of other goods and services. This will lead to inflation and if this is not followed quickly by wages and salaries increases, it may lead to industrial revolution.

Businesses may take advantage of petrol increases to put up their prices.

Matsheru added that Du Plessis made another big mistake by not zero-rating all foods.

"If I were him, I would zero-rate all food and only tax them after a year and only when inflation is down. I would also tax food after a year and then only on a phased-in basis."

Matsheru said it was not certain Vat would be implemented at the end of September.

If Du Plessis did not heed Cosatu calls and consult them on Vat issues, "we may face an industrial tax revolu-



MATSHERU... Vat not the answer. BY PETER GIDEON MHLAPHO

tion of the worse kind and this may disrupt the implementation of the Vat system unless employers agree to increase wages and salaries."

"On the other hand, if Du Plessis can heed Cosatu's call and postpone Vat, business will lose confidence in him and he will also lose credibility. He cannot win either way."

## Fight against VAT continues

LESLIE LAMBERT

THE ANC, Cosatu and other critics of VAT rejected government's concessions yesterday, saying they were "inadequate and not negotiated", and vowed to continue their battle for "a more acceptable system".

About 20 of the organisations which attended an anti-VAT summit in Johannesburg demanded an urgent meeting with Finance Minister Barend du Plessis.

They would ask him to postpone the tax, scrap the petrol price increases and enter into talks for a "more widely acceptable system".

Delegates, representing the ANC, trade unions, civic organisations and the health and welfare sectors, appointed a co-ordinating committee to manage the process and decide what action to take if Du Plessis rejected the demands.

Nomas national secretary and co-ordinating committee head Bernie Fanaroff told a news conference after the summit: "We want to convey to the Minister that we would like to negotiate as a matter of urgency."

"There was a general feeling from people at the meeting that their constituencies would strongly resist the bulldozing of the system into practice."

He and Cosatu general secretary Jay Naidoo said while the summit approved of the principle of VAT, it rejected the way it had been imple-

mented and the inadequacy of relief measures for the poor.

Fanaroff said: "We would like to see the system reviewed by negotiations and would like to have access to the calculations on which the rate was based."

"We also believe that food and health care should be zero-rated."

"We also agreed that if the Minister went ahead and implemented the new tax on September 30 without negotiation, there was likely to be general resistance from the public," Fanaroff said.

Other spokesmen representing some of the organisations at the summit indicated that they expected widespread anger and industrial action from their constituencies if Du Plessis refused to accede to the demands.

Government's concessions on the VAT rate and relief aid, coupled with measures to reduce revenue losses, have been generally accepted by commerce and industry who say they represent relief without significant damage to the efficiency of the new tax system.

Du Plessis said the special powers granted in the Taxation Laws Amendment Bill to make the con-



MARIUS van BLERCK

Claire Gebhardt

THE Government's planned tax reform has fallen under a heavy cloud, given the opposition to VAT from trade unions and the ANC.

VAT was sold to the public on the basis of allowing a decrease in the tax burden of individuals and corporations.

But this will be difficult to achieve now unless the economy expands significantly and the tax base increases automatically.

Law experts note that the structural reforms proposed by government included an increase in rates of indirect taxation.

## FINANCE

# That 2-pc cut is just a placebo: watch this space!

total taxation.

However, in the Budget there was already a departure from this programme with a decrease, rather than an increase in the ratio.

Not for long, say most commentators.

Anglo American group tax consultant Marius van Blerck says it has still to be seen whether or not an increase in the petrol price will compensate for the lower rate.

He notes that the chances of an indirect tax such as VAT increasing as a proportion of government revenue is "pretty strong", no matter what the government is in power.

He believes, however,

that the hiccup in the VAT process will lead government to pause before it decides to take the next step in tax reform: targeted at 40 percent for both corporate and individual tax.

Frankel Kruger Vindereine economist Mike Brown says VAT at 10 percent is low, as IMF studies have shown a rate of 15 percent is needed because collections are so costly.

"The normal rate in most countries in the world is 15 to 20 percent and I expect government will move towards this as soon as it becomes politically feasible to do so."

Agreed, says Mr van

Blerck, who adds that where the basic VAT rate is 15 percent-plus, a number of countries have levied a lower rate on foodstuffs of about 5 or 6 percent.

"Not all have zero-rated it by any means."

Price Waterhouse's Chris Frame says VAT is the only tax flexible enough to meet rising revenue requirements.

He sees it rising to between 15 and 20 percent over the next five years.

"Government has met a legitimate demand to lower the rate to make its introduction smoother."

"But this rate won't last forever — watch this space next year."

ANC, Cosatu  
vow to carry  
on VAT battle

THE ANC, Cosatu and other critics of VAT rejected government's concessions yesterday, saying they were "inadequate and not negotiated", and vowed to continue their battle for "a more acceptable system".

About 20 of the organisations which attended an anti-VAT summit in Johannesburg demanded an urgent meeting with Finance Minister Barend du Plessis.

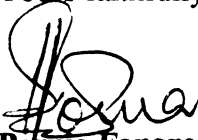
The organisations said they would ask Du Plessis to postpone the new tax, scrap the petrol price increases and enter into negotiations for a "more widely acceptable system".

Page 3

The costs of not embarking on such a process may be very high for the entire process of negotiation and may seriously jeopardise the resolution of conflict that all parties in South Africa so urgently desire.

We request you to urgently meet with the Co-ordinating Committee on VAT to seek a solution to this problem which is rapidly becoming a crisis of national proportions.

Yours faithfully,

  
Bernie Fanaroff

Convenor, Co-ordinating Committee on VAT

3.2.7. Negotiation of an adequate poverty relief programmes.

3.2.8. A commitment from the government to negotiate further changes to the tax system and on economic issues that crucially affect the major parties in this period of transistion. We are very keen to set up the appropriate forums that would engate the major players in negotiations on these economic issues.

#### **4. Conclusion**

4.1. The meeting today offers a unique opportunity to achieve consensus on a crucial economic issue and to find a way of avoiding serious prejudice to a large number of South Africans. We are committed to such a process of negotiation.

## THE CITIZEN COMMENT

### Don't do it

THIS newspaper has criticised the imposition of VAT on basic foodstuffs and on medical services.

Minister of Finance Barend du Plessis is not budging on these issues, but has offered a 10 percent subsidy on samp, mealie rice and powdered milk for at least a year.

Prof. Louise Tager, chairman of VAT-WATCH, says VATWATCH would like to see the subsidies extended to cover basic nutritional foods and the supply of water, electricity and sewerage in disadvantaged communities.

Others have other views, members of the public included.

But the point simply is that VAT cannot be delayed.

The cost of postponing it would be tremendous.

Furthermore, postponement of the tax, according to Mr Du Plessis, would have negative effects on the economy.

He says that the government has made firm commitments over a long period to the business sector, which includes foreign investors, over the implementation date to enable them to plan their investment programmes.

The South African Chamber of Commerce says that any postponement would exacerbate the present poor business conditions and delay the start of any new economic upsurge.

With the introduction of VAT only 10 days away, it would be ridiculous to expect the government to postpone VAT.

We are not even sure that it is possible to make any more changes at this late stage.

Cutting the VAT rate from 12 to 10 percent cost businesses millions of rands as they had to change the systems that many had put in place.

Postponing VAT would probably cost them millions, too, in wasted effort and money.

However, the agitation is not going to die down.

Feelings are still running high over basic foods, medical services and the fact that VAT applies to almost everything.

But that does not mean that Cosatu should threaten industrial action which would culminate in a general strike.

There would also be a boycott of VAT (how we don't know) and other taxes such as income tax, with the trade union movement pressing employers to halt PAYE deductions.

The Co-ordinating Committee on VAT's main objections are the effect on the poor and the unilateral manner in which the tax is being implemented.

However, Mr Du Plessis has pointed out that Vatcom has since August last year received 1 100 written submissions and evidence from 120 organisations which led to 120 changes to the draft Bill on VAT.

It's rather late in the day for Cosatu and other organisations to say they weren't consulted, when they had every chance to submit their views.

What to do now?

We suggest that since the government cannot delay VAT and there is so little time to amend it further, Mr Du Plessis should give an undertaking that, say, before the next Budget — roughly in six months' time — he will review the application of VAT and, if there is hardship, as we believe there will be, he will zero rate basic foodstuffs and medical services.

In the meantime, he should drop the price of petrol, increased by 13 cents a litre when he cut the VAT rate to 10 percent.

Cosatu should think again about its campaign of industrial action and a general strike.

The country's economy is in a poor enough state, with growing unemployment.

Nothing should be done to weaken the economy any further.

As for not paying VAT and other taxes, it is quite irresponsible.

The money that comes from taxes goes to running the country and paying for schools, housing, social services, pensions and everything else that the government provides.

Not to pay taxes means there will be less money available for essential services.

Don't do it.

# War on VAT

THE two major labour federations, Cosatu and Nactu, have urged the State President to intervene in the war over Value Added Tax as warnings of a national strike grew louder yesterday.

This comes just a week before the implementation date of September 30.

By THEMBA MOLEFE

In the meantime, a black tax expert, Mr Matshe Matshe, said yesterday that "taxation without representation" was fueling black opposition to VAT and may lead

To page 2



CONSUMER ANGER: Demonstrators around the country this week protested against the imposition of Value Added Tax which will replace GST on September 30.

## Socialist creation of jobs failed: Barend

THE government could not be held solely responsible for job creation, Finance Minister Barend du Plessis said yesterday.

Addressing a business symposium on the theme "One Man One Job", Mr du Plessis said the socialists and Communists had tried to make job creation the responsibility of the government and had failed.

However, his stance did not mean the government was turning its back on the unemployed. Instead, it accepted it had to contribute to the creation of "an atmosphere where there will be investment and job creation".

The solution to unemployment

was economic growth, said Mr Du Plessis.

Asked about the threats of mass action by the Co-ordinating Committee on VAT if the government went ahead with the implementation of the tax, Mr Du Plessis said he did not think it would get

the sympathy of people as VAT was a good tax.

It had already brought down the price of cement, he added.

Furthermore, he added, the government could not be forced to involve trade unions in tax policy-making decisions.

— Sapa

## Anger over VAT grows

From Page 1

to a tax revolt because of poor consultation.

The VAT Co-ordinating Committee, representing 93 organisations, including Cosatu and Nactu, yesterday said it had asked Finance Minister Barend du Plessis to arrange an urgent meeting with President FW de Klerk.

Du Plessis has refused to postpone the implementation of VAT.

The Office of the State President said a request for a meeting had not been received.

In a last-minute plea to Du Plessis, the Cape Town Chamber of Commerce has urged that basic foodstuffs be removed from the scope of VAT and that the R220 million set aside for poverty relief be increased.

### National strike

Both Cosatu and Nactu have indicated that a joint four-day national strike was being discussed by the federations and other non-aligned trade unions.

Cosatu general-secretary Mr Jay Naidoo has warned that VAT would lead to a "tax revolt", saying resistance would spread to income tax.

He said the meeting with De Klerk, hopefully by Monday, would determine whether the workers should go ahead with industrial action and said VAT should be postponed until consensus was reached on the zero-rating of basic foodstuffs.

Nactu general-secretary Mr Cunningham Ngukana scoffed at the Government's pledge to set aside R220 million for poverty relief.

"This is an insult to our people. It is absolutely still the Government's only subsidise foodstuffs such as eggs, meat, fresh vegetables and cheese instead of zero-rating them," Ngukana said.

### Negotiate

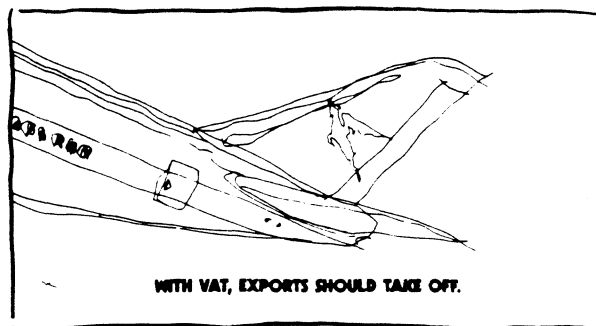
He said Nactu was agreeable with Cosatu on the possibility of a strike "because Du Plessis is not prepared to negotiate" and why it was imperative that De Klerk should intervene.

Writing in *Business Day* yesterday, Matshe said: "Du Plessis had a number of options to resolve the issue amicably."

"The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure," Matshe said.

In a statement on Wednesday, the independent but Government-funded Vatwatch group, said the impasse between the Government and the VAT Co-ordinating Committee was complicating the task of Vatwatch.

# V UPDATE



## How to get value from VAT

*South Africa faces a challenge*



### Your VAT questions answered

**Q: Will VAT be added on all an extra charge at shop tills?**

**A: NO!** The price you see on the goods or on the shelf is the price you pay. VAT is included in the price. This is also true of advertising and quotes for services. The price that is given is THE price, with the tax included.

**Q: How many rates of VAT are there?**  
**A:** Just two. The standard rate is 10 percent. Then there is the zero rate (nothing at all) on those items which are exempt from VAT.

**Q: Do I pay GST and VAT?**  
**A: NO!** VAT replaces GST. VAT (like GST) is an indirect tax. The direct tax many of us pay — income tax — remains in place and is not affected by the changeover to VAT, although considerable income tax relief has already been given, not only in the lowering of tax rates, but also the big improvement of married couples' no longer being taxed on their combined income.

**Q: Is there VAT on medical services?**  
**A:** It depends where you go. Private clinics and private doctors and dentists obviously make profits from their services. Tax therefore applies. The needy, the main users of State, provin-

cial and municipal medical facilities, will pay NO VAT on these services and medicines. It should be noted that 90% of these health services to the needy are subsidised by Government.

**Q: Do I, as an individual, have to register for VAT?**

**A: NO!** Only businesses with turnovers of more than R150 000 a year have to register at their local tax offices. They must register by August 31. Businesses which fail to register have to personally pay the VAT which they failed to collect from customers.

**Q: But what about when I carry out a little private business — for instance, selling my son's windsurfer to a neighbour for R1 200?**

**A:** Private transactions involving used or second-hand goods are NOT taxed. So, transactions carried out by an ordinary family are exempt. This is a major point of difference with GST. The old tax had to be paid when individuals engaged in the sale of goods. This system falls away with the introduction of VAT.

**Q: Do I have to pay VAT when I sell my house?**

**A: NO!** This is another form of private transaction, and so does not attract VAT. Nor does a buyer who is purchasing a home from a private seller have to pay VAT. But if you buy a new home from a COMPANY — a builder or developer — you will have to pay VAT. This is a transaction with a business, not an individual selling his or her own property. So VAT applies.

**Q: What if I use an estate agent when selling my house? Is VAT payable then?**

**A:** VAT is payable only on the estate agent's commission; NOT on the total value of the sale. And it is also only payable if the agent or his/her company is registered for VAT purposes. (Remember, only businesses with turnovers of more than R150 000 a year HAVE to be registered for VAT.)

**Q: What about my bond or my rent?**

**A:** VAT does not apply to bond repayments or rent. Nor does VAT apply to sectional title or body corporate levies.

## What about scrapping tax rather than paying it?

VAT is being introduced to replace GST. But why change? In fact, why pay tax at all?

No tax at all seems ideal. But is it? Without tax, governments have no money to pay for health, welfare and education services. Our old folk get no state pensions. Our cities, roads and harbours decay.

Foreign loans are not the answer. You have to repay them, with interest. We have to pay our own way as a nation ... and one way is through tax.

Flood relief and famine relief have to be paid for. Those helicopter pilots and navy divers who did such a great

VAT-DAY, the date on which Value Added Tax will be introduced, is only weeks away. Many businesses are already geared up for the changeover. It's definite: VAT comes to South Africa on Monday, September 30.

Two other things are certain: the rate, 10%, and the fact that many more items will carry VAT than carried GST.

Few other VAT issues are so clear cut. The public remain confused about many aspects of the new system.

People resent all taxes and fear any changes to taxation mean additional tax.

What are the facts?

Experts differ on some matters, but there is broad agreement that VAT is a better tax system than the old GST system. International agencies like the World Bank recommend it. (One of its criteria for international loans is an efficient tax system in the country to receive funding).

Countries that used to have GST are going over to VAT. Nearly 50 countries worldwide have now opted for VAT and 12 are in the process of changing over.

Under VAT the tax which business pays on machinery, trucks, equipment and certain other purchases will be refunded. This is a R6 billion a year saving to business.

This boost will help shorten the recession. There is obvious value in that.

But what about the effect on the average family?

Professor Louise Tager, chairman of

VATWATCH, points out some prices should come down in the wake of VAT. It's her job to help consumers get a fair deal out of VAT.

Internationally, the experience is that VAT has an anti-inflationary effect on the consumer price index. This form of tax helps keep the lid on inflation and therefore can help ordinary people make ends meet.

One reason for this was that the alternative GST system forced businesses to push up their prices to recover the GST they had to pay.

Businesses found themselves paying GST on items like delivery vehicles, machinery, shop fitting and advertising. All of which added to their cost structure. These additional costs were worked into the price of the goods produced by the business. The consumer then paid a price that had been inflated to take account of GST on business costs AND paid GST again when he or she bought the business's products.

Thankfully, VAT breaks the GST-on-GST effect as all businesses can subtract VAT paid on items that they use to run their business from VAT collected on sales.

Businesses will have leaner cost structures and the benefit can be passed on to consumers. In other words, an automatic 10% price rise on existing prices need not be inevitable when VAT comes in. A lower rise — OR DROP IN PRICE — would indicate the firm was trying hard to pass on savings to ordinary people.

Vigilant consumers can ensure they receive value from Value Added Tax by being very watchful of price rises and by challenging unwarranted price increases.

VATWATCH



MAKING SURE  
IT'S FAIR.

job rescuing passengers from the Oceanos have to be paid, trained and equipped. The money has to come from somewhere.

You, the taxpayer, played a part in making that miracle possible.

**FAIR AND EFFICIENT**

It is important that the tax systems we adopt be as efficient and fair as possible. Efficient — so we get in the money we need. Fair — so every South African makes a contribution to the nation's future.

An eminent economist like Dr Azar Jamine of Econometrix has calculated

• Cont. p2



# VAT storm fuelled by Transnet shock rate hikes

CAPE TOWN — The storm over the government's controversial value-added tax was fuelled by Transnet's shock announcement of rate hikes to the embattled South African economy.

With the introduction of VAT from September 30, Transnet announced increases in Spoornet rates of 8.9 percent, a net increase of 8.8 percent in Portnet's rates and 9.7 percent for Petronet's services.

Consumer bodies yesterday

lashed out at the latest increases in railway and harbour rates saying the cost of transporting goods would further aggravate spiralling inflation.

## Damaging

Mr Albert Schuitmaker of the Cape Town Chamber of Commerce said: "Any cost increases at present are damaging to the economy and fly in the face of government

claims that VAT reduces costs.

"Increases in the costs of rail transport will particularly affect the Western Cape, as it is the most remote area from the PWV."

Mr Schuitmaker said increases in harbour charges would affect all imports.

"Export costs could also rise making South African products less competitive in world mar-

kets," he warned.

Hikes in Petronet charges will particularly affect consumers.

But once business organisations established new cost structures and savings were verified, it was hoped they would be passed on to the consumer, he said.

Mr Daan Kruger, assistant director of the SA Consumer Council in Pretoria, said the increases would affect all goods transported by Transnet and the costs would in turn be passed onto the consumer.

## Worse off

"The consumer is being confronted by a range of increases over a broad front and it looks as if the consumer is going to be worse off after VAT than he was with GST."

However, he said it was heartening that Transnet had kept the increases to less than the full VAT rating of 10 percent.

The latest increase would not affect rail commuters.

Mrs Sheila Baillie, chairman of the Cape Town branch of the Housewives League, said any increases in transport costs would have an adverse impact on the economy but expressed relief the increases were below 10 percent.

Mr Ulrich Joubert, chief economist for Transnet, pointed out that not only were the new increases below the intended VAT rate but cost increases could be claimed back from the Receiver of Revenue, he said.

Only 15 percent of Transnet's input costs were affected by GST, he added. — Sapa.



Sweden's Conservative Party leader Mr CARL BILDT (left) and Liberal Party leader Mr BENGT WESTERBERG share a laugh as they meet after general elections in Stockholm. The Conservatives, the Liberals, the Centre Party and the Christian Democrats have combined to oust the Social Democrats after almost 80 years of domination by the Socialists.

# 'No evidence of VAT savings for public'

THE Co-ordinating Committee on value-added tax yesterday said it found no evidence that the cost benefit would be passed on to the consumer, following a report by its working group.

The working group was made up of members of the Department of Finance, business organisations, trade unions and members nominated by the co-ordinating committee.

The Co-ordinating Committee on VAT has requested that the Department of Finance zero-rate food, medicines, medical services, electricity and water, trade union subscriptions and that amendments be made to the VAT Act to avoid prejudice to small business, that poverty relief programmes must be negotiated and that much stronger control on abuse of the tax should be implemented.

The information provided by the working group indicated VAT was intended to lead to a restructuring of the econ-

omy by increasing competition in the manufacturing industry, but the co-ordinating committee said this would take place at the expense of the poor.

It said the restructuring of the economy would cost about R6 billion in lost revenue to the government with about R4 billion being made up by the consumer.

"From evidence provided by the working group, it was clear that the poverty relief programme can not compensate for the effects of VAT on the poor," the statement said.

The committee charged that the government had provided no evidence that the cost benefits of VAT would filter through to the consumer.

"In a recessionary situation with high inflation it seems likely that these benefits will instead be used to increase corporate profitability," the co-ordinating committee said.

It also charged that the implementation of VAT at the present rates together with the fuel price

increases, would push inflation up by three to four percent. It said this increase would probably be higher for the poorest sections of the community.

Regarding the cost to business should VAT be postponed, the co-ordinating committee said it appeared this cost would be mainly to the retail sector.

The committee also found government and business had provided no evidence that there was substantial investment, both internal and external, awaiting the implementation of VAT, and found these investments would depend on a much wider range of factors.

It also found that business was not able to substantiate its claim there was a "damming up" of orders for capital equipment, leaving factories idle. The committee instead charged that a much wider range of factors was involved.

The committee said it was to meet and discuss their findings with Finance Minister Barend du Plessis today. — Sapa.

# VAT in interests of economy, says Sacob

By Sapa and Citizen Reporter

ANY postponement in the implementation of value-added tax will exacerbate the current poor business conditions and delay the start of any revival in the economy, says the South African Chamber of Business.

In a statement yesterday,

Sacob said it had urged Finance Minister Barend du Plessis not to postpone the implementation of VAT.

Sacob said any postponement could lead to a severe impact on employment levels.

"There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

Furthermore, Sacob said the private and public sectors had already invested large sums in the new tax system and postponement would be "an enormous national waste".

Sacob also appealed to big business not to refrain from purchasing from smaller firms that were not registered as VAT vendors and who would not therefore furnish VAT invoices.

The chamber said it was in the interests of larger firms to assist smaller businesses with problems of VAT compliance and encourage the growth of small firms.

Sacob also indicated

there was a possibility of allowing the crediting against output VAT of a national input tax on purchases from non-registered small firms. This could be discussed with the authorities.

The chairman of the Premier Group, Mr Peter Wright, said VAT would only inflict additional misery on the poor and unemployed.

"The timing was particularly insensitive as the country is on the threshold of negotiations for a new democratic South Africa. Further consultation is absolutely necessary, especially for the introduction of a new tax system which requires general support," he said.

Mr Wright referred to the failure of the British poll tax system which was "forced upon the British public with insufficient consultation and research".

He said pressure from an infuriated British public resulted in a reversal at huge cost. "South Africa could not afford a similar financial burden at this time."

# Anti-VAT pickets in Vaal Triangle

PICKET lines were held yesterday in Vereeniging and Klerksdorp protesting against the implementation of VAT.

The pickets, called for by the Western Transvaal regional of Cosatu, were held next to the offices of the Receiver of Revenue in the towns.

In a statement Cosatu said the pickets would continue until September

30, the date when the controversial tax would be implemented.

Cosatu is demanding the postponement of the implementation of VAT until effective negotiations has taken place on the tax, and the zero-rating of basic food stuffs, medicines, rent and electricity.

Pickets and demonstrations were also held at a

number of factories, shops and mines in the Western Transvaal.

According to the Cosatu statement, applications to hold demonstrations and pickets in Carletonville and Vanderbijlpark had been rejected by the Town Councils while there had been no response from the councils of Parys and Lichtenburg. — Sapa.

IN 1984 the SA government brought blacks into the unified taxation system together with other population groups. This resulted in one-man, one-taxpayer, but excluded the more eagerly awaited one-man, one-vote.

Despite a public outcry of "No taxation without representation", this did not lead to a tax revolt. The reason may have been that blacks were integrated into the system to a limited extent only. Each year the minimum level of income at which tax becomes payable has been raised, excluding from tax liability the majority of black wage-earners. The motives for this are mixed — including administrative problems, political considerations, and possibly fairness.

Coincidentally, the Margo Commission was also established in 1984. Its main recommendations included the exemption of dividends from the income tax net; reduction of estate duty and donation tax; separate taxation of husband and wife; reduction of corporate and individual income tax rates; and movement from direct to indirect taxation.

In response government has abolished tax on dividends; reduced estate duty and donation tax to 15%, almost separated husband and wife in the tax formula; begun gradually reducing corporate and individual tax rates; and moving from direct to indirect tax by introducing a more broadly based indirect tax — VAT.

This has delighted rich people who galloped to the bank with tax-free dividend cheques. But what was in it for the poor?

Margo also recommended the introduction of comprehensive business tax. It failed to win acceptance and plans to implement it were scrapped.

One was inclined to expect that, with the scrapping of comprehensive business tax practically all the major recommendations of the Margo Commission would become defunct. But this was not to be.

Instead, government opted for the second choice — broadly based VAT.

VAT entered into the SA economic structure via the back door, so to speak. Now it has become a controversial tax system. Many people — voters and voteless — are expressing anger at the way VAT is to be implemented at the end of the month. The central issues are VAT on foodstuffs,

medicines and other goods and services that will affect the poor.

The government's reduction of the VAT rate from 12% to 10% has not helped much. Many people believe Finance Minister Barend du Plessis made a mistake by increasing the fuel price when reducing the VAT rate.

Now a visible resistance to VAT in particular, especially on the part of the voteless community, is growing.

The state is finding it difficult to secure a satisfactory tax obedience from the black business community too. For example, black businessmen refuse to deduct tax from their employees' wages, and they are also reluctant to register for VAT.

This culture of tax resistance and lack of obedience to the law does not exist in a vacuum. It is the result of the country's political and economic history.

For a start, tax, and VAT in particular, is perceived with a political eye. The issue is you cannot tax people without giving them the vote as well. Therefore blacks view the payment of any taxes as inconsistent with democratic principles.

Secondly, a direct relationship is perceived in the relationship between the payment of tax and the utilisation of tax monies.

Many black people perceive that the tax they pay is being used by the government to buy guns and other dangerous weapons to kill them and for the furtherance of the apartheid system. They also feel there is no link between tax and their interests. The Inkathagate scandal has wors-

ened this perception of tax being used to oppress the voteless majority.

A third perception among blacks is that the replacement of GST with VAT is nothing but a master motive employed by the ruling — and hence wealthy — classes to transfer a greater proportion of the tax burden on to the shoulders of the

poor. The feeling is that, as blacks are more numerous, VAT is being employed to milk them. In general it is believed the Margo Commission made recommendations favouring the rich (whites), showing little concern for poor black people.

Fourthly, it is widely believed that indirect taxes — whether GST or VAT — are unfair. The argument is that indirect taxes are calculated at a fixed rate, and do not take into account the ability to pay — a regressive tax structure, a system which redistributes wealth from the poor to the rich. Income tax, which does the opposite, is seen as more appropriate.

This may not be good news to the rich who argue that income tax rates are too high.

I agree that excessive income tax rates can be a demotivating factor to increased productivity and output. However, for the sake of redressing the economic imbalance in favour of the poor, greater reliance should be made on direct rather than indirect taxes.

This does not mean we should not have indirect taxes at all. They have a place in SA's economic structure. And this greater reliance on income tax could be phased out over, say, a period of five to 10 years so as to give the voteless, poor majority some breathing space. Wealthy taxpayers must accept this, not as revenge for the years of oppression but as a "welfare attitude".

The fifth perception is that government cannot be seen to be introducing new and major economic

policies such as new taxes when constitutional negotiations are about to start. The belief is that government is trying to pre-empt any new tax policy that a new government may follow in a post-apartheid era. Further, black people need to begin to see a direct link between the taxes they pay and the application of those funds in the direct development of their communities.

Sixth, if government is that hard-pressed to introduce VAT, it should at least negotiate its implementation. Had Du Plessis swallowed his political pride and consulted properly with representatives of the masses, he could have given VAT a much wider political credibility and won acceptance for it. But, by going it alone, he missed the chance.

All this shows that the root of the problem we now face with VAT is much older and deeper than the introduction of VAT itself.

Unfortunately, the solution to the VAT problem will have to take into account these older and deeper issues. The poor feel that the implementation of VAT should not overlook these economic and political problems as they still affect the voteless communities very much.

Granted, there may be a difference between perception and reality. Nevertheless, those perceptions must be acknowledged.

Major political organisations such as the ANC and the PAC have expressed the desire to put greater reliance on direct taxes. So, we may see more of wealth taxes such as capital transfer and capital gains taxes in the future. This makes political sense. The danger to be avoided is to ensure that it is not done in such a way that it frightens the rich into fleeing.

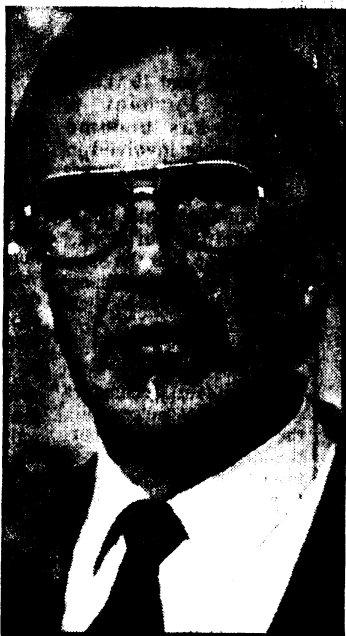
Du Plessis had a number of options to resolve the issue amicably. The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure.

Although some have criticised the timing of VAT, I do not believe this is a major issue. The main issue is the absence of consultation. It is a pity that what appears to be a better indirect tax system for SA, now and in the future, is facing rejection. Had Du Plessis negotiated, together they would have reached a mutually acceptable approach to VAT.

□ Matscheru is an independent tax consultant and author.

# 19/9/91 Oppressive system is the fuel of black opposition to VAT

## MATSHERU MATSHERU



□ DU PLESSIS

THE

*The paper for a changing South Africa*

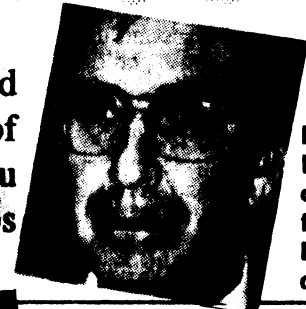
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Volume 7, Number 37. September 20 to 26 1991

## Barend's VATerloo

**O**NE week before VATday, the public has suddenly reacted. Trade unions and other bodies have opposed the tax for months, but somehow, the issue never caught the popular imagination. Until this week, when thousands marched through the streets of several towns and Cosatu threatened a national strike. For details of what opposition leaders describe as 'Barend du Plessis' Waterloo' and for discussions of the pros and cons of VAT see **PAGES 3, 14 and 19**



Man in the hot seat over the next few days, Barend du Plessis



Coordinating Committee on

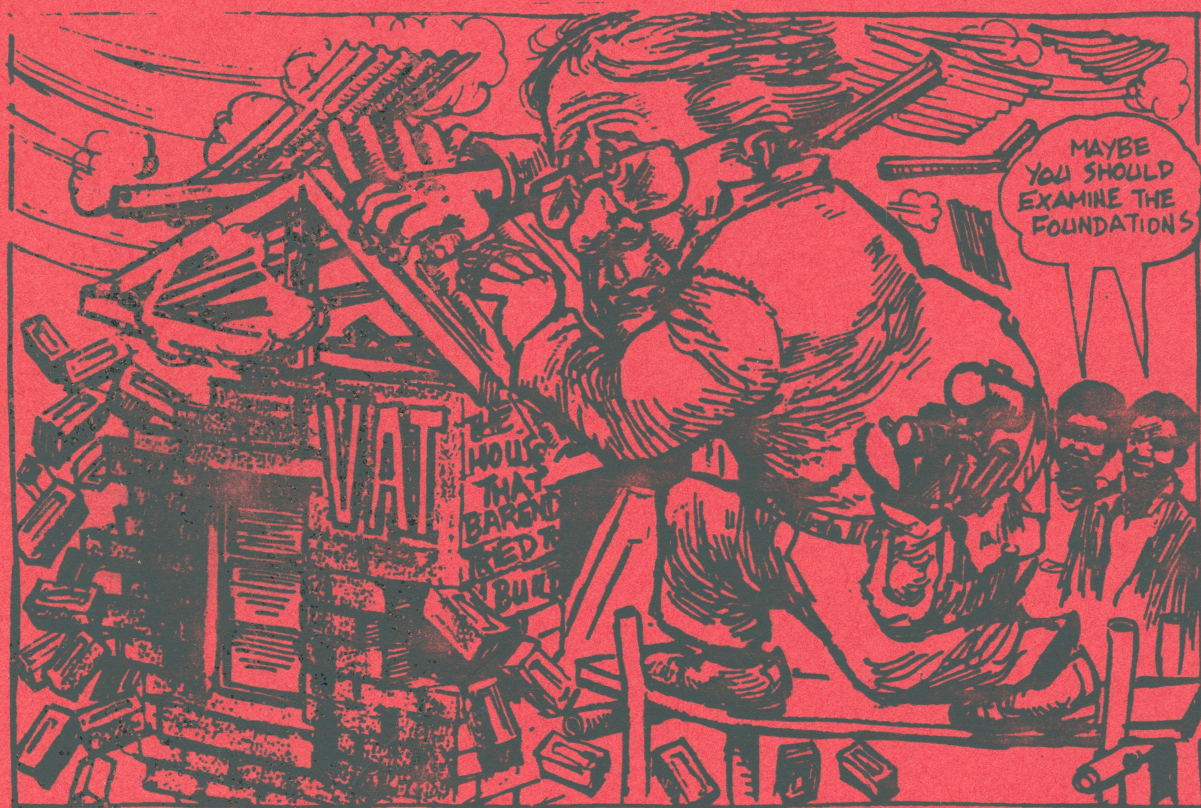
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# Second Summit Meeting on — VAT —



## 23 September 1991