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DEPARTMENT OF ACCOUNTANCY

BUDGET PROPOSALS

1984-5

A summary of the more important proposals made by the Minister of Finance in his budget speech tabled in Parliament on 28 March 1984.

The views expressed in this document are those of the Taxation Section and do not necessarily represent those of the Department or the University as a whole.

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1. Background to the Budget

The Minister indicated in his budget speech that a number of factors had caused excessive and unplanned government spending over the last year. The following factors were primarily a cause -

- decline in the gold price;
- slow demand overseas for South African products other than gold;
- adverse climatic conditions;
- large defence spending.

2. Essence of the Budget

In essence the budget was directed at -

- companies;
- preventing certain tax abuses, and;
- it also manifested the intention of the government to reduce direct and indirect government subsidies.

The man in the street was not substantially directly affected by the budget in an adverse manner. It is hoped that companies will not shift their extra tax burdens onto the consumer by increasing the retail price of their products.

The major changes brought about by the budget were as follows:

- an increase in the effective tax rate of companies;
- a confirmation that fringe benefit legislation will be introduced on 1 September 1984;
- the abolition of valuing stock on the last-in-first-out (LIFO)for tax purposes.
- an amendment as regards assessed losses made by lessors of plant, machinery and aircraft;
- relief to individual taxpayers for medical expenses.

The major policy statements made in the budget as to what can be expected in the future were:

- an examination of the possibility for separate taxation of married persons;
- an examination of the introduction of a capital gains tax
- an examination of the taxation of private companies;

- an increase in taxes if government expenditure is not curbed.

3. Government Spending

Government spending will concentrate on the following matters:

- education

In confirming the priority placed on education the Minister also emphasised that subsidies to tertiary institutions will be based not so much on student numbers, but on the quality of work done.

- manpower

It was emphasised that it is a high priority to train skilled persons and raise productivity.

- housing

The erection of new dwellings was emphasised.

- defence

A downward trend may be expected but only in due course.

- agriculture

Remains an important area for government spending.

- pensions

An improvement in pensions was announced.

4. Individuals

a. Method of calculating tax and rebates

There is no effective increase in tax payable by individuals, but the manner in calculating the tax is varied to a slight extent. The minimum marginal rate of tax is increased from 10% to 12% (which rate applies to the first R8 000 of taxable income), but to compensate for this increase the primary rebate has increased by R140 for all taxpayers. The primary rebate allowed is as follows, for all taxpayers:

married - rebate of R460.

unmarried - rebate of R380.

b. Medical expenses

If the taxpayer is between 60 and 69 years old: Increase in annual deduction is as follows:

if married - from R2 000 to R3 000
if unmarried - from R1 500 to R2 250

If taxpayer is 70 years old or over : deduct all medical expenses in full - no limit, whether married or unmarried.

c. Physical disability expenses

Expenditure incurred as a result of any physical disability suffered has been increased from R2 400 to R3 000.

d. Arrear pension fund contributions

Deduction increased from R1 500 to R1 800 per annum in respect of back dated pensionable service.

e. Arrear retirement of annuity fund contributions

Deduction increased from R1 500 to R1 800 per annum in respect of reinstatement of membership.

f. Deduction of annuities paid to dependants of former employees and former partners

Deduction of annuities in these circumstances has been increased from R2 000 to R2 500.

5. Companies

a. Tax rates and provisional payments

Increase in effective tax rate from 46,2% to 50%. Second provisional tax payments can no longer be based on the last assessed taxable income. This means that companies must pay provisional tax on expected taxable income and penalties are imposed if this estimate is less than 90% of the actual taxable income subsequently determined. It is considered that this will present private companies with difficulties since it is not always easy to predict taxable income before audited figures are available.

b. Capital allowances

In respect of plant or machinery brought into use between 1 April 1984 and 30 June 1985 investment and initial allowances cannot be claimed all in one tax year. These allowances must now be spread over 2 years. The investment allowance in respect of new manufacturing plant and machinery is being abolished. This was to have been replaced by a 55% initial allowance, but the Minister has indicated that the 55% will be reviewed.

Wear and tear allowances on plant and machinery must now be based on the cash cost. Other assets do not appear to be affected by this change. Finance charges on plant and machinery will be deducted when paid.

6. New Taxable Entities

a. Closed Corporation

The Minister indicated that the Commission on taxation matters is considering the basis of taxing private companies. The Minister announced that the 1984 Income Tax Bill will give effect to the recommendation of the Standing Commission.

It is expected that the Bill will consider the concept of the close corporation. The introduction of this legal entity will be welcomed by all taxpayers who shy away from forming private companies.

b. Separate Taxation

The Minister also indicated that the Commission on Taxation is still investigating the advisability or otherwise of the separate taxation of married persons. The Minister indicated that this issue will be considered entirely on its merits.

7. New Taxes

a. Fringe benefits or perks tax

The Minister has introduced a "fringe benefits" or "perks" tax with effect from 1 September 1984.

The basis of the levy of this tax will be the cost to the employer. Benefits such as company owned motor vehicles, interest free loans, residential accommodation will be taxed. Employees in Public Service who obtain housing subsidies are presently specifically exempt from payment of tax on such subsidies in terms of Section 61 of the Finance and Finance Adjustments Acts Consolidation Act 11 of 1977.

b. Capital Gains Tax

The Minister also announced that he is considering a Capital Gains Tax, and he has referred the possibility of introducing such a tax to the Standing Commission on tax matters.

8. General

a. Employee Training Allowance

With effect from 1 September 1984 the employee's training allowance granted under S.11 Sept of the Income Tax Act will be reduced from 100% to 50%. Thus a deduction of only 150% of expenditure (previously 200%) is available. Furthermore the allowance will only be granted in respect of the training of employees whose remuneration does not exceed R15 000 per annum. The Minister indicated that this allowance may be replaced by a cash allowance on ad hoc basis.

b. Valuation of Trading Stock

The system of valuing stock on the LIFO basis will be phased out as from tax year commencing on or after 1 April 1984.

c. Leasing

An announcement was made on the 14 March 1984 that tax losses incurred from leasing plant, machinery or aircraft may only be set off against taxable income derived from the leasing of movables. This was introduced as a result of manipulation by certain taxpayers of the tax allowances available to lessors.

The amendment applies to all participants who became party to leases on or after 15 March 1984.

d. General Sales Tax

The rate of General Sales Tax remains at 7%. The Commission on Taxation will consider abolishing or reducing GST on certain or on all foodstuffs. GST may be imposed on certain professional services.

e. Customs and Excise

Increase in the following -

- beer increase by 2,4c per litre or 1c per 3,75 ml container;
- cigarettes increase by 1c per 10 cigarettes;
- tobacco, except pipe tobacco increase by 1c per 50 grams;
- an ad valorem customs and excise duty will be imposed on motor vehicles.

f. Stamp Duty

A duty of 5c per debit entry on all debit banking transactions has replaced the duty of 5c per cheque. This means that payments by credit card will attract this duty at 5c per transaction. Bank, building society and post office savings accounts are not affected by this change.