WOMEN AND TAX IN SOUTH AFRICA[i]

by Terence Smith

1. Introduction

Most analyses of government budgets and their differential impacts on women and men tend to focus on the expenditure side of the budget, with very little attention being given to the revenue side. It is usually assumed that government expenditure has a greater direct impact than revenue in addressing issues such as poverty and inequality. However, the revenue side of the budget, and specifically taxation policy, can also have direct redistributive effects, through impacts on disposable income, which can either benefit or disadvantage certain sectors in society, such as women and the poor.

South Africa's taxation policy has traditionally discriminated against women either directly, through formal discrimination on the basis of gender and marital status, or indirectly, through a heavy reliance on indirect taxes which impact disproportionately on the poor, the majority of whom are women. Since 1994, there have been a number of changes made to taxation policy which have reduced the burden of direct taxation on some poorer women. Formal discrimination on the basis of marital status and gender in income tax policy has been removed. In addition the amount of income tax lower income-earners (where women congregate) are required to pay has been reduced. However, despite such changes, there are still significant elements of discrimination against women in South Africa's taxation policy, particularly with respect to certain indirect forms of taxation and the way in which tax deductions and allowances are structured.

This paper examines the impacts of the changes in taxation policy on women in South Africa since 1994. The chapter on taxation by Trudi Hartzenberg in the first Women's Budget (1996) set out the general arguments in relation to how taxation impacts on women and men, and reviewed some of the changes in taxation policy in South Africa between 1994 and 1996. Hartzenberg's analysis focused on personal income taxes, pensions/retirement funds, unemployment insurance and medical aid contributions, company taxes and value added tax (VAT). This paper seeks to provide a broader analysis of taxation as it affects women, and includes an update and a more detailed study of changes in the above taxes, as well as an examination of other taxes and sources of revenue, such as capital transfer taxes, taxation of non-profit organisations, transfer duties, the fuel levy and the demutualisation levy, and the new national lottery. It also looks at issues of process, in the form of the changes that have recently taken place at the South African Revenue Services (SARS).

Any analysis of the impacts of taxation on women and men in South Africa is constrained by the lack of official statistics on women's share of the tax burden. The SARS does not collect detailed taxation data in relation to gender. Although statistics are available for the number of male versus female individual taxpayers, no data is available on what proportion of total tax revenue is paid by women and men. Therefore, much of the analysis of the differential impact of different taxes on women and men is based more on informed speculation than on fact.

The structure of the paper has been defined largely according to the government's national revenue accounts which list all the sources of government tax and non-tax revenue. This paper does not cover all areas of taxation policy. Certain areas have been excluded, either because they have been dealt with sufficiently in Hartzenberg's chapter on taxation, or because they are currently being covered elsewhere in the women's budget initiative. However, what is covered in this paper should give readers a better appreciation of the many subtle, and sometimes more obvious, ways in which taxation policy impacts on women and men, often with the effect of discriminating against women.

Section 2 of the paper provides a profile of the economic position of women and men in the South African economy. Section 3 describes the process of tax reform in South Africa since the mid-1980s. Sections 4 and 5 describe and analyse the gender impact of the main types of direct and indirect taxes. Section 6 looks at a number of other tax issues – the demutualisation levy, taxation of the voluntary sector, the national lottery, and SARS. Finally, section 7 concludes with some recommendations for a more gender-sensitive taxation policy.

2. Profile of women in the South African economy

A basic understanding of the position of women in the South African economy is essential for an appreciation of the differential impacts of taxation policy on women and men. In this section, we provide a brief profile of the economic position of women in the South African economy, using employment status and income as proxies for the distribution of economic welfare. These indicators are, of course, not the only indicators of economic welfare. However, since the distributional effects of taxation operate principally on income, these indicators are the most appropriate for this discussion. In addition, in the absence of a gendered breakdown of the tax burden in South Africa, using gendered income distribution data is the most feasible way of identifying the likely implications of taxation policies for women and men.

According to the 1997 October Household Survey, 45% of women aged 15 years and above are economically active, as opposed to 61% of men. The number of economically active women is, however, likely to be much higher as the definition of the economically active population used in such surveys excludes those who define themselves, or are defined by others, as full-time housewives or homemakers. Furthermore, women engaged in subsistence agriculture should be categorised as economically active, but are usually seriously under-enumerated (Budlender, 1998).

Of the approximately 46% of women who are officially defined as economically active, 28% are unemployed. In contrast, 19% of the economically active male population is unemployed. African women experience the highest rates of unemployment (35%), followed by African men (25%) and coloured women and men (19% and 14% respectively). White men and women have the lowest unemployment rates (3% and 6%), followed by Indian men and women (9% and 13% respectively) (October Household Survey 1997). All these unemployment figures are based on the official definition of unemployment. The official definition does not take account of the reasons why people in a developing country with high unemployment may have given up the search for work and thus be classified as not economically active rather than unemployed. The race and gender patterns in respect of the expanded definition go in similar directions to those for the official definition, but the differences between women and men are starker (Statistics South Africa, 1998:66-7).

An examination of the total employed population by economic sector (see Table 1 below) shows that over half of employed women (50,6%) are involved in the community, social and personal services sector, which includes teachers, nurses and domestic workers (October Household Survey 1997). The second most common sector in which women are employed is in trade (17,7%).

Table 1: Distribution of the employed in economic sectors by gender

Sector	% Women	% Men
Community	50,6	25
Manufacturing	13,1	21,2
Trade	17,7	15,1
Agriculture	7,1	11,5
Construction	0,9	9,1
Transport	2,3	8,4
Finance	7,6	7,5
Electricity	0,7	2,2
Total	100	100

Source: October Household Survey 1997

Table 2 below gives a breakdown of the total employed population by occupation and gender. A large proportion of women in South Africa (38%) work in elementary or unskilled jobs, while only 5% of women are employed in managerial positions and 12% in professional occupations. Gender differences are further complicated by racial differences. Almost half (49%) of all employed African women were in elementary occupations in 1997, compared to 4% of white women (October Household Survey 1997).

Table 2: Distribution of the employed by occupation and gender

Occupation	% Women	% Men
Managers	4,6	9
Professionals	11,7	7,8
Technicians	10,9	6,8
Clerical workers	10,6	5,4
Service/sales workers	14,1	11,2
Skilled agricultural	1,5	4,8
Artisans	6,5	19,4
Operators	2,5	14,5
Elementary workers	37,6	21,2
Total	100	100

Source: October Household Survey 1997

According to the 1997 October Household Survey, almost a third (33%) of all employed women work in the informal sector, as opposed to 18% of men. About one fifth (21%) of all employed women worked in the informal sector as domestic workers. A large proportion of employed African women (30%) and coloured women (19%) had jobs as domestic workers (Statistics South Africa, 1998).

Most people (61%) who are self-employed in South Africa tend to work alone. However, women are more likely to work alone than men. Over three-quarters (79%) of all self-employed women work alone, compared to just over half (51%) of all self-employed men (Budlender, 1998).

Unlike in some other countries, women in South Africa tend to work full-time, rather than part-time, although women are more likely to work part-time than men. Men tend to work somewhat longer hours than women do, at least in terms of work from which an income is generated (Budlender, 1998).

The above analysis shows that women are generally poorer than men, and that their sources and manner of gaining access to income are significantly different. Firstly, women are less likely than men to be economically active. Secondly, where women are economically active, they are more likely to be unemployed. Thirdly, if employed, they tend to be engaged predominantly in lower income earning activities, either in formal employment, working mainly in the services sector as unskilled workers, or in the informal sector, working mainly as domestics. If self-employed, they are more likely to be working on their own than as employers.

The implication of women's employment profile for taxation is that women are unlikely to bear a large share of the personal income or direct tax burden as most women are either unemployed or earn too little to pay a significant amount of personal income tax, if any at all. Personal income tax systems use a range of income brackets or bands, with different tax rates for each bracket, to calculate how much income tax people should pay. South Africa's income tax system is progressive, meaning that as the income level in each bracket increases, the tax rate for each level of income (known as the marginal tax rate) also increases. In other words, the more people earn, the more tax they pay.

Table 3 below shows that most women are located in the under-R30 000 annual income category. In the 1999/2000 tax year, the tax threshold (i.e. the income level at which income-earners start paying tax) was R19 526 per year. Unfortunately the income brackets available from the census do not provide data to match this cutoff. Nevertheless, it is clear that the majority of women (somewhere between 50% and 75%) earn too little to pay income tax. Only a very small proportion of women compared to men are to be found in the higher income categories where marginal tax rates are higher. Men, therefore, constitute the bulk of personal income taxpayers and generally pay larger amounts of income tax (Hartzenberg, 1996). However, this means that a personal income tax structure that taxes lower income levels heavily will have a disproportionate impact on women.

Table 3: Income distribution by gender

Income	Population - Female	Population – Male
None	1,4	1,0
R0 – R12 000	49,5	36,8
R12 001 - 30 000	25,1	33,1
R30 001 – 54 000	13,6	12,5
R54 001 – 96 000	5,2	7,9
R96 001 – 132 000	0,7	2,3
R132 001 - 192 000	0,4	1,4
R192 001 – 360 000	0,2	0,9
R360 001 +	0,1	0,3
Unspecified	3,9	3,8
Total	100	100

Source: Derived from the Population Census '96

Table 3 also suggests that women are generally poorer than men. Indirect taxes, which tend to discriminate against the poor, are therefore likely to have a greater impact on women than on men. The main form of indirect tax in South Africa is VAT. VAT is a general tax (currently set at a flat rate of 14%) on goods and services in the economy. Taxes such as VAT are regressive, meaning that they impact more severely on people with lower incomes, who typically spend a higher proportion of their income on basic consumption goods than people with higher incomes and therefore spend a higher proportion of their incomes on paying taxes on these goods. The regressive nature of VAT is elaborated further in section 5.1 below.

In the following section we briefly review the process of tax reform in South Africa and highlight the major changes that have taken place in tax policy since 1994, especially those changes that relate broadly to gender issues.

3. Tax reform in South Africa

3.1 Margo Commission

The current process of reforming South Africa's tax system began in 1986 with the *Margo Commission of Inquiry into the Tax Structure of the Republic of South Africa*. The main recommendations of the Margo Commission (1987) of specific importance to women included:

- that the unit of taxation be changed from the couple to the individual as it was felt that "it is no longer true that women necessarily depend upon their husbands." It was also felt that a system of separate income taxes for men and women would also be administratively simpler for the authorities
- that separate taxation for men and women be applied to all income, and not merely earned income
- that married and unmarried persons should be given the same primary rebate
- that there be a move towards a simpler income tax structure with fewer, broader bands and lower marginal rates

Some of these recommendations were implemented in the late 1980s and early 1990s. The implications of these changes in terms of gender are discussed in more detail below.

3.2 Katz Commission

In 1994, the *Commission of Enquiry into Certain Aspects of the Tax Structure of South Africa*, known as the Katz Commission, was appointed by the government "to inquire into the appropriateness and efficiency of the present tax system and make recommendations on its improvement taking into account internationally accepted tax principles and practices" (First Interim Report, 1994:1). The terms of reference of the Commission required that it pay specific attention to a range of issues, including:

- personal income tax with special reference to gender, the tax base, tax thresholds, tax rates, income brackets, progressivity and fiscal drag
- corporate income tax with special reference to the tax structure, tax incentives and effective rates in various sectors
- VAT with special reference to the advisability and effectiveness of the zero-rating or exemption of certain foodstuffs and other goods and services, and multiple differential rates of VAT
- tax-exempt institutions, specifically those of a charitable, religious and educational nature

The extent to which changes have taken place in each of these areas, and the gender implications thereof, are dealt with in the sections below.

In line with the constitution, the Katz Commission placed a great emphasis on equity as one of the key principles from which it operates. What is not clear in terms of this stated commitment to equity is whether the Commission consciously conceptualised it as including gender as well as race equity (Women's Budget Initiative, 1996).

Another stated concern of the Katz Commission was the "widespread poverty and income inequality" in South Africa (First Interim Report, 1994:3). Again, the Commission does not make specific reference to gender, but the reality that women predominate amongst the poorest in South Africa, and that there are significant income inequalities between men and women, means that the impacts of taxation policy on women, especially poor women, should be a central focus of the Commission's work.

Since 1994, the Commission has released nine interim reports, covering a range of taxation issues, from personal income tax, company tax and VAT and the restructuring of the revenue services (First Interim Report, November 1994), medical aid schemes and other benefit funds (Sixth Interim Report, June 1997), to non-profit organisations (Ninth Interim Report, February 1999).

3.3 Tax policy changes since 1994

Following on from the recommendations of the Katz Commission, the South African government since 1994 has introduced a number of tax policy changes. Some of the changes that relate broadly to issues of gender include:

- The amendment of various tax laws in order to comply with the new Constitution, including the elimination of formal discrimination based on gender
- The introduction of a unified income tax rate structure for individuals (i.e. the removal of the distinction between married and unmarried people)
- The introduction of tax relief for low- and middle-income taxpayers through adjustments to tax rates and income brackets
- The reduction of the number of income tax brackets from ten to six
- The reduction of the corporate tax rate from 40% in 1994/95 to 30% in 1999/00 and the Secondary Tax on Companies rate to 12,5% from 25%
- The introduction of the Tax on Retirement Funds at 17% on gross interest and net rental income in 1996, which was raised to 25% in 1998
- The introduction of significant reforms in respect of excise duties

Taxes can be broadly divided into direct taxes, such as personal income and company taxes, and indirect taxes, including VAT, user charges, customs and excise duties, and stamp and transfer duties. A significant change in South Africa's tax structure since 1994 has been a reversal of the general trend, established by the Margo Commission in the mid-1980s, towards shifting the tax burden from direct to indirect taxation.

Table 4 below gives an indication of the shifts in the tax burden in the decade between 1988/89 and 1998/99. Since 1994, the contribution of direct taxes to total tax revenue has increased from 54% to 58%. This is in contrast to the small 1% rise, from 53% to 54% in the period between 1988 and 1994. The share of indirect taxes in the composition of total tax revenue has decreased significantly, from 46% in 1994 to 42% in 1998. The shift away from such a heavy reliance on indirect taxes is likely to be of some benefit to poorer people. However, the main indirect tax which affects the poor, VAT, has not decreased substantially as a proportion of the total tax burden since 1994. VAT's contribution to total tax revenue only fell by two percentage points, from 26% in 1994 to 24% in 1998. The main decrease came in the "other" item, which includes the levy on financial services, import surcharges, marketable securities tax, transfer duties and stamp duties and fees. Decreases in these taxes and levies would be mainly of benefit to wealthier individuals.

Table 4: Composition of tax revenue: 1998/89, 1994/95, 1998/99

Tax/Source of revenue	1988/89		1994/95		1998/99	
	Revenue raised in R'm	% of total Tax Revenue	Revenue raised in R'm	% of total tax Revenue	Revenue raised in R'm	% of total tax revenue
Individual	14 910,4	30%	44 972,8	40%	76 400	42%
Mines	3 007,5	6%	1 629.9	1%	1 730	1%
Other companies (incl. STC)	8 236,0	16%	13 264.9	12%	21 600	12%
Other (1)	656.9	1%	1 366,8	1%	5 558	3%
Total – direct taxes	**26 810,8**	**53%**	**61 234,4**	**54%**	**105 288**	**58%**
VAT/GST	13 123,0	26%	29 288,4	26%	43 600	24%
Excise duties	2 508,8	5%	5 804,2	5%	8 338	5%
Fuel levy	2 555,6	5%	8 351,5	7%	13 600	8%
Customs duties	2 466,0	5%	4 247	4%	6 200	3%
Other (2)	3 054	6%	4 582,9	4%	4 044,1	2%
Total – indirect taxes	**23 707,4**	**47%**	**52 274**	**46%**	**75 782,1**	**42%**
Total tax revenue	50 518,2	100%	113 508,4	100%	181 070,1	100%

Source: Calculated from the Department of Finance,1999a.
Notes: (1) includes tax on retirement funds, donations tax and estate duties
(2) includes levy on financial services, import surcharges, marketable securities tax, transfer duties and stamp duties and fees.

A worrying development has been the dramatic shift away from corporate taxes to personal taxes in the composition of direct taxes in the last ten years. In 1988/89, individual taxes accounted for 30% of total tax revenue, while corporate taxes (mining and non-mining companies) accounted for 22%. In 1994/95, individual taxes had risen to 40% of total tax revenue, while corporate taxes had decreased to 13%. By 1998/98, the proportion of total tax revenue made up by individual taxes had increased further to 42%, while corporate taxes remained at 13% of total tax revenue. Since 1994, individuals have therefore continued to shoulder an increasingly disproportionate share of the direct taxation burden in comparison to companies. Although the majority of direct income taxpayers in South Africa are men, and steps have been taken since 1994 to reduce income tax rates on lower income earners (see section 4.1), the shift from corporate to individual taxes is likely to have had an adverse impact on employed women and men. Furthermore, men, as the majority of company owners and shareholders, are likely to have benefited far more than women from decreases in corporate taxes.

The shift towards a greater burden on individual taxpayers in the composition of total tax revenue has relied heavily on the assumption that the government's Reconstruction and Development Programme (RDP) and other expenditure programmes would deliver adequate relief to the poor and bring about a more equitable distribution of income. However, as Hartzenberg (1996) has pointed out, this is a dangerous assumption upon which to base such an important aspect of taxation policy. As it turns out, the RDP has largely failed to meet the high expectations many people had of it. Poverty has, if anything, increased since 1994. Furthermore, the strategy of reducing corporate taxes in order to encourage private

> sector growth (see section 4.2 below) has failed to have any substantial impact on employment creation. Indeed, unemployment has increased.

In the following sections, we examine in more detail the impact on women and men of the specific changes that have taken place in the different areas of taxation policy since 1994.

4. Direct taxes

4.1 Personal income tax

In late 1998 a total of 2 263 079 people were registered as individual taxpayers. Of these, 1 516 263 (67%) were men and 746 816 (33%) were women (Department of Finance, 1999c). The difference in tax paid (in monetary value) by women and men would be even larger, given that men tend to earn more than women, and would thus be paying larger amounts of tax. As was noted above, the direct personal income tax burden in South Africa is thus heavier on men than on women. This is because a larger proportion of men than women are located in formal, regular employment and because men predominate in higher income brackets where marginal tax rates are highest. However, to argue that taxes, in focussing on wage and salary earners, discriminate against men is to ignore at least three important points.

Firstly, the marginal utility of income is much higher at lower incomes than at higher incomes. In other words, the added value of an additional cent to a poorer person represents a much greater effect on income than the same cent to a richer person (Hartzenberg, 1996). Therefore, since women are generally poorer than men, high income taxes have a greater impact on their income and welfare than on men. It should be noted, however, that this effect is reduced by a progressive income tax system in which marginal tax rates are lower for lower income earners.

Secondly, the argument that taxes discriminate against men considers only direct taxation. There are, however, a number of indirect taxes which constitute a more significant proportion of total tax revenue, and which tend to discriminate against the poor, and therefore, women in particular (Women's Budget Initiative, 1996 or see section 5 below).

Thirdly, most discussions of taxation use a definition of tax which is too narrow and neglects what can be called the "unpaid labour tax" or "reproduction tax" which women pay, in terms of their time and effort (and money) in the reproductive work of bearing and raising children and caring for other members of society. This work, like other forms of taxation, contributes to the general welfare of society and is essential to the functioning of the economy and society (Women's Budget Initiative, 1997). Women, however, do not receive any direct reward for this work, which is in effect a tax which they bear and men do not. Although the size of this tax is difficult to quantify in monetary terms, its value far outweighs the value of the heavier income tax burden on men.

The Katz Commission, in its First Interim Report in 1994, made a number of recommendations with regard to the restructuring of the personal income tax system. Many of these were implemented in subsequent budgets.

One of the most significant recommendations with regard to gender was the removal of all formal discrimination against taxpayers on the basis of gender and marital status. Since the Income Tax Act was passed in 1914, the household was taken to be the tax unit in South Africa. The income of a married women was included in the income of her husband, under whom the combined income was taxed. For women, this meant that her income was taxed at a disproportionately high rate because her income, together with that of her husband, pushed their combined income into a much higher tax bracket than would have been the case had her income been taxed separately.

In addition, women, when taxed jointly with their husbands, were taxed at a different rate to their husbands. For income tax purposes, women were classified into one of three categories: "married person," "married woman" or "unmarried person." For each category, there were different tax tables with different tax rates and rebates. Married women fell into the category of "married woman" rather than "married person" and were subject to the highest tax rates unless they were the main breadwinner and obtained special exemption. Married men fell into the category of "married person" which was subject to the lowest rate of tax.

Table 5 below illustrates how this system made married women pay disproportionately high income tax compared to their husbands. At lower incomes (where most women are located) the amount of tax married women were required to pay was much higher than that of their husbands (who were classified as "married persons"). In the 1994/95 tax year, married women reached their top marginal tax rate at a taxable income of R50 000, while a married person reached "his" top marginal rate at an income level of R80 000 (Cele, 1995).

Table 5: Income tax payable by persons under 65 with no children in 1994/95

Taxable income	Married person	Unmarried person	Married women
R12 000 p.a.	0	R270	R1 320
R30 000 p.a.	R3 575	R4 900	R5 950
R60 000 p.a.	R14 075	R16 840	R17 350
R100 000 p.a.	R31 075	R34 040	R33 350
R180 000 p.a.	R65 475	R68 440	R65 350

Cele, 1995:59

In the late 1980s, following the recommendations of the Margo Commission, a phased process of eliminating this discrimination was started. The first step was taken in 1988 to tax the salary income of a married women whose salary was subject only to the Standard Income Tax on Employees (SITE) (see section 4.1.2 below) separately from the income of her husband. In 1990 the trading income of married women became subject to tax separately from her husband's income, while in 1991 the investment income of married women also became subject to separate taxation (Department of Finance, 1998). The first step affected those with low incomes and the second and third affected those with higher incomes. The result of the phasing in of separate taxation was that the income tax burden was substantially lightened for families with two income earners. However, women, although taxed separately, were still taxed at a higher rate than their husbands (Cele, 1995).

Following the Recommendations of the First Katz Commission report in 1994, a number of further measures were introduced to eliminate discrimination against women taxpayers completely. These included (Department of Finance, 1998):

- The introduction in March 1995 of a single income tax rate structure applicable to all individuals irrespective of gender or marital status, replacing the system of three categories of taxpayers
- The introduction of a single primary rebate (amount of income exempt from tax) for all taxpayers, replacing the different primary rebates for married persons, unmarried persons and married women;
- The granting of the same deduction for tax purposes in respect of contributions to retirement annuity funds, regardless of the taxpayer's gender or marital status. Previously, married women were entitled to only half the deduction that married and unmarried "persons" were allowed in respect of contributions to annuities (Cele, 1995).

The removal of this form of discrimination was necessary in terms of the South African Constitution. There was clearly what is termed "formal" discrimination in that women and men were explicitly treated differently. The situation is, however, not so clear in terms of outcomes, or what is termed "substantive" discrimination. The difficulty arises because tax is imposed on the individual, but consumed by a household, although different members of that household may have different power and control over the available income.

The previous South African income tax system was based on the argument that a household with two earners would be better off than a household with one income earner. It was for this reason that the second earner should be taxed more heavily. The tax authorities assumed that this second earner would be the wife. Hence, "married women" were taxed at higher rates than their husbands, who were classified as "married persons." This assumption fitted the prevailing notion of what the "normal" nuclear family should look like.

The problem with such a system of basing income tax on household income is that it assumes – as economic theory does – that altruism prevails within the household. It assumes that it does not matter who brings income into the household – they will share it equally with all other members. The previous system, by explicitly taking the extra tax off the woman's income, was implicitly reducing her power insofar as money gives power. Some analysts have referred to this type of approach as taking money from the purse (the woman's typical moneykeeper) rather than the wallet (the man's typical moneykeeper).

Although the system of taxing women and men differently has been changed to a system in which women and men are taxed at the same rate, the new income tax system still discriminates against households with only one income earner. The problem can be illustrated by comparing two hypothetical households of two adults and two children. The first household consists of a husband, wife and their two children. The husband earns R2 000 per month and the wife earns R1 000 per month. The second household consists of an employed woman who earns R3 000 per month, the woman's non-earning mother, and the woman's two children. Both households, therefore, have the same total income.

The previous South African tax regime attempted to tax the first household near the rate of the second household, but without taking away all incentive for the wife to work. The higher rate on the wife's R1 000 income mimicked the effect of the higher marginal rate that would have been applicable if the husband earned the full R3 000 coming into the household. Using the 1994/95 tax schedule (the last to tax women and men differently) the total tax payable by the first household (incorporating primary and child rebates) was R3 335. The total tax payable by the second household, with only one income earner worked out to be R6 760. This means that the household with only one income earner paid over twice as much income tax as the household with two income earners, even though it had the same total household income and the same number of people to support. In terms of formal discrimination, the system discriminated against women. In terms of substantive discrimination, the system also discriminated against the second household.

The new tax system, in which men and women are taxed at the same rate, has removed the formal discrimination, but has not solved the equity problem. In fact, the problem of substantive discrimination against households with one income earner has got worse. Applying the 1999/2000 tax rates (see table 7 below) to our hypothetical households above, the total tax payable by the first household, with two income earners, is R850. The total tax payable by the second household, with only one income earner but the same total income, is R3 460. The second household now pays over four times as much income tax as the first household!

How to achieve substantive equality is not yet clear. The current South African approach deals with differences between women and men, but not between poor people and rich people, and poor households and rich households. Some redesign of the system is particularly important given the fractured and diverse South African family structures.

Despite the continuation of the problem of discrimination against households with only one income earner in the tax system, there have been a number of changes to the structuring of tax brackets and tax rates since 1994 that have given some relief to individual income earners, especially lower income earners (which includes the majority of women). In the following sub-section we discuss these changes.

4.1.1 Restructuring of tax brackets and tax rates

One of the most important changes has been the simplification of tax brackets. The number of tax brackets has been reduced from 10 to 6 between 1995 and 1999. The number of categories for the lowest income earners (i.e. under R60 000 p.a.) has also been reduced. For example, in 1997 there were four tax brackets below R60 000 p.a. (R0 – 30 000, R30 001 – 35 000, R35 001 – 45 000 and R45 001 – 60 000). In 1999 the tax brackets below R60 000 were restructured into three broader bands (R0 – 33 000, R33 001 – 50 000 and R50 001 – 60 000) (Department of Finance, 1998 and 1999a). It should be noted that although the lowest income bracket is R0 – R33 000, the tax threshold (the income level at which individuals start paying tax) of R19 526 in 1999/00 tax year means that the lowest income tax bracket is really R19 526 – R33 000. According to the government, the restructuring of the tax brackets is expected to have given a total amount of R10,5 billion of tax relief to individual taxpayers since 1995.

Simplifying and reducing the number of brackets also helps reduce the phenomenon of *bracket creep* or *fiscal drag,* in which inflation-related increases in income have the effect of pushing individuals into higher tax brackets with higher marginal tax rates, resulting in higher taxes on the same real level of income (Department of Finance, 1998). Bracket creep affects lower- and middle-income earners particularly severely, so any efforts that reduce this phenomenon should be beneficial to poorer workers.

The tax rates at each income bracket have also been restructured so that the marginal rate of tax on lower-income earning taxpayers is reduced. A significant amount (36%) of the tax relief resulting from the lowering of marginal tax rates is expected to go to people with taxable incomes of less than R60 000 (see table 6 below). This will be of benefit to women as the incomes of most taxed women fall within this category. However, it should be noted that most of the tax relief (47%) is enjoyed by taxpayers in middle-income category (R60 001 – 120 000 p.a.). Also, the wealthiest taxpayers (i.e. those with annual incomes of R120 001 and above) constitute 7% of taxpayers but still receive almost 18% in tax relief.

Table 6: Distribution of tax relief, 1999/2000

Income Category	Taxpayers per bracket (%)	Share of total tax (%)	% of tax relief
R0 – 60 000 p.a.	75,3%	16%	35,7%
R60 001 – 120 000 p.a.	18,1%	38,2%	46,8%
R120 001 and above.	6,6%	45,8%	17,5%

Source: Department of Finance, 1999a.
Note: The first income category is misleading as only people earning above R19 526 per annum were required to pay tax in 1999/2000.

Table 7 below shows the tax rates for individuals for the 1999/2000 tax year. The primary rebate for which all taxpayers are eligible was increased from R3 515 in 1998/99 to 3 710 in the 1999/2000 tax year. The secondary tax rebate, which applies to people over the age of 65, was increased from R 2 660 to R2 775. These increases increased the tax threshold from R18 500 to R19 526 for people below age 65, and from R31 950 to R33 717 for those aged 65 and older. These increases are part of a more general trend since 1994 in which both rebates and tax thresholds have been increased. However, it should be noted that the year-on-year percentage increases in both the rebates and tax thresholds have sometimes only barely exceeded the average annual inflation rates for those years. For example, the real (i.e.factoring in inflation) increase in the primary rebate 1999/00 was only 0,3%, while the real increase in the primary rebate in 1998/99 was 2,4%. There was, however, a very large real increase in the primary rebate in 1997/98, at 12,3%.

Table 7: Tax rates for individuals, 1999/2000

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

Source: Department of Finance, 1999a.

Another important development with respect to personal income tax restructuring has been the scrapping of the child rebate in 1996. Prior to the 1995/96, parents were eligible for a tax rebate of R100 – R150 per child per year (depending on the number of children). The Katz Commission recommended that the child rebate be eliminated because it was not substantial enough to make an effective contribution to the upbringing of children and, more importantly, it gave approximately R500 million of relief where it was needed least – to families wealthy enough to pay income tax (First Interim Report, 1994). Given the small amount of money involved, the scrapping of the child rebate is likely to have had little impact on previous recipients and no impact on poor parents at all because they didn't receive it in the first place.

4.1.2 Standard Income Tax on Employees (SITE) and Pay as You Earn (PAYE)

The South African system of individual income tax collection is comprised of two systems – the Standard Income on Employees (SITE) and the Pay as You Earn (PAYE) systems. All individuals who earn between R19 526 and R60 000 (in the 1999/00 tax year) pay SITE but no PAYE. The SITE tax is taken off the employee's wages and salaries by the employer and is paid to the SARS at the end of every tax period. The employee is not required to submit a tax return as long as her taxable income consists only of remuneration from employment and is less than R60 000 per annum. With very few exceptions, this is the final amount of income tax SITE-only taxpayers are required to pay (SARS Tax Brochures).

Any individual who has an annual income of more than R60 000 must pay SITE as well as PAYE. As with SITE-only taxpayers, PAYE is deducted by employers from their employees's wages and salaries. However, unlike SITE-only taxpayers, people who also pay PAYE are required to submit an income tax return at the end of every tax period giving details of sources of income other than wages or salaries (e.g. rental and annuities). The SARS does not collect data on the gender breakdown of SITE-only taxpayers (SARS, 1999). However, since the majority of women in South Africa fall into the under R60 000 income category, SITE is the main tax collection system applicable to them.

One of the problems with SITE, which was noted by the Commission, was that the earnings of temporary and seasonal workers used to be annualised and tax levied as if a full year had been worked. Annualisation means that SARS would assume that the person would continue to earn the same amount each month throughout the year. So, for example, if a woman was employed in a fruit canning factory for two months over the season, and earned R900 per month, SARS would assume that her annual income was R10 800, whereas, in fact, it was only R1 800. The effect of this was that workers in these sectors paid tax even though their annual incomes could turn out to be well below the tax threshold. Since women are dominant in the temporary and seasonal employment category, they were very disadvantaged by this situation. In response to this, the Commission recommended that earnings for tax purposes in these sectors not be annualised and instead they be subject to a flat rate for every rand earned in the lowest income bracket. In the 1999/2000 tax year, the flat rate was 19% of each rand earned up to R33 000. The Commission also recommended that the definition of "standard employment" used in the SITE system be amended to exclude certain areas of employment in which it was particularly difficult to collect tax, including domestic work (Third Interim Report, 1995). Again, a large number of women work in this sector and can therefore enjoy tax benefits from this change.

One of the most serious remaining problems with the SITE system is that, in not requiring people with incomes below R60 000 per annum to be assessed, lower-income earners are deprived of the full benefits of a range of tax deductions and allowances that PAYE taxpayers are permitted. Although the SITE system requires employers to make some deductions from tax, for instance for pension and retirement annuity fund contributions and medical expenses, in many cases the deductions allowed under SITE are lower, and fewer are included, than under PAYE. Employers also have less incentive to lower tax for employees than the employees themselves do. Since most women are subject to SITE only, they are thus disadvantaged by this situation. In the following sections we examine a few of the main deductions and allowances that are permitted under the PAYE system. As will be shown, the nature of some of these deductions and allowances is biased towards the more wealthy and specifically towards men. In many cases taxpayers who are eligible for these deductions (generally men) are able to use them to avoid paying the full amount of tax for which they are liable.

4.1.3 Pensions and retirement fund contributions

Under the current income tax system, people pay tax on their income when they actually earn it. However, an exception is made with respect to most retirement fund contributions and pensions, in which case tax is paid only when the retirement or pension benefits are actually received in the form of a pension or lump sum. This concession is intended to encourage savings for retirement so as to reduce the risk of dependence of individuals on state pensions in their old age (Third Interim Report, 1995). The Katz Commission pointed out in the Third Interim Report that these deferred pension taxes are regressive. Firstly, they are only available to people with sufficient income to be in the income tax system and, secondly, within that group,

> those who earn more, and are taxed at higher marginal rates, benefit more from deferral than those who earn less and pay lower marginal rates of tax.

This has a number of implications in terms of gender, most of which have been noted by the Women's Budget Initiative (1997).

- Firstly, as was discussed in the earlier section on women in the South African economy, men make up the majority of the formal workforce. They would therefore be expected also to make up the majority of the estimated 7 million members of pension and retirement funds in South Africa.
- Secondly, women, less likely to be employed than men in the first place, predominate in the informal sector and in seasonal, part-time and contract work, from which pensions and retirement funds are excluded. Where women are employed in the formal sector, with access to pensions and retirement funds, they tend to be found in lower-paying occupations. The size of their pension cover will therefore be smaller. In addition, because women generally earn less than men, they do not benefit from deferred taxation to the extent that people who earn more and pay higher marginal taxes, benefit.
- Thirdly, men tend to be employed in larger establishments which are more likely to have pension funds, whereas women are more likely to be found in smaller, less-established businesses.
- Fourthly, many funds have also discriminated between married women and men in terms of pension eligibility and employer contributions.
- A final, important, concern about the current system of taxing pensions and retirement fund contributions relates to the difference in life expectancy between men and women and the sexual division of labour within marriage. Given the situation that: women generally live longer; younger women generally earn less and bear the primary responsibility for raising the family; older women are often left dependent on the pensions of their deceased spouses, it is in fact women who ultimately pay the taxes that were deferred when their spouses were younger.

The Katz Commission made a number of recommendations with regard to pensions and retirement fund contributions. A number of the recommendations were incorporated into subsequent budgets.

One of the most significant developments has been the introduction, as from the 1 March 1996, of a tax of 17% on certain categories of retirement fund incomes. Although this rate was lower than the 30% proposed by the Commission, it was increased to 25% from 1 March 1998. This tax has already become an important source of revenue for the government (R4,7 billion in 1998/99) (Department of Finance, 1998 and 1999a). This means that taxes could potentially be eased elsewhere, particularly in areas that affect the poor. Furthermore, since men are the main beneficiaries of retirement funds, the tax is unlikely to impact significantly on the majority of women (Hartzenberg, 1996).

4.1.4 Medical aid fund contributions

According to the 1995 October Household Survey, 20 % of women aged 18 or over have access to medical aid, compared to 23% of men 18 years and older. In each race group, women have less access than men, with access being poorest amongst African women and men (8% and 11% respectively). Amongst whites, 73% of men and 72% of women had access to medical aid (October Household Survey, 1995).

There are thus clear gender and racial inequalities in access to medical aid schemes in South Africa. This pattern is closely related to the pattern of formal sector employment in South Africa in which it is generally men who have formal employment and who can afford to contribute to medical aid schemes. For this reason, women are often covered on medical aid as dependants of their male relations, rather than as the primary member themselves.

Currently, contributions to medical aid schemes can be deducted if the contributions exceeded 5% of income (or at least R1 000) for persons below the age of 65. Contributions by people 65 years and older are fully deductible. For a number of reasons, this system of deductions allowed for medical aid expenses is unlikely to benefit women. Firstly, women are less likely to be the primary members of medical aid schemes in the first place. Secondly, as it was noted earlier, the majority of women taxpayers pay SITE only. The full allowance for high medical expenses is only feasible where tax is assessed and this only happens for SITE-only taxpayers when they specifically request it. Thus, most taxpaying women with access to medical aid are unlikely to receive the full deduction permitted, especially in the current situation where few women are aware that they can apply for assessment. Women, however, are more likely than men to have high medical expenses, as they have both the health needs common to men and women plus those specifically related to reproduction (Women's Budget Initiative, 1997).

Contributions to medical aid schemes have been used in the past as a way of structuring salary packages to avoid income tax through salary sacrifice schemes. In some cases, for example, companies paid what would have been both their own and the employee's contribution, so that the amount was not reflected in the employee's salary. Since men are more likely to be members of medical aids, they are also more likely to benefit from such practices. In response to the problem of tax avoidance through medical aid contributions, the Katz Commission recommended in its Sixth Interim Report that the employer's contribution to medical aids be limited on a rand to rand basis to that of employee's contribution. The Portfolio Committee on Finance adopted a softer stance and decided that the amount by which the employer's contribution to a medical aid for an employee exceeds two-thirds of the total contribution should be taxed as an employee fringe benefit. This should help reduce tax avoidance through medical aid contributions although not to the extent envisaged by the Katz Commission (Department of Finance, 1998).

4.1.5 Other deductions and allowances

An examination of the smaller deductions and allowances reveals numerous examples of male-bias in the way tax deductions are permitted. Two obvious examples are the allowances for travel and accommodation expenses. A certain proportion of travelling expenses (calculated by kilometre travelled) and entertainment expenses (including club subscriptions) that are directly related to a persons work can be deducted from personal income tax. Since jobs that typically require employees to travel and/or entertain extensively – for example, salespersons or managing directors – are generally the domain of men, and because women's reproductive work usually forces them to be based at home, these two allowances are clearly biased towards men. In addition, the entertainment allowance is biased specifically towards higher-income earners, such as professionals and persons in senior management positions, for whom dining with clients is part of the job.

Finally, the tendency for allowances and deductions to be more applicable to men than women, and to higher-income earners than lower income-earners, means that men, and particular men in better jobs, have a greater capacity to avoid taxes through creatively employing a wide range of deductions. It is also wealthier people who would have access to tax consultants who could help them take full advantage of this.

4.2 Corporate taxes

4.2.1 Company taxes

The government's policy on company taxes has been informed by the Growth, Employment and Redistribution strategy (GEAR) which seeks to achieve sustainable economic growth and employment creation through increasing exports and private sector investment. The lowering of company taxes has been a central part of the strategy to encourage private sector investment. In the 1999/2000 budget, the tax rate on the undistributed profits of domestic companies was reduced from 35% (the rate since March 1994) to 30%. In addition, the Secondary Tax on Companies (STC) was reduced from 25% in 1994 to 12,5%. The tax on South African branches of foreign-owned companies is currently 40%, but there are proposals to reduce this to 35% (Department of Finance, 1999a). Overall since 1994, the amount of tax companies are required to pay has been reduced significantly.

In his 1999/2000 budget speech, Minister of Finance Trevor Manuel argued that the reduction in company taxes will boost economic growth and job creation in two main ways. Firstly, it will make South Africa a significantly more attractive destination for both domestic and foreign investors and, secondly, lower company tax rates will translate into important cash flow benefits for small and medium enterprises, which will "enhance their ability to play a leading role in job creation and economic development" (Department of Finance, 1999b).

From a gender perspective, there are two important questions that need to be asked about the government's current company tax policy. Firstly, are women likely to benefit from the assumed increases in private sector investment resulting from reductions in company taxes? And secondly, what are the possible implications for women of the lower government revenue resulting from reductions in company tax rates?

There are number of ways in which women could possibly benefit from the increase in investment assumed to be associated with reductions in company taxes. One way would be if they benefited as recipients of profits resulting from these investments. However, in South Africa, men dominate in the ranks of owners and shareholders of larger companies. In the small and medium size business sector, in which the government has placed great hope for economic growth and employment creation, men also dominate as employers. The reduction in company taxes is, therefore, unlikely to benefit most women through this mechanism.

A more likely mechanism through which women would benefit from increased private sector investment is if that investment generates employment opportunities for women. However, based on recent investment patterns, it appears unlikely that women will be the main recipients of jobs created through increased investment. Most of the foreign direct investment attracted to South Africa has been concentrated in highly capital-intensive sectors of the economy, such as in information technology and telecommunications, energy and oil, and motor and components manufacturing (BusinessMap, 1999). These sectors, in terms of employment, are dominated by men. Most of the recent domestic private sector investments have also followed a similar pattern in terms of capital-intensive industries, especially minerals-related industries, and are therefore also unlikely to generate large numbers of employment opportunities, especially for women (Valodia, 1998).

There is considerable question whether the government's attempts to increase investment and employment through the GEAR strategy, of which the reductions in company taxes is a central element, are having the desired outcomes. On the whole, many more jobs have been lost in the South African economy since 1996 than those created. An assessment of the sectors in which the most job losses have occurred shows significant employment losses in the community, social and personal services sector (in which most employed women work) and the manufacturing, mining, construction, transport and electricity sectors (in which many women's spouses or male family members work) (Statistics South Africa, 1998). Therefore, women, unlikely to benefit from any new jobs created, are also likely to have lost their jobs, or suffered from the loss of the jobs of their partners or other male family members.

The second question relating to the implications of lower company taxes for women concerns the estimated R2,5 billion loss in revenue to the government resulting from the reductions in company taxes. The question is whether this money could be of more tangible benefit to women as government revenue than as tax relief to companies. As argued above, the R2,5 billion worth of relief contained in the lowering of company tax rates is more likely to translate into greater profits and/or more jobs for men than for women. Since women make up the majority of the poor in South Africa, and since the government has committed itself to eradicating poverty, women would be more likely to benefit from that money being used by the government for anti-poverty programmes which target women in particular. As the Institute for Democracy in South Africa (IDASA) pointed out in its submission to the portfolio committee on finance on the 1999/2000 National Budget (1999), the R2,5 billion of tax relief granted to companies is sufficient to increase pensions (which have not increased in line with inflation in recent years) by at least a further 50%, or to expand the housing budget by 80%. In the case of pensions, most of the beneficiaries would be poor women. Both of these increases would have potentially positive impacts on employment creation and poverty alleviation and on poor women in particular.

Another important issue in relation to company taxes and gender is that of tax evasion and avoidance. Tax evasion refers to the total non-payment of taxes for which companies, or individuals, are liable. Tax avoidance refers to the different ways in which companies are able to legally minimise their tax liability. Although no statistics are available (SARS, 1999), it is widely acknowledged that there is an extremely high degree of company tax evasion and avoidance in South Africa.

Since men are predominantly the owners and shareholders of companies in South Africa, it is mainly men who are enjoying the benefits of tax evasion and avoidance. The resulting lower revenue from company taxes then leaves a greater burden on indirect taxes to make up the required tax revenue. This again places a disproportionate and unfair tax burden on lower income earners i.e. women and the poor.

It is generally assumed that businesses in the informal sector of the economy do not contribute significantly to total corporate tax revenue due to the difficulties of registering and collecting tax from such businesses and because incomes in this sector are often below the tax threshold. However, it is worth pointing out that businesses in the informal sector do pay other forms of taxation. For example, street vendors are required to pay levies for street space and basic services where they trade. The level at which such levies are set can obviously have a significant impact on possibilities for growth in the informal sector and for the creation of jobs for both men and women.

4.2.2 Mining companies

In the national accounts, a distinction is made between tax revenue from mining companies and tax revenue from other companies. Compared to non-mining companies, the tax revenue derived from mining companies is relatively insignificant as a proportion of total tax revenue (11,2% for manufacturing versus 0,94% for mining in 1998/99) (Department of Finance, 1999a). The mining sector used to be the backbone of the South African economy. In 1976 it contributed 8,5% of South Africa's tax revenue (Hartzenberg, 1996). Today, the mining sector still employs a significant (although decreasing) proportion of the total workforce of South Africa. While the mining sector in South Africa is dominated by males, it has traditionally been an important means of indirect support for many women, particularly in rural areas, through the remittances sent back to them by their husbands.

In line with its approach to non-mining companies, the government has reduced the rate of tax on mining companies. Gold mining companies are taxed at a rate that is determined according to a formula (which has been adjusted to lower the tax rate), while non-gold mining companies are taxed at the same rate as all other non-mining companies (reduced to 30% normal tax rate and STC rate of 12.5% in 1999/00) (Department of Finance, 1999a). Presumably, the decrease in taxes on mining companies is designed to help make mines, especially the more marginal ones, remain profitable and reduce the rate of job losses. The mining sector has experienced particularly high job losses in recent years. Between 1994 and 1997, the number of mining jobs fell by 11%, from 613 583 to 547 076 workers (Newton et al, 1999). If lower rates of tax on mines are indeed part of the solution to slowing the rapid decrease in employment in this sector, this can only help miners and their families. However, there is the possibility that lower taxes could translate into higher profits for shareholders.

The Tenth Interim Report of the Katz Commission (to be released shortly) will consider tax issues relevant to mining companies.

4.3 Capital transfer taxes

In its Fourth Interim Report (1997) the Katz Commission argued that, given the high level of poverty and income inequality in South Africa, there was a place for some form of wealth tax in the tax system. South Africa has traditionally had a kind of wealth tax in the form of a capital transfer taxes on estates and donations. Estate duties are imposed on the value of an estate (meaning a person's property) upon death, while donations tax is payable on transfers of wealth while the donor is still alive. In the 1998/99 tax year, these two taxes combined accounted for just over 0,1% of total tax revenue.

Considering that most wealth in South Africa is concentrated in the hands of white people and amongst men, wealth taxes such as estate duties and donations taxes can contribute towards redistributing wealth to the poor, and especially to women. The Commission recommended that both estate duties and donations taxes should be retained. It did not, however, recommend that these taxes be significantly increased. Considering the massive concentration of wealth in South Africa in the hands of the few, and the currently tiny contribution these two wealth taxes make to tax revenue, it would seem to be in the interests of greater wealth redistribution that these taxes be increased.

At present, estates and donations are taxed at a flat rate of 25%, with a R25 000 per annum rebate in respect of donations and a R1 million rebate in respect of estates (Fourth Interim Report, 1997). One way of making this system more progressive would be to replace the flat rate with a sliding scale in which higher amounts are taxed more. Another way would be to reduce the rebates allowed. In considering increasing wealth taxes, however, it is important to consider fully the possible negative consequences of taxing the wealthy too heavily. For instance, in the case of donations taxes, care needs to be taken to ensure that the tax does not act as a disincentive to the more wealthy to give money to causes that benefit women or the poor. This is a particularly important issue for voluntary organisations, which tend to derive a significant proportion of their income from donations. The poverty relief activities of many of these organisations takes on greater importance in the light of the government's current fiscal austerity programme which limits the extent to which it can finance the provision of goods and services to the poor. South Africa's tax system does, however, make provisions for donations to certain institutions to be exempt from donations tax and there is currently a review, following the Katz Commission's Ninth Interim Report (1999), of which institutions and activities should be included (see section 7.2 below). The portfolio committee on finance has recently come out in strong support of further concessions for non-profit organisations.

5. Indirect taxes

5.1 Value added tax

Value added tax, or VAT, replaced the general sales tax (GST) in September 1991. It has since become a stable and major source of government revenue, with VAT accounting for over 24% of total revenue in 1998/99. As was noted earlier, VAT is a highly regressive tax as it has a greater impact on lower income earners because a higher proportion of their income is spent on taxes on basic consumption goods than higher income earners.

Table 8 below clearly illustrates the regressive nature of VAT. In this example, the VAT burden of four different household incomes has been calculated using the same basket of goods and services for each household. As the table shows, expenditure on VAT as a proportion of both total tax paid and annual income is highest for the lowest income household and becomes lower as household income rises.

Table 8: VAT burden on households

Annual household income	Total VAT paid in Rands	VAT paid as % of total tax paid	VAT paid as % of annual income
R18 000	1 799	86%	10%
R30 000	2 910	54%	10%
R75 000	6 141	25%	8%
R140 000	10 241	18%	7%

Source: Department of Finance, 1998

Any analysis of the impact of VAT on the poor and women needs to be based on the different expenditure patterns of households in the various income categories. Lower income households tend to spend a larger proportion of their income on basic goods such as food and drinks, clothing and footwear, energy sources and furniture (Third Interim Report, 1995). By far the largest single category of expenditure for the poor is food. According to the 1995 Income and Expenditure Survey, households in the bottom expenditure quintile spend up to 51% of their total average expenditure on food, while households in the top quintile spend 12%. More than a third of the total food expenditure of the poorest households is spent on grain products (Hirschowitz, 1997).

The terms of reference of the Katz Commission required it to look at VAT and to investigate the effectiveness and desirability of zero-rating or the exemption from VAT of certain foodstuffs and other goods and services, as well as multiple differential rates of VAT. Noting the high levels of poverty and inequality in South Africa, the Commission claimed it would give special “consideration to the distributional incidence of VAT and its impact on the poor” (Third Interim Report, 1995:101)

Apart from adjusting the rate of VAT, zero rating is the main source of relief from the burden of VAT on the poor. Zero-rating applies to certain foodstuffs and exports and means that the goods remain in the VAT system but are subject to a tax rate of zero. This means that goods or services exempt from VAT are not subject to VAT on the final value of the good or service. VAT is, however, paid on the purchased inputs that are used in the production of the good or service (Third Interim Report, 1995).

At present a selection of basic foodstuffs is zero-rated. These include brown bread, maize meal, dried beans, milk powder, rice, vegetables and fruit (SARS Tax Brochures, 1999). Zero-rating on basic goods and services is of significant benefit to the poor. The Commission considered the issue of increasing the number of zero-rated goods but decided against extending zero-rating to any more goods on the grounds that this would involve substantial revenue losses and that the VAT rate on other goods would have to increase to make up this loss (Third Interim Report, 1995). There are however, other basic goods which are currently subject to VAT but which are basic necessities for the poor. A good example is paraffin, which is used extensively by the poor for cooking, lighting and heating. Although paraffin is relatively cheap, it is still considered expensive by the poor, who may spend up to 20% of their household income on fuel. The estimated loss to government revenue of zero-rating paraffin – a maximim of R150 million per annum – is relatively small. However, the benefits of zero-rating paraffin to the poor would be enormous (James and Simmonds, 1997).   Zero-rating paraffin is particularly attractive as there is minimal consumption be wealthier people, and thus minimal leakage of the benefit.

Another way of reducing the regressive nature of VAT and its disproportionate burden on the poor is to use a multiple rate structure in which VAT is levied at a lower rate on goods typically consumed by the poor, and at a higher rate on goods consumed largely by the rich. The Commission, however, argued against the introduction of such a system, arguing that this would have only a limited impact on regressivity and that it would involve substantial administration costs (Third Interim Report, 1995).

Given the clearly regressive nature of VAT, and the Commission's claimed commitment to easing the burden of tax on the poor, it is difficult to understand why the commission has rejected measures that could make VAT less regressive. Moreover, in the absence of any significant social security net for the poor, and in the context of limited state funds for such spending, the Commission's argument that other instruments of targeting the poor should be used to offset the impact of VAT on the poor seems to be unrealistic for South Africa.

5.2 Transfer duties

Transfer duties are levied on property transactions and are paid by the buyer of the property as a percentage of the value of the property. In the 1998/99 tax year, transfer duties accounted for about 1% of total tax revenue (Department of Finance, 1999a). The rates of duty are currently based on a sliding scale of 1% on the first R70 000, up to 8% on amounts over R250 000. Certain exemptions also apply, such as in the case of the R70 000 exemption on houses or apartments held under sectional title deed (Department of Finance, 1999a). This recently revised rate and exemption structure is intended to encourage home ownership, especially for lower-income earners, by making housing more affordable. This should assist more women, for whom access to housing is particularly difficult, to acquire property.

5.3 Fuel levy

The fuel levy is a major and stable source of government revenue. In the 1998/99 tax year, it contributed almost 8% of total tax revenue (Department of Finance, 1999a). The rate at which the levy is fixed (86,6 cents per litre on petrol and 76,1 cents per litre on diesel in 1999/00) has a direct impact on the price of fuel to consumers. Since the poor tend not to own their own vehicles, the effect of higher fuel prices affects the poor mostly through increases in the cost of public transport. A further indirect effect on the poor could be an increase in inflation due to higher transportation costs.

The resulting rise in the price of basic goods, in particular food, would impact most severely on the poor, and especially on the unemployed and those with fixed incomes, such as pensioners, both of which groups contain disproportionately high numbers of women.

6. Other tax and revenue issues

6.1 Demutualisation levy

A mutual society is a company that is owned by its members. In 1998, two of South Africa's largest mutual insurers, Sanlam and Old Mutual, demutualised, thereby becoming ordinary private companies owned by shareholders. In the process, policyholders with these mutuals received shares in the new propriety insurance companies that were formed. Each shareholder received a windfall gain from the demutualisation as reserves under the management of the two mutual insurers became shares in the hands of policyholders.

The government decided to impose a once-off levy on the shareholders who received this windfall. The charge was levied at a rate of 2,5% on the reserves of the mutual insurers as at the date of demutualisation. The levy raised approximately R278 500 195 from the Sanlam demutualisation and R576 943 756 from the Old Mutual demutualisation (SARS, 1999). Since the majority of women in South Africa are unlikely to have insurance policies, they are also unlikely to have contributed significantly to this revenue from the levy. Many women may have benefited either indirectly (as policy-holders) or indirectly (through spouses or family members) from the windfall to policy-holders from the demutualisation process. However, these women are probably amongst the better off anyway.

6.2 The voluntary sector and taxation

South Africa has a very large voluntary sector, with some estimates putting the total number of non-governmental (NGOs), non-profit (NPOs) and community-based organisations (CBOs) at over 50 000. While there is a severe lack of empirical data on the precise nature of the voluntary sector, it is clear that there are a large number of voluntary organisations which work towards improving the socio-economic position of women, either through focusing specifically on women's issues, such as women's rights, sexual abuse and reproductive health, or through a more general concern with poverty alleviation, which should have women as the main targets. Furthermore, research by Budlender and Dube (1999) suggests that international donors tend to fund gender programmes through NGOs rather than through the government.

How government taxation policy deals with voluntary organisations has a direct impact on the resources available to these organisations and on their effectiveness in uplifting the poor and women. The government has been widely criticised for what is considered, by many in the voluntary sector, to be a highly unfavourable tax regime for voluntary organisations. While the incomes of most voluntary development organisations have been considerably reduced due to the shift in foreign donor support from civil society organisations to the government since 1994, the government has failed to help relieve the funding crisis through a tax policy which continues to offer only very limited support to voluntary organisations.

Currently, the tax status of voluntary organisations is governed by Sections 10(1)(f) and 10(1)(fA) of the Income Tax Act which define which organisations are exempt from taxation, and Section 18A of the Income Tax Act, which governs the tax deductions companies can receive for making donations to certain voluntary organisations (First Interim Report, 1994). According to Section 10, only voluntary organisations which fall into the categories of "religious, charitable, and educational institutions" are exempt from tax. This, of course, excludes many voluntary development organisations which work with women and the poor. Section 18 defines the educational, charitable and welfare activities for which companies can write off donations against their income tax (up to 5% of annual turnover). Again, these activities have been narrowly defined and largely restricted to formal educational institutions and traditional welfare organisations. Corporate donations to other development organisations presently do not qualify for tax deductions (Cawthra and Kraak, 1999).

The Katz Commission, in both its First (1994) and Ninth (1999) Interim Reports, which deals exclusively with taxation issues affecting volunatary organisations, recognised the importance of the voluntary sector for the government's Reconstruction and Development Programme, as well as the problems with current tax provisions for voluntary organisations. The Commission made a number of recommendations with regard to how the situation could be improved, including most importantly that:

- The definition of the institutions to which people could make tax deductible donations be widened to include a range of other development and advocacy organisations
- No tax should be payable on the trading income of non-profit organisations up to a certain level

These proposals have been welcomed by the NGO sector. Serious concerns have, however, been raised about the proposed clause which will make it obligatory for NGOs to spend 75% of their budgets in any particular year in order to qualify for the status of "exempt public-benefit organisations." This, the NGO community has argued, will prevent many NGOs from accumulating capital and achieving the self-sustainability advocated by donors (SANGONET, 1999).

In contrast to the generally favourable support the Katz Commission proposals on NPOs have received from the voluntary sector, the Department of Finance as well as the SARS have rejected most of the proposals, offering a number of technical and bureaucratic reasons why the proposed concessions are not feasible. Their main objection appears to be that it would be too costly to the government to grant NGOs, and donors, any further tax concessions. This is in spite of the estimation that concessions to NGOs amount to less than 1% of government income (Streek, 1999). At the time of writing, it was unclear how this impasse would be resolved. However, the portfolio committee on finance came out strongly in support of concessions to NGOs.

6.3 The national lottery

In March 2000 South Africa's first national lottery will be launched. According to its promoters, the lottery is expected to raise approximately R1 billion per annum in revenue for government programmes in arts, culture, sports and recreation, national heritage, and the RDP. It is also estimated that the lottery could create up to 40 000 direct and indirect jobs (Weekly Mail and Guardian, 26/11 –2/12, 1999). The new national lottery could, therefore, have very positive effects for government revenue and for job creation, which could benefit women and the poor through carefully targeted expenditure programmes.

However, care should be taken to ensure that the programmes the government intends to spend the extra revenue on are not gender-biased. For example, funding for sports is potentially male-biased. In South Africa, only 21% of women participate in sports, compared to 40% of men. Participation rates are the lowest for African women (15%) indicating that playing sport is not a priority for poor people, especially poor women (Smith, 1998). Also, we need to be wary of the hype surrounding the promotion of the lottery and the inflated estimates of potential benefits this may have created. More importantly, it is necessary to consider the possible negative impacts of the lottery on households, and specifically on women. For example, there is always the danger that the breadwinner in the household (be they male or female) could gamble away the household budget, leading to greater poverty for the entire family.

6.4 The South African Revenue Services

The South African Revenue Services (SARS) is the institution charged with the responsibility of collecting tax and other revenue for the government. In June 1998, SARS launched a transformation programme aimed at:

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

(Department of Finance, 1999a)

An important part of the transformation of SARS has been to increase the efficiency of the tax collection system in South Africa, which has been characterized by widespread tax evasion and avoidance, corruption and a general lack of tax morality on the part of taxpayers (Valodia, 1998). Consequently, the SARS began a campaign in October 1997 to identify and register unregistered persons, businesses and employers liable for tax and to reduce the rate of non-compliance with tax legislation (Department of Finance, 1999a).

To date, the campaign has been highly successful. In the period October 1997 to October 1999, SARS has registered a total of 192 873 income taxpayers (including 23 492 liable for PAYE) and 25 791 VAT payers. This has led to substantial increases in tax revenues. In the period March 1999 to October 1999 alone, SARS collected an additional R44 419 542 in taxes as a result of the tax base broadening campaign (SARS, 1999).

The tax base refers to the number of people caught in the tax net. Expansion of the tax base can be achieved either by defining those who are liable to tax more widely or by ensuring that those who are already defined as within the net are caught. Apart from increasing government revenue, the latter type of base broadening measures have the important benefit of promoting greater equity in the tax system. Since the main beneficiaries of a narrow tax base are those people who earn enough to pay tax but either evade taxes completely or avoid some of their liability, and since these people are more likely to be men, campaigns which capture potential taxpayers help create a fairer and more gender balanced tax system.

Following the recommendations of the Katz Commission, SARS was granted administrative independence from the government in October 1997. This allowed SARS to determine its own staffing policies and to attract highly skilled staff by offering market related salaries. Improving the quality of staff has contributed to the increase in the SARS' capacity to track tax evaders and avoiders (Valodia, 1998). Another important part of increasing this capacity has been the upgrading of SARS's computer facilities at a cost of about R100 million. From a gender perspective, however, a real concern is that these new computer systems do not make any provision for collecting tax data by gender (Valodia, 1998).

In terms of the gender and racial profile of SARS staff, 68% of the 12 130 staff are women. However, of these women, 48% are white, while of the male staff, half (16%) are white. SARS does have an affirmative action policy which places a strong emphasis on gender. For example, of the 850 new appointments made in 1998/99, 475 (56%) were women. However, affirmative action in terms of race is less noticeable. Of the new appointments, 360 (42%) were African, 97 (11%) were coloured, 64 (8%) were Indian. The remaining 329 (39%) new appointments went to whites. Of the 475 new women appointed in 1998/99, 206 (43%) were white women, while only 169 (36%) were African women (SARS, 1999).

7. Conclusion and recommendations

This paper has reviewed various aspects of the South African tax system with regard to the impacts on women and men. This has by no means been an exhaustive analysis of all the issues around taxation and gender in South Africa. Rather, the aim has been to highlight the many easily taken for granted ways in which taxation policy has quite different impacts on women and men.

Taxation policy, like the expenditure policies of the government, has a vital impact on the redistribution of income and wealth in society. The distribution of the tax burden directly affects the welfare of individuals and households through its impact on disposable income and the consumption, savings and investment choices of people, as well as through its influence on private sector activity and job creation (Hartzenberg, 1996). In terms of gender, taxation policy can therefore be an important instrument for reducing the income and wealth inequalities which exist between men and women in South Africa.

Except where discrimination is explicit, as in the case of the unfair tax treatment of married women, discrimination against women in South African tax policy occurs because the socio-economic profile of women is largely ignored. Most women in South Africa are poor. Many women either do not have formal employment, or where they do, they tend to be located in low-paying, low-skill jobs. Although this means that women, in comparison to men, do not bear a large share of the direct income tax burden, it does mean that women are disadvantaged by tax policies that favour the employed in higher-paying jobs (as in the case of the various tax deductions allowed to employees, such as pension and medical aid contributions) and taxes that tend to discriminate against the poor, such as VAT.

Although the Katz Commission supposedly has been committed to creating a more fair and equitable tax system in South Africa, it has largely failed to consider gender inequality. Its only explicit recommendation with regard to gender was the removal of the unequal taxation of married women, which was subsequently implemented in 1995. The Commission's recommendations on the restructuring of income brackets and tax rates in order to make the personal income tax system in South Africa more progressive have also brought some tax relief to women. People in the lower income categories, the majority of whom are women, are now paying less income tax. However, the employment profile of women in South Africa means that relatively few women have benefited from a more progressive income tax system.

In most other respects, though, the Commission has done little to change taxation policy in a way that benefits women or the poor. Its recommendations on lowering corporate taxes, which are a major source of government revenue, intended to encourage more private sector investment, have failed to boost job creation for either women or men. In terms of indirect forms of taxation, in particular VAT, the Commission has rejected all possibilities for reducing the regressive nature of VAT and its disproportionate burden on the poor and the majority of women.

Based on the findings of this paper, we conclude with some recommendations for how taxation policy in South Africa can be made more sensitive to the socio-economic position of women:

- More research and analysis of the gendered nature of South African taxation policy is needed. In particular, the government needs to include gender as a central part of its taxation policy-making and its revenue reviews.
- As part of this process, the government, particularly the Department of Finance and the SARS, needs to collect more detailed data on gender and tax revenue. This is vital for a greater understanding of how taxation policy impacts on women and men differently.
- The personal income tax system should continue to be made more progressive through income bracket and marginal tax rate restructuring. Corporate taxes should not be reduced any further as this will seriously undermine the overall progressivity of the tax system.
- The current system of separate taxation of spouses in the same household needs to be reviewed. The current system seriously disadvantages households with only

one income-earner in terms of the higher amount of tax they are required to pay compared to two-income households. Consideration needs to be given to the feasibility of re-introducing some kind of system of joint taxation for households in which both spouses earn an income.

- The general public should receive more education on their rights as taxpayers. In particular, SITE-only taxpayers should be informed of their right to submit tax returns even though their incomes do not make this obligatory. This would enable poorer taxpayers, especially women, to take advantage of the full range of deductions and allowances that can be obtained through being assessed.
- Further consideration should be given to the extension of zero-rating to more basic goods and services as the most feasible way in which the regressive nature of VAT and its disproportionate impact on the poor can be reduced. The choice of further items to be zero-rated should be made on the basis of the consumption patterns of the poor. Furthermore, the present rate of VAT should also not be increased and the possibility of introducing a differentiated or multiple rate VAT system, in which VAT is lowest for basic items and highest on luxury items, should be thoroughly investigated.
- The SARS should continue, and intensify, its efforts to clamp down on tax avoiders and evaders as the main beneficiaries of these practices are the wealthy, especially wealthy men.
- Consideration should be given to increasing the two capital transfer taxes (estate duties and donations taxes), either through increasing the rate of tax or decreasing the rebates. Other forms of wealth tax should also be investigated
- The tax regime for voluntary organisations needs to be made more favourable. This can be done by implementing the Katz Commission's proposals to broaden the definition of institutions to which people can make tax deductible donations and to eliminate taxes on the trading income of these institutions up to a certain level.

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