


The History of Taxation in South Africa (1904-2008)



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Introduction



- Which tax system is the most desirable one to adopt?
- Tax reforms are implemented regularly
- Important to consider the history of taxation in order to reveal trends, learn from past successes and failures

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Origins of Taxation



- 2000 BC – Clay records from ancient Mesopotamia
- Egyptians and Greeks (1400BC – 600BC)
- Roman Empire – Biblical references
- 15th Century – Mexico and Italy
- 1789 – no income taxes anywhere in the world; particular emphasis on land taxes and taxes on consumer goods

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Origins of Taxation



- Taxes on consumer goods in America – Boston Tea Party (1773)
- First income tax: France (1793)
- Great Britain (1816) and USA (1913)
- US Revenue Act 1917 – paying for the war
- “A product of 19th century thought on state revenue” (Van Waasdijk, 1969: 372)

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Taxation in South Africa



- Dutch East India Company – indirect taxes on transactions (17th and 18th century)
- Import taxes on goods from the Netherlands, excise duties
- Income tax as we know it originated in the 20th century

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Early income tax acts



- 1904: Tax on income of companies and individuals (Cape Act 36)
- 1908: Similar tax via Natal Act 33
- Abolished following the formation of the Union of South Africa (1909)
- Mining Taxation Act (1910)

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Income Tax Act 28 (1914)



- Income defined as “gains or profits”
- Complete exemption for incomes under £1000 with finely graduated progression in the rate
- Income Tax (Consolidation) Act 41 (1917) broadened the base – financing for the war
- Income Tax Act 40 – scrapped tax on dividends and excess profits

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Income Tax Act 31 (1941)



- Provisions for tax avoidance
- Rebates replaced abatements
- Further broadening of the tax base
- Special Taxation Amendment Act 29 of 1946 – “excess profits duty” and “trade profits special levy”
- 1948 - adjustment to the rate structure
- 1960 – introduction of tax brackets

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Income Tax Act 58 (1962)



- Consolidated all income tax legislation from the previous two decades
- 1963 – introduction of PAYE
- 1967 – tax on interest earned by non-residents (base-broadening)
- 1969 – amendment to the rates together with further base-broadening (Black Taxation Act of 1969)

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Franzsen Commission (1968)



- Tax structure was a deterrent to economic growth – focus shifted from indirect to direct taxation
- Broadening of the tax base yet again – more indirect taxation (4% GST introduced in 1978, fringe benefits and tax on CCs in 1984)
- More gradual progression in the tax rate
- Simplification of the tax system – reduce need for assessments and returns from low-income taxpayers, SITE introduced in 1988

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Margo Commission (1987)



- Economic sanctions → foreign disinvestment
- Policy should aim to encourage immigration and discourage emigration
- Base-broadening: tax on capital transfers
- Reduction in GST and lower personal income tax rates with fewer brackets
- Financial services levy (1991)
- GST (13%) replaced by VAT (10%) in 1997 (dying days of apartheid); received opposition from many sectors

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Tax reform post-1994



- Katz Commission – goals of improving tax collection and reducing inequalities
- SARS established as an independent government department (1997)
- Capital gains tax (2001), VAT on gambling and financial services, source-based income tax to residence-based one
- Only six brackets with lower rates

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Tax reform post-1994



- Some pro-growth reforms: reduction in STC by half in 1996
- Redistributive reforms: CGT (2001)
- Improved simplicity in the tax system – introduction of e-filing (2007)
- Challenges for the future – common taxes for the African Union or for SADEC

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Conclusion



- All South Africa's tax reforms have changed the tax base or the progressive rate structure, or both
- Aimed at increased compliance and simplicity
- Is it not perhaps time to question the principle of progressive taxation?

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