Key Revenue Sources

A Brief History of Income Tax and VAT
Modern income tax was introduced in Britain on 9 January 1799, to finance the Napoleonic wars.

Repealed in 1815 but reintroduced as a temporary measure in 1842.

Board of Inland Revenue created in 1849.

Two hundred years after its first imposition it was still a temporary tax, requiring new legislation every year.
Income Tax – South Africa

- Income Tax Act, 1914
  - Based on New South Wales Act, 1895
- Income Tax (Consolidation) Act, 1917
- Income Tax Act, 1925
- Income Tax Act, 1941

The same core rules apply across the board, although there may be special rules based on type of person or industry.
Income Tax – 1963

- Fourth Schedule dealing with pay as you earn (PAYE) and provisional tax introduced.
  - Match payment of taxes to availability of funds, provide more regular cash-flow for government, and reduce burden on collections process on assessment.
Income Tax – 1984

• Seventh Schedule dealing fringe benefits introduced.
  – Address difficulties in determining the value of fringe benefits provided to employees.
  – Ensure that fringe benefits are taxed on a similar basis to salaries and wages paid in cash.
Income Tax – 1995

• Removal of gender and marital status discrimination from the income tax system.
  – Alignment with Interim Constitution.

• Thin capitalisation and transfer pricing provisions introduced.
  – Protection of SA tax base in light of increased trade, international investment, and ongoing relaxation of exchange controls.
Income Tax – 1997

• Passive income taxed on a residence basis and controlled foreign entity provisions introduced.
  – Protection of SA tax base in the light of increased opportunities for residents to invest offshore and ongoing relaxation of exchange control.
Income Tax – 2000

• Taxation of foreign dividends
  – Immediate measure to counter tax avoidance using off-shore companies.

• Revised regime for public benefit organisations
  – Introduced a unified regime that catered for a wide range of public benefit activities and extended section 18A deductible donations.
Switch from source to residence (world-wide) basis of taxation from 1 January 2001
- Under a pure source basis tax is levied on income earned from a source within the country.
- Under pure residence basis tax is levied on the residents of a country.
- In practice, tax systems contain elements of both.
- Ever increasing capital investment offshore led to the view that it was time to move to the residence basis, as most countries around the world had done.
Income Tax – 2001

- Introduction of capital gains tax from 1 October 2001
  - The absence of a capital gains tax introduced many distortions into the economy, encouraging taxpayers to convert otherwise taxable income into tax-free capital gains, with negative implications for the efficiency and equity of the overall tax system.

- Group re-organisation relief
  - Permits the tax-free transfer of assets to the entity where they can be most efficiently used for business purposes.
VAT - Origin

• Value-added tax was introduced by France with effect from 10 April 1954 for large businesses and extended over time to all business sectors.

• Over 140 countries around the world now operate a VAT (also known as Goods and Services Tax) system, making it the fastest growing tax instrument internationally.
VAT – Predecessor

• The current VAT system was preceded by a sales tax (also known as a general sales tax or GST) system under the Sales Tax Act, 1978.

• It was imposed on the sales of goods and certain services to consumers and on capital and consumable goods to vendors.
The Switch to VAT

- Some factors that drove the switch to VAT were:
  - A broader base and improved neutrality due to the ability to tax a wider range of services.
  - Imposition of sales tax on business inputs led to cascading tax (or tax on tax), especially in capital intensive industries, and increased export prices compared to countries operating a VAT.
  - Exemption certificates were used to allow tax free purchases of goods for resale by businesses and were widely abused, especially given the poor audit trail the system provided.
• Value-added Tax Act, 1991

• 1996: VAT base extended to include most fee-based financial services.

• 1999: Introduction of a threshold for registration
  – Counter claims on private or hobby expenses.